

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION

FORM S-3

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

LOMAK PETROLEUM, INC.

LOMAK OPERATING COMPANY	EASTERN PETROLEUM COMPANY
LOMAK PRODUCTION COMPANY	LOMAK ENERGY COMPANY
LOMAK RESOURCES COMPANY	LPI ACQUISITION, INC.
BUFFALO OILFIELD SERVICES, INC.	LOMAK PRODUCTION I, L.P.
LOMAK ENERGY SERVICES COMPANY	LOMAK RESOURCES, L.L.C.
TALON TRUCKING COMPANY	

(EXACT NAME OF REGISTRANTS AS SPECIFIED IN THEIR CHARTERS)

DELAWARE	34-1312571
OHIO	34-1198756
DELAWARE	75-1722213
DELAWARE	34-1772901
OHIO	34-1458616
DELAWARE	75-2423912
OKLAHOMA	73-1350244
OHIO	34-1447413
DELAWARE	52-1996729
TEXAS	34-1704962
TEXAS	75-2672382
OKLAHOMA	73-1504725

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

500 THROCKMORTON STREET

FORT WORTH, TEXAS 76102  
(817) 870-2601

(Address, including zip code, and telephone number,  
including area code, of Registrants' principal executive offices)

JOHN H. PINKERTON

LOMAK PETROLEUM, INC.  
500 THROCKMORTON STREET  
FORT WORTH, TEXAS 76102  
(817) 870-2601

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)  
Copies To:

J. MARK METTS  
VINSON & ELKINS L.L.P.  
1001 FANNIN, SUITE 2300  
HOUSTON, TEXAS 77002-6760  
(713) 758-2222

GARY L. SELLERS  
SIMPSON THACHER & BARTLETT  
425 LEXINGTON AVENUE  
NEW YORK, NEW YORK 10017-3954  
(212) 455-2000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:  
As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier

effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

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CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, par value \$.01 per share....	4,600,000 shares	\$21.0625	\$96,887,500	\$29,360
% Senior Subordinated Notes due 2007....	100,000 Notes	\$1,000	\$100,000,000	\$30,304
Subsidiary Guarantees.....				

(1) Estimated pursuant to Rule 457, with respect to the Common Stock Offering, solely for the purpose of calculating the amount of the registration fee based upon the average of the high and low sales prices of the Common Stock as reported on the New York Stock Exchange.

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.  
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## EXPLANATORY NOTE

This Registration Statement contains two forms of Prospectus, one to be used in connection with the offering of % Senior Subordinated Notes due 2007 (the "Notes Prospectus") and one to be used in a concurrent offering of Common Stock (the "Common Stock Prospectus"). Neither the offering being made pursuant to the Notes Prospectus (the "Notes Offering") nor the offering being made pursuant to the Common Stock Prospectus (the "Common Stock Offering") will be completed until after the consummation of the Cometra Acquisition as described herein. The closings of the Common Stock Offering and the Notes Offering are contingent upon each other. The form of Common Stock Prospectus immediately follows this page and is followed by alternate pages of the form of Notes Prospectus.

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 \*  
 \* INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A \*  
 \* REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED \*  
 \* WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT \*  
 \* BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE \*  
 \* REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT \*  
 \* CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY \*  
 \* NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH \*  
 \* SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO \*  
 \* REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH \*  
 \* STATE. \*  
 \*  
 \*\*\*\*\*

SUBJECT TO COMPLETION  
 DATED JANUARY 23, 1997

4,000,000 SHARES

[LOMAK PETROLEUM LOGO]

COMMON STOCK

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All of the shares of Common Stock offered hereby (the "Shares") are being offered by Lomak Petroleum, Inc. ("Lomak" or the "Company"). The Common Stock is listed on the New York Stock Exchange under the symbol "LOM." On January 21, 1997, the closing price of the Common Stock was \$20 3/4 per share. See "Price Range of Common Stock and Dividend Policy."

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The offering of the Shares (the "Common Stock Offering") is being conducted concurrently with an offering (the "Notes Offering") of \$100,000,000 aggregate principal amount of % Senior Subordinated Notes due 2007 (the "Notes") of the Company. The proceeds of the Common Stock Offering and the Notes Offering will be used to refinance certain indebtedness incurred to fund a portion of the purchase price of the Cometra Acquisition described herein. Neither the Common Stock Offering nor the Notes Offering (collectively, the "Offerings") will be completed until after the Cometra Acquisition has been consummated. The closing of the Common Stock Offering and the Notes Offering (collectively, the "Offerings"), are contingent upon each other.

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SEE "RISK FACTORS" BEGINNING ON PAGE 11 FOR CERTAIN INFORMATION THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
Per Share	\$	\$	\$
Total(3)	\$	\$	\$

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- (1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deduction of expenses payable by the Company estimated at \$ .
- (3) The Company has granted the Underwriters a 30-day option to purchase up to an additional 600,000 shares of Common Stock to cover over-allotments, if any. If such option is exercised in full, the total price to public, underwriting discounts and commissions and proceeds to Company will be \$ , \$ and \$ , respectively. See "Underwriting."

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The Common Stock is being offered by the Underwriters named herein when, as and if received and accepted by them, subject to their right to reject orders in whole or in part and subject to certain other conditions. It is expected that delivery of the shares will be made in New York, New York on or about , 1997.

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SMITH BARNEY INC.  
A.G. EDWARDS & SONS, INC.  
MCDONALD & COMPANY  
SECURITIES, INC.

, 1997

[Graphic 1: Map of the United States depicting the Company's core operating areas and the locations of its corporate offices.]

#### GEOGRAPHICAL FOCUS

	Percent of Present Value -----
Midcontinent Region	61%
Appalachian Region	21%
Gulf Coast Region	16%
Other	2%
	---
Total	100%
	===

[Graphic 2: Bar chart showing the Company's reserve growth (in Bcfe) from 1992 through 1996 and pro forma at December 31, 1996 including the Cometra Acquisition.]

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR SINCE THE DATES AS OF WHICH INFORMATION IS SET FORTH HEREIN. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION.

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IN CONNECTION WITH THE OFFERINGS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company can be inspected and copied at the public reference facilities of the Commission, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as the following regional offices: 7 World Trade Center, Suite 1300, New York, New York 10048; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies can be obtained by mail at prescribed rates. Requests for copies should be directed to the Commission's Public Reference Section, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission also maintains a Website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. In addition, reports, proxy statements and other information concerning the Company can be inspected and copied at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York, 10005, on which the Common Stock is listed.

The Company has filed with the Commission a Registration Statement on Form S-3 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Stock being offered by this Prospectus and the Notes which are being offered by a separate prospectus. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits thereto. For further information with respect to the Company and the Common Stock being offered hereby, reference is made to the Registration Statement and the exhibits thereto. Statements contained in this Prospectus concerning the provisions of documents filed with the Registration Statement as exhibits are necessarily summaries of such documents, and each such statement is qualified in its entirety by reference to the copy of the applicable document filed with the Commission. All of these documents may be inspected without charge at the offices of the Commission, the addresses of which are set forth above, and copies may be obtained therefrom at prescribed rates.

## INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The following documents and information heretofore filed with the Commission by the Company are hereby incorporated by reference into this Prospectus:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.
2. The Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1996, June 30, 1996 and September 30, 1996.
3. The Company's Current Report on Form 8-K, dated April 19, 1996, and Form 8-K/A, dated May 31, 1996.
4. The description of the Common Stock contained in the Registration Statement on Form 8-A declared effective by the Commission on October 8, 1996.

All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the Common Stock Offering shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. The Company will provide without charge to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered, upon the written or oral request of any such person, a copy of any document described above (other than exhibits). Requests for such copies should be directed to Lomak Petroleum, Inc., 500 Throckmorton Street, Fort Worth, Texas 76102, Attn: Corporate Secretary, Telephone No. (817) 870-2601.

## PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere, or incorporated by reference, in this Prospectus. Unless the context otherwise requires all references herein to "Lomak" or the "Company" include Lomak Petroleum, Inc. and its consolidated subsidiaries. Certain industry terms are defined in the Glossary. Pro forma information gives effect to the Cometra Acquisition (as defined herein) and the related financings (including the Offerings) and certain other acquisitions and financings consummated in 1995 and 1996, as described in the notes to the Unaudited Pro Forma Consolidated Financial Statements. Unless otherwise indicated, the information set forth herein assumes the Underwriters' over-allotment option with respect to the Common Stock Offering will not be exercised.

## THE COMPANY

Lomak is an independent energy company engaged in oil and gas development, exploration and acquisition primarily in three core areas: the Midcontinent, Appalachia and the Gulf Coast. Over the past five years, the Company has significantly increased its reserves and production through acquisitions and, to a growing extent, development and exploration of its properties. On a pro forma basis as of December 31, 1996, the Company had proved reserves of 644 Bcfe with a Present Value of \$974 million. On an Mcfe basis, the reserves were 63% developed and 77% natural gas, with a reserve life in excess of 13 years. Properties operated by the Company accounted for 94% of its pro forma Present Value. After giving effect to the Cometra Acquisition, the Company also owns over 2,000 miles of gas gathering systems and a gas processing plant in proximity to its principal gas properties. On a pro forma basis for the nine months ended September 30, 1996, the Company had revenues of \$123 million and EBITDA of \$72 million.

From 1991 through 1996, the Company has made 63 acquisitions, including the Cometra Acquisition, for an aggregate purchase price of approximately \$627 million and has spent \$37 million on development and exploration activities. These activities have added approximately 720 Bcfe at an average cost of \$0.75 per Mcfe. As a result, the Company has achieved substantial growth since 1991:

- Reserves increased from 20 Bcfe in 1991 to 644 Bcfe in 1996, a compound annual growth rate of 101%;
- Production increased from 2 Bcfe in 1991 to 49 Bcfe in 1996, a compound annual growth rate of 88%;
- EBITDA increased from \$4 million in 1991 to \$72 million for the nine months ended September 30, 1996; and
- Net income increased from \$427,000 in 1991 to \$12 million for the nine months ended September 30, 1996.

The Company emphasizes strict cost controls in all aspects of its business. As a result, combined direct operating and administrative costs have been reduced from \$2.08 per Mcfe in 1991 to \$0.90 per Mcfe for the first nine months of 1996 on a pro forma basis. Consequently, while the average price realized by the Company has not increased significantly over the last five years, operating margins have increased from \$0.61 per Mcfe in 1991 to \$1.65 per Mcfe for the first nine months of 1996 on a pro forma basis.

## THE COMETRA ACQUISITION

On December 31, 1996, the Company agreed to acquire oil and gas properties located in West Texas, South Texas and the Gulf of Mexico (the "Cometra Properties") from American Cometra, Inc. ("Cometra") for a purchase price of \$400 million, subject to adjustment (the "Cometra Acquisition"). The Cometra Acquisition will increase the Company's proved reserves at December 31, 1996 by 68% to 644 Bcfe and increase its Present Value by 98% to \$974 million. The Cometra Properties, located primarily in the Company's core operating areas, include 515 producing wells, 401 proven development projects and substantial additional development and exploration potential on approximately 150,000 gross acres (90,000 net acres). In addition, the Cometra Properties include 265 miles of gas pipelines, a 25,000 Mcf/d gas processing plant and an above-market gas contract with a major Texas gas utility covering approximately 30% of the December 1996 production from the Cometra Properties.

## BUSINESS STRATEGY

The Company's objective is to maximize shareholder value through aggressive growth in its reserves, production, cash flow and earnings through a balanced program of development drilling and acquisitions, as well as a growing exploration effort. Management believes that the Cometra Acquisition has substantially enhanced the Company's ability to increase its production and reserves through drilling activities. The Cometra Acquisition substantially increased the Company's inventory of proven drilling locations and, to an even greater degree, its exploration and exploitation drilling potential. Including the Cometra Properties, the Company has over 1,100 proven recompletion and development drilling projects. As a result of the Cometra Acquisition, the Company believes that it can meet its growth objectives over the next several years without the benefit of future acquisitions. The Company currently plans to spend \$160 million over the next three years on the further development and exploration of its properties. Consequently, while acquisitions are expected to continue to play an important role in the Company's future growth, the primary emphasis will shift towards exploiting the potential of the Company's larger property base.

In order to most effectively implement its operating strategy, the Company has concentrated its activities in selected geographic areas. In each core area, the Company has established separate acquisition, engineering, geological, operating and other technical expertise. The Company believes that this geographic focus provides it with a competitive advantage in sourcing and evaluating new business opportunities within these areas, as well as providing economies of scale in developing and operating properties.

Lomak believes the competitive strengths described below will greatly enhance its ability to achieve its long-term goals and objectives.

- Diversified, Long Lived Reserve Base: Lomak has compiled a diversified group of predictable, long lived properties. The Company's oil and gas reserves are attributable to 7,280 producing wells that have a reserve life index in excess of 13 years. The reserves are concentrated in seven basins and are geographically and geologically diversified.
- Substantial Inventory of Development and Exploration Projects: Lomak has over 1,100 proven development projects and a substantial number of exploration and exploitation drilling projects located within core operating areas in which the Company has significant operating and technical expertise.
- Successful Acquisition Record: The Company's primary strength has historically been to identify and acquire properties that have increased reserves, production, cash flow and earnings. Excluding the Cometra Acquisition, since 1991 the Company has completed 62 acquisitions for an aggregate purchase price of \$252 million. These acquisitions have added reserves of approximately 422 Bcfe at an average acquisition cost of \$0.60 per Mcfe.
- Significant Operational Control: Lomak operates properties representing nearly 94% of its Present Value. This allows the Company to directly control operating and drilling costs and also allows it to dictate the timing of development and exploration activities.
- High Operating Margins: The Company's low cost structure, coupled with the premium gas price it receives for a significant portion of its production, creates high operating margins. For the first nine months of 1996, Lomak generated operating margins, after deducting direct operating and administrative costs, of \$1.65 per Mcfe.
- Experienced, Incentivized Management Team: The Company's board of directors, executive officers, technical staff and administrative personnel have considerable industry experience and will own, collectively, shares representing approximately 10% of the outstanding shares of Common Stock, after giving effect to the Cometra Acquisition and the Common Stock Offering. Over 80% of Lomak's employees either own, or hold options to acquire, shares of Common Stock.

## FINANCING THE COMETRA ACQUISITION

After adjustment for cash flow attributable to the Cometra Properties from October 1, 1996 to funding, it is expected that the adjusted purchase price for the Cometra Acquisition, based on a scheduled funding of February 14, 1997, will be approximately \$375 million, of which \$30 million will consist of shares of Common Stock to be issued to Cometra.

The Company will finance the cash portion of the purchase price with \$220 million of borrowings under a recently expanded bank credit facility (the "Credit Facility") and the issuance to Cometra of a \$125 million non-interest bearing promissory note due March 31, 1997, which is secured by a bank letter of credit. The promissory note will be repaid at maturity through borrowings under the Credit Facility. The Credit Facility will enable the Company to obtain revolving credit loans and issue letters of credit from time to time in an aggregate amount not to exceed \$400 million initially. Availability under the Credit Facility will be reduced to \$325 million 180 days after the funding of the Cometra Acquisition, unless otherwise agreed to by the lenders. Upon consummation of the Offerings, approximately \$230.9 million will be outstanding under the Credit Facility.

The Company maintains its corporate headquarters at 500 Throckmorton Street, Fort Worth, Texas 76102 and its telephone number is (817) 870-2601.

## THE OFFERING

Common Stock Offered by the Company.....	4,000,000 shares
Common Stock Outstanding prior to the Offering.....	14,801,654 shares(1)
Common Stock to be Outstanding after the Offering.....	20,230,225 shares(1)(2)
Notes Offering.....	Concurrently with the Common Stock Offering, the Company is offering \$100 million aggregate principal amount of Notes to the public in the Notes Offering. The closings of the Common Stock Offering and the Notes Offering are contingent upon each other. Neither the Common Stock Offering nor the Notes Offering will be completed until after the consummation of the Cometra Acquisition. See "Notes Offering."
Use of Proceeds.....	The Company will use the proceeds of the Common Stock Offering and the Notes Offering to repay a portion of the indebtedness incurred to fund the purchase price for the Cometra Properties. See "Use of Proceeds."
NYSE Symbol.....	"LOM"

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(1) As of January 17, 1997. Excludes 1,219,432 shares reserved for issuance upon the exercise of outstanding options and warrants, of which 503,932 are currently exercisable; 3,026,316 shares issuable upon conversion of the \$2.03 Convertible Preferred Stock; and 2,857,143 shares issuable upon conversion of the 6% Convertible Subordinated Debentures. See "Description of Capital Stock and Indebtedness."

(2) Includes 1,428,571 shares to be issued to Cometra as partial consideration for the Cometra Properties based on an assumed average market price for the Common Stock of \$21 per share.

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The following tables set forth certain (i) historical and pro forma financial data and (ii) reserve and operating data. The pro forma financial, operating and reserve information includes the Cometra Acquisition and the related financings and certain other acquisitions and financings consummated in 1995 and 1996, as described in the notes to the Unaudited Pro Forma Consolidated Financial Statements. The historical data should be read in conjunction with the historical Consolidated Financial Statements and Notes thereto included herein. See also "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The pro forma information should be read in conjunction with the Unaudited Pro Forma Consolidated Financial Statements included herein. Neither the historical nor the pro forma results are necessarily indicative of future results.

	YEAR ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,		
	1993	1994	1995	PRO FORMA 1995	1995	1996	PRO FORMA 1996
<b>STATEMENT OF OPERATIONS DATA:</b>							
<b>Revenues:</b>							
Oil and gas sales.....	\$ 11,132	\$ 24,461	\$ 37,417	\$ 98,480	\$ 24,135	\$ 49,878	\$ 94,230
Field services.....	6,966	7,667	10,097	10,337	7,109	10,483	10,663
Gas transportation and marketing...	559	2,195	3,284	16,261	2,332	4,137	16,858
Interest and other.....	418	471	1,317	1,317	1,052	1,102	1,102
	-----	-----	-----	-----	-----	-----	-----
	19,075	34,794	52,115	126,395	34,628	65,600	122,853
<b>Expenses:</b>							
Direct operating.....	4,438	10,019	14,930	33,713	9,935	18,268	29,139
Field services.....	5,712	5,778	6,469	6,469	4,192	7,813	7,813
Gas transportation and marketing...	13	490	849	8,549	595	1,206	9,363
Exploration.....	86	359	512	512	473	836	836
General and administrative.....	2,049	2,478	2,736	4,374	2,187	2,862	4,099
Interest.....	1,120	2,807	5,584	29,514	3,822	5,563	21,900
Depletion, depreciation and amortization.....	4,347	10,105	14,863	39,276	9,808	16,589	31,807
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	17,765	32,036	45,943	122,407	31,012	53,137	104,957
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Income before taxes.....	1,310	2,758	6,172	3,988	3,616	12,463	17,896
Income taxes.....	81	(139)	(1,782)	(1,149)	(898)	(4,360)	(6,254)
	-----	-----	-----	-----	-----	-----	-----
Net income.....	\$ 1,391	\$ 2,619	\$ 4,390	\$ 2,839	\$ 2,718	\$ 8,103	\$ 11,642
	=====	=====	=====	=====	=====	=====	=====
Earnings per common share.....	\$ 0.18	\$ 0.25	\$ 0.31	\$ 0.03	\$ 0.21	\$ 0.43	\$ 0.49
	=====	=====	=====	=====	=====	=====	=====
<b>OTHER FINANCIAL DATA:</b>							
EBITDA (a).....	\$ 6,863	\$ 16,029	\$ 27,131	\$ 73,290	\$ 17,719	\$ 35,451	\$ 72,439
Net cash provided by operations.....	4,305	11,241	16,561	N/A	9,755	24,335	N/A
Capital expenditures.....	48,240	70,024	88,530	N/A	87,161	73,520	N/A
<b>Ratios:</b>							
EBITDA to interest expense.....	6.1x	5.7x	4.9x	2.5x	4.6x	6.4x	3.3x
Earnings to fixed charges (b).....	2.2x	2.0x	2.1x	1.1x	1.9x	3.2x	1.8x
Total debt to EBITDA.....	4.5x	3.9x	3.1x	N/A	N/A	N/A	N/A
<b>BALANCE SHEET DATA (END OF PERIOD):</b>							
Cash and equivalents.....	\$ 2,019	\$ 4,897	\$ 3,047	N/A	\$ 2,401	\$ 4,880	\$ 4,880
Total assets.....	76,333	141,768	214,664	N/A	203,305	284,152	664,602
Long-term debt (c).....	31,108	62,592	83,088	N/A	113,238	121,905	393,055
Stockholders' equity.....	32,263	43,248	99,243	N/A	60,554	112,866	222,166

(a) EBITDA represents net income plus income taxes, exploration expense, interest expense and depreciation, depletion and amortization expense. EBITDA is not presented as an indicator of the Company's operating performance or as a measure of liquidity.

(b) For the purpose of determining the ratio of earnings to fixed charges, earnings are defined as net income before taxes plus fixed charges. Fixed charges consist of interest expense.

(c) Long-term debt includes current portion.

## SUMMARY RESERVE AND OPERATING DATA

(DOLLARS IN THOUSANDS, EXCEPT PER UNIT AMOUNTS)

	YEAR ENDED DECEMBER 31,				
	1993	1994	1995	1996	PRO FORMA 1996
PROVED RESERVES (A):					
Natural gas (Mmcf).....	74,563	149,370	232,887	295,594	497,600
Oil and NGLs (Mbbbls).....	4,539	8,449	10,863	14,675	24,405
Natural gas equivalents (Mmcfe).....	101,797	200,064	298,065	383,644	644,030
Percent natural gas.....	73%	75%	78%	77%	77%
Percent proved developed.....	57%	68%	77%	71%	63%
PRODUCTION VOLUMES:					
Natural gas (Mmcf).....	2,590	6,996	12,471	21,142	37,687
Oil and NGLs (Mbbbls).....	318	640	913	1,068	1,855
Natural gas equivalents (Mmcfe).....	4,498	10,836	17,949	27,550	48,817
RESERVE LIFE INDEX (YEARS) (B).....	22.6	18.5	16.6	13.9	13.2
PRODUCT PRICES (AT DECEMBER 31) (A):					
Natural gas (per Mcf).....	\$ 2.60	\$ 2.07	\$ 2.28	\$ 3.54	\$ 3.99
Oil and NGLs (per Bbl).....	12.73	16.14	18.14	23.58	23.23
FUTURE NET CASH FLOWS (A):					
Undiscounted.....	\$140,892	\$270,974	\$412,638	\$941,393	\$1,790,768
Present Value.....	65,114	150,536	229,238	492,172	973,663
RESERVE ADDITIONS (MMCFE):					
Acquisitions.....	74,555	103,292	106,283	111,022	371,409
Extensions, discoveries and revisions.....	2,708	7,415	10,943	15,630	15,630
Net additions.....	77,263	110,707	117,226	126,652	387,039
COSTS INCURRED:					
Acquisition.....	\$ 43,177	\$ 59,501	\$ 69,244	\$ 63,538	\$ 316,538
Development and exploration.....	3,826	9,710	10,184	12,944	12,944
Total costs incurred.....	\$ 47,003	\$ 69,211	\$ 79,428	\$ 76,482	\$ 329,482
FINDING COSTS (PER MCFE) (C).....	\$ 0.61	\$ 0.63	\$ 0.68	\$ 0.60	\$ 0.85
RESERVE REPLACEMENT (D).....	1,718%	1,022%	653%	460%	1,405%
WELLS DRILLED:					
Gross.....	30.0	71.0	62.0	76.0	N/A
Net.....	18.4	58.8	39.6	57.8	N/A
Success rate (net).....	90%	97%	99%	98%	N/A

	YEAR ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,		
	1993	1994	1995	PRO FORMA 1995	1995	1996	PRO FORMA 1996
PER MCFE DATA:							
Oil and gas sales.....	\$2.47	\$2.26	\$2.08	\$2.12	\$2.06	\$2.40	\$2.55
Direct operating expense.....	0.98	0.93	0.83	0.72	0.85	0.88	0.79
General and administrative expense.....	0.46	0.23	0.15	0.09	0.19	0.14	0.11
Operating margin (e).....	\$1.03	\$1.10	\$1.10	\$1.31	\$1.02	\$1.38	\$1.65

- (a) Proved reserves and future net cash flows were estimated in accordance with the Commission's guidelines. Prices at December 31 in each of the years 1993 through 1996 were used in the calculation of proved reserves and future net cash flows and were held constant through the periods of estimated production, except as otherwise provided by contract, in accordance with the Commission's guidelines.
- (b) The reserve life index is calculated as proved reserves (on an Mcfe basis) divided by annual production.
- (c) Finding costs are calculated as costs incurred divided by net reserve additions. The pro forma cost incurred for 1996 excludes \$62 million attributable to unproved reserves (\$0.16 per Mcfe impact). However, the pro forma cost incurred for 1996 includes the value attributable to an above-market gas contract of \$38 million (\$0.10 per Mcfe impact).
- (d) Reserve replacement is calculated as net reserve additions divided by the Company's actual production for the period, both on an Mcfe basis.
- (e) Operating margin is calculated as oil and gas sales less direct operating expense and general and administrative expense.

## RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, together with the other information contained in this Prospectus, the following risk factors:

## VOLATILITY OF OIL AND GAS PRICES

The Company's financial condition, operating results and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of, and demand for, oil and gas. The Company's ability to maintain or increase its borrowing capacity and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Historically the markets for oil and gas have been volatile and are likely to continue to be volatile in the future. 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 and elsewhere, the economic conditions in the United States and elsewhere, the actions of the Organization of Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East and elsewhere, the supply and demand of oil and gas, the price of foreign imports and the availability and prices 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, the Company's ability to obtain additional capital, and its revenues, profitability and cash flows from operations.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

## UNCERTAINTY OF ESTIMATES OF RESERVES AND FUTURE NET REVENUES

This Prospectus contains estimates of the Company's oil and gas reserves and the future net revenues from those reserves which have been prepared by the Company and certain independent petroleum consultants. Reserve engineering is a subjective process of estimating the recovery from underground accumulations of oil and gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Estimates of economically recoverable oil and gas reserves and of future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions concerning future oil and gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. Because all reserve estimates are to some degree speculative, the quantities of oil and gas that are ultimately recovered, production and operation costs, the amount and timing of future development expenditures and future oil and gas sales prices may all vary from those assumed in these estimates and such variances may be material. In addition, different reserve engineers may make different estimates of reserve quantities and cash flows based upon the same available data.

The present value of estimated future net cash flows referred to in this Prospectus should not be construed as the current market value of the estimated proved oil and gas reserves attributable to the Company's properties. In accordance with applicable requirements of the Commission, the estimated discounted future net cash flows from proved reserves are generally based on prices and costs as of the date of the estimate, whereas actual future prices and costs may be materially higher or lower. The calculation of the Present Value of the Company's oil and gas reserves were based on prices on December 31, 1996. Average product prices at December 31, 1996 were \$23.58 per barrel of oil and \$3.54 per Mcf of gas and pro forma average product prices at December 31, 1996 were \$23.23 per barrel of oil and \$3.99 per Mcf of gas, which prices were substantially higher than historical prices used by the Company to calculate Present Value in recent years. In addition, the Company's reserves may be subject to downward or upward revision based upon

production history, results of future development, prevailing oil and gas prices and other factors. See "Business -- Oil and Gas Reserves."

#### FINDING AND ACQUIRING ADDITIONAL RESERVES

The Company's future success depends upon its ability to find or acquire additional oil and gas reserves that are economically recoverable. Except to the extent the Company conducts successful exploration or development activities or acquires properties containing proved reserves, the proved reserves of the Company will generally decline as they are produced. There can be no assurance that the Company's planned development projects and acquisition activities will result in significant additional reserves or that the Company will have success drilling productive wells at economic returns. If prevailing oil and gas prices were to increase significantly, the Company's finding costs to add new reserves could increase. The drilling of oil and gas wells involves a high degree of risk, especially the risk of dry holes or of wells that are not sufficiently productive to provide an economic return on the capital expended to drill the wells. The cost of drilling, completing and operating wells is uncertain, and drilling or production may be curtailed or delayed as a result of many factors.

The Company's business is capital intensive. To maintain its base of proved oil and gas reserves, a significant amount of cash flow from operations must be reinvested in property acquisitions, development or exploration activities. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investments to maintain or expand its asset base would be impaired. Without such investment, the Company's oil and gas reserves would decline.

#### DEVELOPMENT AND EXPLORATION RISKS

The Company intends to increase its development and exploration activities. Exploration drilling, and to a lesser extent development drilling, involve a high degree of risk that no commercial production will be obtained or that the production will be insufficient to recover drilling and completion costs. The cost of drilling, completing and operating wells is uncertain. The Company's drilling operations may be curtailed, delayed or canceled as a result of numerous factors, including title problems, weather conditions, compliance with governmental requirements and shortages or delays in the delivery of equipment. Furthermore, completion of a well does not assure a profit on the investment or a recovery of drilling, completion and operating costs. See "Business -- Development Activities" and " -- Exploration Activities."

#### ACQUISITION RISKS

The Company intends to continue acquiring oil and gas properties. It generally is not feasible to review in detail every individual property involved in an acquisition. Ordinarily, review efforts are focused on the higher-valued properties. However, even a detailed review of all properties and records may not reveal existing or potential problems nor will it permit the Company to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Inspections are not always performed on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. See "Business -- Acquisition Activities."

The consummation of the Cometra Acquisition will substantially increase the Company's reserves, cash flow and production. The Company's ability to achieve any advantages from the Cometra Acquisition will depend in large part on successfully integrating the Cometra Properties into the operations of the Company. No assurances can be made that the Company will be able to achieve such integration successfully.

#### EFFECTS OF LEVERAGE

On a pro forma basis giving effect to the Cometra Acquisition and the related financings, at September 30, 1996, the Company's outstanding indebtedness would have been \$393 million and the Company's ratio of total debt to total capitalization would have been 64%. The Company's level of indebtedness will have several important effects on its future operations, including (i) a substantial portion of the Company's cash

flow from operations must be dedicated to the payment of interest on its indebtedness and will not be available for other purposes, (ii) covenants contained in the Company's debt obligations will require the Company to meet certain financial tests, and other restrictions will limit its ability to borrow additional funds or to dispose of assets and may affect the Company's flexibility in planning for, and reacting to, changes in its businesses, including possible acquisition activities and (iii) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired. The Company's ability to meet its debt service obligations and to reduce its total indebtedness will be dependent upon the Company's future performance, which will be subject to oil and gas prices, the Company's level of production, general economic conditions and to financial, business and other factors affecting the operations of the Company, many of which are beyond its control. There can be no assurance that the Company's future performance will not be adversely affected by some or all of these factors.

#### CAPITAL AVAILABILITY

The Company's strategy of acquiring and developing oil and gas properties is dependent upon its ability to obtain financing for such acquisitions and development projects. The Company expects to utilize the Credit Facility among the Company and several banks (the "Banks") to borrow a portion of the funds required for any given transaction or project. If funds under the Credit Facility are not available to fund acquisition and development projects, the Company would seek to obtain such financing from the sale of equity securities or other debt financing. There can be no assurance that any such other financing would be available on terms acceptable to the Company. Should sufficient capital not be available, the Company may not be able to continue to implement its strategy.

The Credit Facility limits the amounts the Company may borrow to amounts, determined by the Banks, in their sole discretion, based upon a variety of factors including the discounted present value of the Company's estimated future net cash flow from oil and gas production (the "Borrowing Base"). On a pro forma basis, at January 15, 1997, the Borrowing Base would have been \$400 million, of which the Company would have had borrowings of \$220 million outstanding. The Borrowing Base will be reduced to \$325 million 180 days after the funding of the Cometra Acquisition, unless otherwise agreed to by the Banks. If oil or gas prices decline below their current levels, the availability of funds and the ability to pay outstanding amounts under the Credit Facility could be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition -- Liquidity and Capital Resources."

#### OPERATING HAZARDS AND UNINSURED RISKS; PRODUCTION CURTAILMENTS

The oil and gas business involves a variety of operating risks, including, but not limited to, unexpected formations or pressures, uncontrollable flows of oil, gas, brine or well fluids into the environment (including groundwater contamination), blowouts, cratering, fires, explosions, pipeline ruptures or spills, pollution and other risks, any of which could result in personal injuries, loss of life, damage to properties, environmental pollution, suspension of operations and substantial losses. Although the Company carries insurance which it believes is reasonable, it is not fully insured against all risks. Losses and liabilities arising from uninsured or under-insured events could have a material adverse effect on the financial condition and operations of the Company.

From time to time, due primarily to contract terms, pipeline interruptions or weather conditions, the producing wells in which the Company owns an interest have been subject to production curtailments. The curtailments vary from a few days to several months. In most cases the Company is provided only limited notice as to when production will be curtailed and the duration of such curtailments. The Company is currently not curtailed on any of its production.

Certain of the Cometra Properties are offshore operations in the Gulf of Mexico which are subject to a variety of operating risks peculiar to the marine environment, such as hurricanes or other adverse weather conditions, more extensive governmental regulation, including regulations that may, in certain circumstances, impose strict liability for pollution damage, and to interruption or termination of operations by governmental authorities based on environmental or other considerations.

## HEDGING RISKS

The Company has currently hedged approximately 12% of its pro forma production through April 1997. These hedges have in the past involved fixed price arrangements and other price arrangements at a variety of prices, floors and caps. The Company may in the future enter into oil and natural gas futures contracts, options and swaps. The Company's hedging activities, while intended to reduce the Company's sensitivity to changes in market prices of oil and gas, are subject to a number of other risks. In addition, such transactions may expose the Company to the risk of financial loss in certain circumstances, including instances in which (i) production is less than expected, (ii) there is a widening of price differentials between delivery points required by fixed price delivery contracts to the extent they differ from those of the Company's production, (iii) the Company's customers or the counterparties to its futures contracts fail to purchase or deliver the contracted quantities of oil or natural gas or (iv) a sudden, unexpected event materially impacts oil or natural gas prices. Additionally, the fixed price sales and hedging contracts limit the benefits the Company will realize if actual prices rise above the contract prices. In the future, the Company may increase the percentage of its production covered by hedging arrangements.

## GAS CONTRACT RISK

A significant portion of the Company's production is subject to fixed price contracts. On a pro forma basis, approximately 47% of average gas production for December 1996 was sold subject to fixed price sales contracts (including a contract relating to the Cometra Properties described below). These fixed price contracts are at prices ranging from \$2.15 to \$3.70 per Mcf. The fixed price contracts with terms of less than one year, between one and five years and greater than five years constitute approximately 31%, 65% and 4%, respectively, of the volume sold under fixed price contracts. The fixed price sales contracts limit the benefits the Company will realize if actual prices rise above the contract prices.

As part of the Cometra Acquisition, the Company acquired a gas sales contract covering 20,000 acres currently producing approximately 20,000 Mcf/d. The price paid pursuant to the contract was \$3.70 per Mcf at December 31, 1996 (55% higher than average 1996 natural gas prices received by the Company) and escalates at \$0.05 per Mcf per annum. The contract is with a large gas utility and expires in June 2000. This contract represents 14% of the Company's pro forma December 1996 production on an Mcfe basis.

The Company believes that these fixed price contracts are enforceable and it has not received any notice or other indication from any of the counterparties that they intend to cease performing any of their obligations under these contracts. However, there can be no assurance that one or more of these counterparties will not attempt to mitigate their obligations under these contracts. If any of the purchasers under the contracts should be successful in doing so, then the Company could be required to market its production on less attractive terms, which could have a material adverse effect on the Company's earnings and cash flow.

## GAS GATHERING, PROCESSING AND MARKETING

The Company's gas gathering, processing and marketing operations depend in large part on the ability of the Company to contract with third party producers to produce their gas, to obtain sufficient volumes of committed natural gas reserves, to maintain throughput in the Company's processing plant at optimal levels, to replace production from declining wells, to assess and respond to changing market conditions in negotiating gas purchase and sale agreements and to obtain satisfactory margins between the purchase price of its natural gas supply and the sales price for such residual gas volumes and the natural gas liquids processed. In addition, the Company's operations are subject to changes in regulations relating to gathering and marketing of oil and gas. The inability of the Company to attract new sources of third party natural gas or to promptly respond to changing market conditions or regulations in connection with its gathering, processing and marketing operations could materially adversely affect the Company's results of operations.

## LAWS AND REGULATIONS

The Company's operations are affected by extensive regulation pursuant to various federal, state and local laws and regulations relating to the exploration for and development, production, gathering and marketing of

oil and gas. These regulations, among other things, control the rate of oil and gas production, and control the amount of oil that may be imported. The Company's operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution which might result from the Company's operations. Moreover, the recent trend toward stricter standards in environmental legislation and regulation is likely to continue. For instance, legislation has been proposed in Congress from time to time that would reclassify certain crude oil and natural gas exploration and production wastes as "hazardous wastes" which would make the reclassified wastes subject to much more stringent handling, disposal and clean-up requirements. If such legislation were to be enacted, it could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general. Initiatives to further regulate the disposal of crude oil and natural gas wastes are also pending in certain states, and these various initiatives could have a similar impact on the Company. The Company could incur substantial costs to comply with environmental laws and regulations.

#### COMPETITION

The Company encounters substantial competition in acquiring properties, marketing oil and gas, securing equipment and personnel and operating its properties. The competitors in acquisitions, development, exploration and production include major oil companies, numerous independents, individual proprietors and others. Many of these competitors have financial and other resources which substantially exceed those of the Company. Therefore, competitors may be able to pay more for desirable leases and to evaluate, bid for and purchase a greater number of properties or prospects than the financial or personnel resources of the Company will permit.

#### DEPENDENCE ON KEY PERSONNEL

The Company depends, and will continue to depend in the foreseeable future, on the services of its officers and key employees with extensive experience and expertise in evaluating and analyzing producing oil and gas properties and drilling prospects, maximizing production from oil and gas properties and marketing oil and gas production, including John H. Pinkerton, the Company's President and Chief Executive Officer. However, the Company does not have employment contracts with any of its officers or key employees. The ability of the Company to retain its officers and key employees is important to the continued success and growth of the Company. The loss of key personnel could have a material adverse effect on the Company. The Company does not maintain key man life insurance on any of its officers or key employees. See "Management."

#### CERTAIN BUSINESS INTERESTS OF CHAIRMAN

Thomas J. Edelman, Chairman of the Company, is also the President of Snyder Oil Corporation ("SOCO"), an independent publicly traded oil and gas company, and Chairman, President and Chief Executive Officer of Patina Oil & Gas Company ("Patina"), a publicly traded oil and gas company in which SOCO owns a majority interest. The Company currently has no existing business relationships with either SOCO or Patina, and neither SOCO nor Patina owns any of the Company's securities. However, as a result of Mr. Edelman's position in these companies, conflicts of interests may arise between them. The Company has, and it has been advised that SOCO also has, board policies that require Mr. Edelman to give notification of any potential conflicts that may arise between the Company and SOCO. There can be no assurance, however, that the Company will not compete with SOCO or Patina for the same acquisition or encounter other conflicts of interest. See "Management" and "Certain Transactions."

## FORWARD-LOOKING INFORMATION

Information included in this Prospectus, including information incorporated by reference herein, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including projections, estimates and expectations. Those statements by their nature are subject to certain risks, uncertainties and assumptions and will be influenced by various factors. Should one or more of these statements or their underlying assumptions prove to be incorrect, actual results could vary materially. Although the Company believes that such projections, estimates and expectations are based on reasonable assumptions, it can give no assurance that such projections, estimates and expectations will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include political developments in foreign countries, federal and state regulatory developments, the timing and extent of changes in commodity prices, the extent of success in acquiring oil and gas properties and in discovering, developing and producing reserves and conditions of the capital markets and equity markets during the periods covered by the forward-looking statements. See "Risk Factors" for further information with respect to certain of such factors. In addition, certain of such projections and expectations are based on historical results, which may not be indicative of future performance. See "Unaudited Pro Forma Consolidated Financial Statements."

## COMETRA ACQUISITION

## GENERAL

On December 31, 1996, the Company agreed to acquire the Cometra Properties for a purchase price of \$400 million, subject to adjustment. As a result of the Cometra Acquisition, the Company will significantly expand its inventory of both development and exploration projects, increase its proved reserves at December 31, 1996 by 68% to 644 Bcfe and increase the Company's Present Value at December 31, 1996 by 98% to \$974 million.

## COMETRA PROPERTIES

The Cometra Properties include 150,000 gross acres (90,000 net) located within the Company's core operating areas in West Texas, South Texas and the Gulf of Mexico. Netherland, Sewell & Associates, Inc., independent petroleum consultants, estimated that at December 31, 1996, the Cometra Properties had proved reserves of 202 Bcf of gas and 9.7 Mmbbls of oil with a Present Value of \$482 million. In December 1996, the Cometra Properties produced at a rate of 66 Mmcfe/d through 515 wells. The Cometra Properties include 265 miles of gas pipelines and a 25,000 Mcf/d capacity gas processing plant.

The West Texas properties are located in the Val Verde and Permian Basins and account for 81% of the acquired reserves on a Present Value basis. The South Texas/Gulf of Mexico properties account for 19% of the acquired reserves on a Present Value basis. All of the Cometra Properties, except for the Gulf of Mexico properties, are within the Company's existing core operating areas. As a result, the Company expects to be able to quickly integrate the properties and begin exploitation activities. To facilitate the integration, the Company plans to offer positions to substantially all of Cometra's field and technical staff associated with these properties.

On a Present Value basis, 95% and 70%, respectively, of the West Texas and South Texas/Gulf of Mexico properties are operated by the Company. The offshore properties are operated by experienced third parties. Although the Company has no definitive plans to do so at this time, the Company has previously announced that it may elect to sell all or part of the Gulf of Mexico properties because they are not located in the Company's core areas.

## RESERVES

The following table sets forth summary information with respect to the proved reserves of the Cometra Properties by region at December 31, 1996:

	PRESENT VALUE		OIL & NGLS (MBBLS)	NATURAL GAS (MMCF)	NATURAL GAS EQUIV. (MMCFE)
	AMOUNT (THOUSANDS)	%			
West Texas.....	\$387,852	80.6%	8,271	174,339	223,965
South Texas/Gulf of Mexico.....	93,639	19.4	1,459	27,667	36,421
Total.....	\$481,491	100.0%	9,730	202,006	260,386

The West Texas properties consist of 450 wells on 99,000 gross acres (70,000 net) located principally in the Val Verde and Permian Basins. The Company will assume operations on 95% of the properties on a Present Value basis and will operate the pipelines and gas processing plant. Existing production ranges in depth from 3,000 to 7,000 feet. The Company has identified 365 proven recompletion and development drilling projects in this area. In the Val Verde Basin, the Company will benefit from a \$3.70 per Mcf gas sales contract covering 20,000 acres currently producing approximately 20,000 Mcf/d. The contract is with a large gas utility and expires in June 2000.

The South Texas/Gulf of Mexico properties consist of 99 wells on 51,000 gross acres (20,000 net). The Company will assume operation of 70% of the properties on a Present Value basis, primarily in South Texas. The Gulf of Mexico properties include 14 producing wells on seven offshore platforms, all of which are

operated by third parties, including British Borneo Exploration, Samedan Oil Corporation and Seneca Resources. Total net daily production from the South Texas/Gulf of Mexico properties is 22.3 Mmcfe. Onshore, production comes from depths ranging from 1,000 to 12,000 feet, and has an estimated reserve life in excess of seven years. In the Gulf of Mexico, production ranges in depth from 8,000 to 14,000 feet, while water depths vary from 50 to 220 feet. The Company has identified a total of 36 development projects. Both shallower and deeper horizons hold potential exploration opportunities, which the Company expects to evaluate further with the assistance of 3-D seismic technology.

#### GAS PLANTS AND PIPELINES

As part of the Cometra Acquisition, the Company will acquire 265 miles of gas pipelines and a 25,000 Mcf/d capacity gas processing plant in the Permian Basin. The gas plant, located outside Sterling, Texas, was constructed in 1995 and is currently processing gas, approximately 50% of which is attributable to Company-operated wells, at the rate of 21,700 Mcf/d. The Company believes that the plant's capacity could be expanded to 35,000 Mcf/d for an additional capital expenditure of approximately \$4.0 million.

#### PURCHASE AGREEMENTS

The Company acquired the Cometra Properties pursuant to Purchase and Sale Agreements dated December 31, 1996 (the "Purchase Agreements"). The Purchase Agreements have an effective date of October 1, 1996 (the "Effective Date") and the funding is expected to occur on February 14, 1997 (the "Funding Date").

The Purchase Agreements provide for adjustments to the purchase price for, among other things, (i) cash flow attributable to the Cometra Properties from the Effective Date to the Funding Date, (ii) prepaid and unpaid ad valorem, property, production, severance and similar taxes, (iii) overproduction or underproduction of natural gas by Cometra as of the Funding Date, (iv) reimbursement of overhead costs incurred by Cometra from the Effective Date to the Funding Date, and (v) obligations of Cometra arising under any prepayment arrangements prior to the Funding Date.

If the Funding Date occurs on February 14, 1997, it is currently estimated that the adjusted purchase price for the Cometra Properties will be \$375 million. Of this amount, \$220 million is payable in cash on the Funding Date (including cash deposits previously made) and \$30 million is payable through the issuance to Cometra of a number of shares of Common Stock determined by dividing \$30 million by the average closing price of the Common Stock on the NYSE for the five trading days immediately preceding February 14, 1997. The Company will issue to Cometra a \$125 million non-interest bearing promissory note due March 31, 1997, which is secured by a bank letter of credit, for the balance of the adjusted purchase price. The Cometra Acquisition is subject to certain closing conditions, including the expiration of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

#### NOTES OFFERING

Concurrently with the Common Stock Offering, the Company is offering \$100 million aggregate principal amount of its Senior Subordinated Notes due 2007. The closings of the Common Stock Offering and the Notes Offering are contingent upon each other. Neither the Common Stock Offering nor the Notes Offering will be completed until after the consummation of the Cometra Acquisition. The Notes will be unconditionally guaranteed on an unsecured, senior subordinated basis, by each of the Company's subsidiaries, provided that such guarantees will terminate under certain circumstances. The Indenture for the Notes will contain certain covenants, including, but not limited to, covenants with respect to the following matters: (i) limitation on restricted payments; (ii) limitation on the incurrence of indebtedness; (iii) limitation on issuances and sales of capital stock by restricted subsidiaries; (iv) limitation on liens; (v) limitation on disposition of proceeds of asset sales; (vi) limitation on transactions with affiliates; (vii) limitation on dividends and other payment restrictions affecting restricted subsidiaries; (viii) restrictions on mergers, consolidations and transfers of assets; (ix) limitations on subsidiary indebtedness and preferred stock; and (x) limitation on "layering" indebtedness.

## USE OF PROCEEDS

The net proceeds of the Common Stock Offering are estimated to be approximately \$79.3 million (assuming an offering price of \$21 per share) and the net proceeds of the Notes Offering are estimated to be approximately \$96.7 million, after deducting underwriting discounts and estimated expenses. The Company intends to use all of such net proceeds to repay certain indebtedness incurred under the Credit Facility to fund a portion of the cash purchase price for the Cometra Properties. See "Cometra Acquisition" and "Notes Offering." At December 31, 1996, indebtedness under the Credit Facility, which expires in January 2002, had a weighted average interest rate of 6.7%. For additional information with respect to the interest rates, maturity and covenants related to the Credit Facility, see "Description of Capital Stock and Indebtedness - - - Credit Facility."

## CAPITALIZATION

The following table sets forth the capitalization of the Company at September 30, 1996, and the pro forma capitalization of the Company at September 30, 1996, giving effect to the offering of 6% Convertible Subordinated Debentures in December 1996 and the Cometra Acquisition and the related financings (including the application of the net proceeds from the Offerings as described in "Use of Proceeds") as if such transactions occurred on September 30, 1996. This table should be read in conjunction with the Consolidated Financial Statements and Unaudited Pro Forma Consolidated Financial Statements and Notes thereto included herein, and "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

	SEPTEMBER 30, 1996	
	ACTUAL	PRO FORMA
(IN THOUSANDS)		
Current portion of debt.....	\$ --	\$ --
	=====	=====
Long-term debt:		
Revolving credit facility.....	\$121,905	\$238,055
% Senior Subordinated Notes.....	--	100,000
6% Convertible Subordinated Debentures (1).....	--	55,000
	-----	-----
Total long-term debt.....	\$121,905	\$393,055
	=====	=====
Stockholders' equity:		
Preferred Stock, \$1 par value, 4,000,000 shares authorized: \$2.03 Convertible Exchangeable Preferred Stock 1,150,000 shares outstanding (\$28,750,000 liquidation preference)(2).....	1,150	1,150
Common Stock, \$.01 par value, 35,000,000 shares authorized: 14,705,293 issued and outstanding; 20,133,864 shares issued and outstanding pro forma (3)(4).....	147	201
Capital in excess of par value.....	109,915	219,161
Retained earnings.....	1,654	1,654
	-----	-----
Total stockholders' equity.....	112,866	222,166
	-----	-----
Total capitalization.....	\$234,771	\$615,221
	=====	=====

(1) The 6% Convertible Subordinated Debentures were issued on December 27, 1996. See "Description of Capital Stock and Indebtedness."

(2) The \$2.03 Convertible Exchangeable Preferred Stock may, at the election of the Company, be exchanged for an aggregate of \$28,750,000 principal amount of 8.125% Convertible Subordinated Notes due December 31, 2005. See "Description of Capital Stock and Indebtedness."

(3) As of January 17, 1997. Excludes 1,219,432 shares reserved for issuance upon the exercise of outstanding options and warrants, of which 503,932 are currently exercisable; 3,026,316 shares issuable upon conversion of the \$2.03 Convertible Preferred Stock; and 2,857,143 shares issuable upon conversion of the 6% Convertible Subordinated Debentures due 2007. See "Description of Capital Stock and Indebtedness."

(4) Includes 1,428,571 shares to be issued to Cometra as partial consideration for the Cometra Properties based on an assumed average market price for the Common Stock of \$21 per share.

## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

The Common Stock was listed on the NYSE on October 11, 1996 under the symbol "LOM." Prior to listing on the NYSE, the Common Stock was listed on the Nasdaq National Market under the symbol "LOMK." At January 17, 1997, 14,801,654 shares were held by 4,306 stockholders of record.

	HIGH	LOW	COMMON STOCK DIVIDENDS
	-----	-----	-----
1997			
First Quarter (through January 21).....	\$23.625	\$17.125	(a)
1996			
Fourth Quarter.....	\$17.375	\$13.125	\$ .02
Third Quarter.....	14.875	12.750	.02
Second Quarter.....	15.500	11.625	.01
First Quarter.....	12.125	9.560	.01
1995			
Fourth Quarter.....	\$ 7.500	\$ 5.500	\$ .01
Third Quarter.....	9.250	7.250	--
Second Quarter.....	8.188	7.250	--
First Quarter.....	7.375	5.500	--

- - - - -

(a) Since the fourth quarter of 1995, dividends have been declared at the beginning of the last month of each calendar quarter and have been paid at the end of such calendar quarter.

Dividends on the Common Stock were initiated in December 1995 and have been paid in each successive quarter. The \$2.03 Convertible Preferred Stock receives cumulative quarterly dividends at the annual rate of \$2.03 per share. If there is any arrearage in dividends on the \$2.03 Convertible Preferred Stock, the Company may not pay dividends on the Common Stock. The Company has never been in arrears in the payment of dividends on the \$2.03 Convertible Preferred Stock. See "Description of Capital Stock and Indebtedness."

The payment of dividends is subject to declaration by the Board of Directors and may depend upon earnings, capital expenditures and market factors existing from time to time. The Credit Facility and the Indenture for the Notes contain restrictions on the Company's ability to pay dividends on capital stock. Under the most restrictive of these provisions, the Company could have paid \$ \_\_\_\_\_ of dividends as of December 31, 1996.

## UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited pro forma consolidated financial statements give effect to: (i) the purchase by the Company of certain oil and gas properties from a subsidiary of Parker & Parsley Petroleum Co. ("Parker & Parsley") in August 1995 for \$20 million, (ii) the purchase by the Company of certain oil and gas properties from Transfuel, Inc. ("Transfuel") in September 1995 for \$21 million and (iii) the purchase by the Company of certain oil and gas properties from Bannon Energy Incorporated (the "Bannon Acquisition") in April 1996 for \$37 million (collectively referred to as the "Prior Acquisitions"). The unaudited pro forma consolidated financial statements also give effect to the Cometra Acquisition, the private placements of the Company's \$2.03 Convertible Exchangeable Preferred Stock, 1.8 million shares of Common Stock and \$55 million of 6% Convertible Subordinated Debentures (collectively referred to as the "Private Placements") and the application of the estimated net proceeds therefrom. Additionally, the unaudited pro forma consolidated financial statements give effect to the Offerings. The unaudited pro forma consolidated statement of income for the year ended December 31, 1995 was prepared as if the Prior Acquisitions, the Cometra Acquisition, the Private Placements and the Offerings (collectively, the "Transactions") had occurred on January 1, 1995. The unaudited pro forma consolidated statement of income for the nine months ended September 30, 1996 was prepared as if the Transactions had occurred on January 1, 1996. The accompanying unaudited pro forma consolidated balance sheet of the Company as of September 30, 1996 has been prepared as if the Transactions had occurred as of that date. The historical information provided in the statements of income for the year ended December 31, 1995 and for the nine months ended September 30, 1996, represents the following periods prior to their inclusion in Lomak's historical results of operations for the various acquisitions: (i) Parker & Parsley represents the period from January 1, 1995 through July 31, 1995, (ii) Transfuel represents the period from January 1, 1995 through September 30, 1995, (iii) Bannon represents the periods from January 1, 1995 through December 31, 1995 and from January 1, 1996 through March 31, 1996 and (iv) the Cometra Acquisition represents the periods from January 1, 1995 through December 31, 1995 and from January 1, 1996 through September 30, 1996.

This information is not necessarily indicative of future consolidated results of operations and it should be read in conjunction with the separate historical statements and related notes of the respective entities appearing elsewhere in this Registration Statement or incorporated by reference herein.

LOMAK PETROLEUM, INC. AND SUBSIDIARIES  
PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 1995  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	LOMAK	PRIOR ACQUISITIONS	COMETRA ACQUISITION	PRO FORMA ADJUSTMENTS	PRE OFFERING LOMAK	PRO FORMA OFFERING ADJUSTMENTS	PRO FORMA LOMAK
	-----	-----	-----	-----	-----	-----	-----
<b>REVENUES</b>							
Oil and gas sales.....	\$37,417	\$17,549	\$43,514	\$	\$ 98,480	\$	\$ 98,480
Field services.....	10,097	--	--	240(e)	10,337		10,337
Transportation and marketing.....	3,284	--	5,277	7,700(e)	16,261		16,261
Interest and other.....	1,317	--	--		1,317		1,317
	-----		-----		-----		-----
	52,115	17,549	48,791		126,395		126,395
<b>EXPENSES</b>							
Direct operating.....	14,930	7,355	12,728	(1,300)(e)	33,713		33,713
Field services.....	6,469	--	--		6,469		6,469
Transportation and marketing.....	849	--	--	7,700(e)	8,549		8,549
Exploration.....	512	--	--		512		512
General and administrative.....	2,736	--	--	1,638(d,e)	4,374		4,374
Interest.....	5,584	--	--	27,106(a)	32,690	(3,176)(b)	29,514
Depletion, depreciation and amortization.....	14,863	--	--	24,413(c)	39,276	--	39,276
	-----		-----		-----		-----
	45,943	7,355	12,728		125,583		122,407
Income before taxes.....	6,172	10,194	36,063		812		3,988
<b>INCOME TAXES</b>							
Current.....	(86)	--	--	40(f)	(46)	(180)(g)	(226)
Deferred.....	(1,696)	--	--	1,508(f)	(188)	(735)(g)	(923)
	-----		-----		-----		-----
Net income.....	\$ 4,390	\$10,194	\$36,063		\$ 578		\$ 2,839
	=====		=====		=====		=====
Net income applicable to common shares.....	\$ 3,659						\$ 505
	=====						=====
Earnings per common share.....	\$ 0.31						\$ 0.03
	=====						=====
Weighted average shares outstanding.....	11,841			4,133		4,000	19,974
	=====						=====

See notes to pro forma consolidated financial statements

LOMAK PETROLEUM, INC. AND SUBSIDIARIES  
 PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
 NINE MONTHS ENDED SEPTEMBER 30, 1996  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
 (UNAUDITED)

	LOMAK	PRIOR ACQUISITIONS	COMETRA ACQUISITION	PRO FORMA ADJUSTMENTS	PRE OFFERING LOMAK	PRO FORMA OFFERING ADJUSTMENTS	PRO FORMA LOMAK
<b>REVENUES</b>							
Oil and gas sales.....	\$49,878	\$1,703	\$42,649	\$	\$ 94,230	\$	\$ 94,230
Field services.....	10,483	--	--	180(k)	10,663		10,663
Gas transportation and marketing.....	4,137	--	4,564	8,157(k)	16,858		16,858
Interest and other.....	1,102	--	--		1,102		1,102
	65,600	1,703	47,213		122,853		122,853
<b>EXPENSES</b>							
Direct operating.....	18,268	562	10,309		29,139		29,139
Field services.....	7,813	--	--		7,813		7,813
Gas transportation and marketing.....	1,206	--	--	8,157(k)	9,363		9,363
Exploration.....	836	--	--		836		836
General and administrative.....	2,862	--	--	1,237(k)	4,099	--	4,099
Interest.....	5,563	--	--	17,656(h)	23,219	(1,319)(i)	21,900
Depletion, depreciation and amortization.....	16,589	--	--	15,218(j)	31,807		31,807
	53,137	562	10,309		106,276		104,957
Income before taxes.....	12,463	1,141	36,904		16,577		17,896
<b>INCOME TAXES</b>							
Current.....	(299)	--	--	(242)(l)	(541)	(43)	(584)
Deferred.....	(4,061)	--	--	(1,190)(l)	(5,251)	(419)	(5,670)
Net income.....	\$ 8,103	\$1,141	\$36,904		\$ 10,785		\$ 11,642
Net income applicable to common shares.....	\$ 6,232						\$ 9,891
Earnings per common share....	\$ 0.43						\$ 0.49
Weighted average shares outstanding.....	14,615			1,601		4,000	20,216

See notes to pro forma consolidated financial statements

LOMAK PETROLEUM, INC.  
PRO FORMA CONSOLIDATED BALANCE SHEET  
SEPTEMBER 30, 1996  
(DOLLARS IN THOUSANDS)  
(UNAUDITED)

	LOMAK	PRO FORMA ADJUSTMENTS	PRE-OFFERING LOMAK	PRO FORMA OFFERING ADJUSTMENTS	PRO FORMA LOMAK
	-----	-----	-----	-----	-----
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and equivalents.....	\$ 4,880	\$	\$ 4,880	\$	\$ 4,880
Accounts receivable.....	14,861		14,861		14,861
Marketable securities.....	13,176		13,176		13,176
Inventory and other.....	1,696		1,696		1,696
	-----		-----		-----
Total current assets.....	34,613		34,613		34,613
	-----		-----		-----
Oil and gas properties.....	280,089	315,500(p)	595,589		595,589
Accumulated depletion and amortization.....	(48,025)		(48,025)		(48,025)
	-----		-----		-----
	232,064		547,564		547,564
	-----		-----		-----
Gas transportation and field service assets.....	22,597	60,000	82,597		82,597
Accumulated depreciation.....	(5,122)		(5,122)		(5,122)
	-----		-----		-----
	17,475		77,475		77,475
	-----		-----		-----
Other assets.....	--	1,650(n)	1,650	3,300(q)	4,950
	-----		-----		-----
	\$284,152		\$661,302		\$ 664,602
	=====		=====		=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Accounts payable.....	\$ 16,752	\$	\$ 16,752	\$	\$ 16,752
Accrued liabilities.....	8,817		8,817		8,817
Current portion of debt.....		--			
	-----		-----		-----
Total current liabilities.....	25,569		25,569		25,569
	-----		-----		-----
Revolving credit facility.....	121,905	(53,350)(n) 345,500(p)	414,055	(79,300)(o) (96,700)(q)	238,055
% Senior subordinated notes... 6% Convertible subordinated debentures.....	--	55,000(n)	55,000	100,000(q)	100,000
	-----		-----		-----
	121,905		469,055		393,055
	-----		-----		-----
Deferred taxes.....	23,812		23,812		23,812
<b>Stockholders' equity</b>					
Preferred stock, \$1 par, 4,000,000 shares authorized \$2.03 convertible preferred, 1,150,000 issued (liquidation preference \$28,750,000)...	1,150		1,150		1,150
Common Stock, \$.01 par, 35,000,000 shares authorized, 14,705,293 shares issued and outstanding, 20,133,864 shares issued and outstanding pro forma....	147	14(p)	161	40(o)	201
Capital in excess of par value.....	109,915	29,986(p)	139,901	79,260(o)	219,161
Retained earnings.....	1,654		1,654		1,654
	-----		-----		-----
Total stockholders' equity.....	112,866		142,866		222,166
	-----		-----		-----
	\$284,152		\$661,302		\$ 664,602
	=====		=====		=====

See notes to pro forma consolidated financial statements

LOMAK PETROLEUM, INC.  
 NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

NOTE (1) PRO FORMA ADJUSTMENTS FOR THE TRANSACTIONS -- FOR THE YEAR ENDED  
 DECEMBER 31, 1995

The accompanying unaudited pro forma consolidated statement of income for the year ended December 31, 1995 has been prepared as if the Transactions had occurred on January 1, 1995 and reflects the following adjustments:

- (a) To adjust interest expense for the estimated amounts that would have been incurred on the incremental borrowings in connection with the Prior Acquisitions and the Cometra Acquisition and for the estimated amounts that would have been repaid with the net proceeds from the Private Placements.
- (b) To adjust interest expense for the estimated amounts that would have been repaid with the net proceeds from the Offerings.
- (c) To record depletion expense for the Prior Acquisitions and the Cometra Acquisition at a rate of \$0.75 per Mcfe, and to record depreciation expense on the gas processing plant purchased in the Cometra Acquisition.
- (d) To remove minority interest of \$1,200 from January 1995 Red Eagle income statement.
- (e) To adjust historical field services revenues for income increases and cost reclassifications and oil and gas production and general and administrative expenses for cost reductions and increases due to integration of the Prior Acquisitions and the Cometra Acquisition.
- (f) To adjust the provision for income taxes for the change in taxable income resulting from the Prior Acquisitions and the Cometra Acquisition and the effect on deferred taxes recorded at January 1, 1995 had the acquisitions taken place at that time.
- (g) To adjust the provision for income taxes resulting from interest adjustments made to reflect the amounts of borrowings repaid with the net proceeds from the Offerings and the effect on deferred taxes recorded at January 1, 1995 had the Offerings taken place at that time.

NOTE (2) PRO FORMA ADJUSTMENTS FOR THE TRANSACTIONS -- FOR THE NINE MONTHS ENDED  
 SEPTEMBER 30, 1996

The accompanying unaudited pro forma consolidated statement of income for the nine months ended September 30, 1996 has been prepared as if the Transactions had occurred on January 1, 1996 and reflects the following adjustments:

- (h) To adjust interest expense for the estimated amount that would have been incurred on the incremental borrowings for the Bannon Acquisition and the Cometra Acquisition, net of proceeds received from the Private Placements and the Offerings.
- (i) To adjust interest expense for the estimated amounts that would have been repaid with the net proceeds from the Offerings.
- (j) To record depletion expense for the Bannon Acquisition and the Cometra Acquisition at a rate of \$0.86 per Mcfe, to adjust the historical depletion rate for Lomak from \$0.73 to \$0.86 per Mcfe, and to record depreciation expense on the gas processing plant purchased in the Cometra Acquisition.
- (k) To adjust historical field services revenues for income increases and costs reclassifications and general and administrative expenses for cost increases due to integration of the Bannon Acquisition and the Cometra Acquisition.
- (l) To adjust the provision for income taxes for the change in taxable income resulting from the Bannon Acquisition and the effect on deferred taxes recorded at January 1, 1996 had the acquisition taken place at that time.
- (m) To adjust the provision for income taxes for the change in taxable income resulting from interest adjustments made to reflect the amounts of borrowings repaid with the net proceeds from the Offerings and the effect on deferred taxes recorded at January 1, 1996 had the Offerings taken place at that time.

## LOMAK PETROLEUM, INC.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)  
(Unaudited)NOTE (3) PRO FORMA ADJUSTMENTS FOR THE COMETRA ACQUISITION, THE PRIVATE  
PLACEMENTS AND THE OFFERINGS -- AS OF SEPTEMBER 30, 1996

- (n) To record the offering of \$55 million of the 6% Convertible Subordinated Debentures and the application of proceeds therefrom.
- (o) To record the Common Stock Offering, net of offering costs and the application of proceeds therefrom.
- (p) To record the Cometra Acquisition.
- (q) To record the Notes Offering, net of offering costs and the application of proceeds therefrom.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following tables present selected consolidated financial data covering the five years ended December 31, 1995 and the nine months ended September 30, 1995 and 1996. Such data has been derived from, and should be read in conjunction with, the audited Consolidated Financial Statements and Notes thereto for each of the five years ended December 31, 1995, and the nine months ended September 30, 1996, the Unaudited Pro Forma Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

	YEAR ENDED DECEMBER 31,					PRO FORMA 1995
	1991	1992	1993	1994	1995	
<b>STATEMENT OF OPERATIONS DATA:</b>						
Revenues:						
Oil and gas sales.....	\$ 5,466	\$ 7,703	\$ 11,132	\$ 24,461	\$ 37,417	\$ 98,480
Field services.....	3,966	5,283	6,966	7,667	10,097	10,337
Gas transportation and marketing....	197	332	559	2,195	3,284	16,261
Interest and other.....	939	577	418	471	1,317	1,317
	10,568	13,895	19,075	34,794	52,115	126,395
Expenses:						
Direct operating.....	2,164	3,039	4,438	10,019	14,930	33,713
Field services.....	2,580	3,951	5,712	5,778	6,469	6,469
Gas transportation and marketing....	--	--	13	490	849	8,549
Exploration.....	5	36	86	359	512	512
General and administrative.....	2,208	1,915	2,049	2,478	2,736	4,374
Interest.....	672	952	1,120	2,807	5,584	29,514
Depletion, depreciation and amortization.....	2,387	3,124	4,347	10,105	14,863	39,276
	10,016	13,017	17,765	32,036	45,943	122,407
Income before taxes.....	552	878	1,310	2,758	6,172	3,988
Income taxes.....	(125)	(192)	81	(139)	(1,782)	(1,149)
Net income.....	\$ 427	\$ 686	\$ 1,391	\$ 2,619	\$ 4,390	\$ 2,839
Earnings per common share.....	\$ 0.01	\$ 0.08	\$ 0.18	\$ 0.25	\$ 0.31	\$ 0.03
<b>OTHER FINANCIAL DATA:</b>						
EBITDA (a).....	\$ 3,616	\$ 5,003	\$ 6,863	\$ 16,029	\$ 27,131	\$ 73,290
Net cash provided by operations.....	1,189	5,168	4,305	11,241	16,561	N/A
Capital expenditures.....	11,901	5,920	48,240	70,024	88,530	N/A
Ratios:						
EBITDA to interest expense.....	5.4x	5.3x	6.1x	5.7x	4.9x	2.5x
Earnings to fixed charges (b).....	1.8x	1.9x	2.2x	2.0x	2.1x	1.1x
Total debt to EBITDA.....	3.4x	2.6x	4.5x	3.9x	3.1x	N/A
<b>BALANCE SHEET DATA (END OF PERIOD):</b>						
Cash and equivalents.....	\$ 1,177	\$ 2,261	\$ 2,019	\$ 4,897	\$ 3,047	N/A
Total assets.....	24,332	28,328	76,333	141,768	214,664	N/A
Long-term debt (c).....	12,443	13,127	31,108	62,592	83,088	N/A
Stockholders' equity.....	7,962	9,504	32,263	43,248	99,243	N/A

NINE MONTHS ENDED  
SEPTEMBER 30,

	1995	1996	PRO FORMA 1996
	<b>STATEMENT OF OPERATIONS DATA:</b>		
Revenues:			
Oil and gas sales.....	\$ 24,135	\$ 49,878	\$ 94,230
Field services.....	7,109	10,483	10,663
Gas transportation and marketing....	2,332	4,137	16,858
Interest and other.....	1,052	1,102	1,102
	34,628	65,600	122,853
Expenses:			
Direct operating.....	9,935	18,268	29,139
Field services.....	4,192	7,813	7,813
Gas transportation and marketing....	595	1,206	9,363
Exploration.....	473	836	836
General and administrative.....	2,187	2,862	4,099
Interest.....	3,822	5,563	21,900
Depletion, depreciation and amortization.....	9,808	16,589	31,807
	31,102	53,137	104,957
Income before taxes.....	3,616	12,463	17,896
Income taxes.....	(898)	(4,360)	(6,254)

Net income.....	\$ 2,718	\$ 8,103	\$ 11,642
	=====	=====	=====
Earnings per common share.....	\$ 0.21	\$ 0.43	\$ 0.49
	=====	=====	=====
OTHER FINANCIAL DATA:			
EBITDA (a).....	\$ 17,719	\$ 35,451	\$ 72,439
Net cash provided by operations.....	9,755	24,335	N/A
Capital expenditures.....	87,161	73,520	N/A
Ratios:			
EBITDA to interest expense.....	4.6x	6.4x	3.3x
Earnings to fixed charges (b).....	1.9x	3.2x	1.8x
Total debt to EBITDA.....	N/A	N/A	N/A
BALANCE SHEET DATA (END OF PERIOD):			
Cash and equivalents.....	\$ 2,401	\$ 4,800	\$ 4,800
Total assets.....	203,305	284,152	664,602
Long-term debt (c).....	113,238	121,905	393,055
Stockholders' equity.....	60,554	112,866	222,166

- 
- (a) EBITDA represents net income plus income taxes, exploration expense, interest expense and depreciation, depletion and amortization expense. EBITDA is not presented as an indicator of the Company's operating performance or as a measure of liquidity.
- (b) For the purpose of determining the ratio of earnings to fixed charges, earnings are defined as net income before taxes plus fixed charges. Fixed charges consist of interest expense.
- (c) Long-term debt includes current portion.

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and the Selected Consolidated Financial Data included elsewhere herein.

RESULTS OF OPERATIONS

The Company has experienced significant growth in reserves, production, cash flow and earnings over the past three years. The following tables set forth selected financial and operating information as well as the annual percentage change for each of the past three years and the nine month periods ended September 30, 1995 and 1996:

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT PRICE DATA)				
Revenues.....	\$19,075	\$34,794	\$52,115	\$34,628	\$65,600
Expenses.....	17,765	32,036	45,943	31,012	53,137
Net Income.....	1,391	2,619	4,390	2,718	8,103
EBITDA(1).....	6,863	16,029	27,131	17,719	35,451
Production Volumes:					
Natural Gas (Mmcf).....	2,590	6,996	12,471	7,825	15,968
Oil and NGLs (Mbbbls).....	318	640	913	649	801
Mmcf.....	4,498	10,836	17,949	11,722	20,776
Average Prices:					
Natural Gas (per Mcf).....	\$ 2.32	\$ 2.10	\$ 1.79	\$ 1.71	\$ 2.19
Oil and NGLs (per Bbl).....	16.07	15.23	16.57	16.58	18.60
Per Mcfe.....	2.47	2.26	2.08	2.06	2.40

	PERCENTAGE CHANGE FROM PRIOR PERIOD			
	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30, 1996
	1993	1994	1995	1996
Revenues.....	37%	82%	50%	89%
Expenses.....	37	80	43	71
Net Income.....	103	88	68	198
EBITDA (1).....	39	134	69	100
Production Volumes:				
Natural Gas (Mcf).....	44	170	78	104
Oil and NGLs (Bbl).....	60	101	43	23
Mcf.....	50	141	66	77
Average Prices:				
Natural Gas (per Mcf).....	3	(9)	(15)	28
Oil and NGLs (per Bbl).....	(13)	(5)	9	12
Per Mcfe.....	(4)	(9)	(8)	17

(1) EBITDA represents net income plus income taxes, exploration expense, interest expense and depletion, depreciation and amortization expense. EBITDA is not presented as an indicator of the Company's operating performance or as a measure of liquidity.

Comparison of Nine Months Ended September 30, 1996 to Nine Months Ended September 30, 1995

The Company reported net income for the nine months ended September 30, 1996 of \$8.1 million, a 198% increase over the same period in 1995. The increase is the result of higher production levels and product prices.

During the first nine months of 1996, oil and gas production volumes increased 77% to 20.8 Bcfe, an average of 75.8 Mmcfe/d. Production revenues also benefited from a 17% increase in the average price received per Mcfe of production from \$2.06 to \$2.40. The average oil price increased 12% from \$16.58 to \$18.60 per barrel and average gas prices increased 28% from \$1.71 to \$2.19 per Mcf. As a result of a larger base of producing properties, operating expenses increased 84% to \$18.3 million. However, the operating cost per Mcfe increased only slightly from \$0.85 per Mcfe in the nine months ended September 30, 1995 to \$0.88 per Mcfe in the 1996 period.

Gas transportation and marketing revenues rose 77% in the first nine months of 1996 to \$4.1 million versus \$2.3 million in the first nine months of 1995. The higher revenues were due primarily to expanded marketing activities and increased gas transportation revenues attributable to its larger pipeline network. The increase in gas transportation and marketing expenses of 103% reflects higher administration costs associated with the growth in gas marketing.

Field services revenues increased 47% in the first nine months of 1996 to \$10.5 million versus \$7.1 million for the same period of 1995. The higher revenues were due primarily to a larger base of operated properties. Field services expenses increased 86% in the nine month period of 1996 versus 1995, due to lower overall margins on the increasing revenue base. Exploration expense rose 77% due to the Company's increased involvement in acreage acquisition, seismic and exploratory drilling.

General and administrative expenses increased 31% from \$2.2 million for the first nine months of 1995 to \$2.9 million for the first nine months in 1996. On a per Mcfe of production basis, general and administrative expenses decreased from \$0.19 in the 1995 period to \$0.14 for the same period in 1996. Interest and other income increased slightly primarily due to a higher level of property sales. Interest expense increased 46% to \$5.6 million as a result of the higher average outstanding debt balance during the 1996 period due to the financing of acquisitions in the 1996 period.

Depletion, depreciation and amortization expense rose 69% as a result of increased production volumes. As a percentage of oil and gas revenues, depletion, depreciation and amortization expense improved to 33% in the 1996 period from 41% in the 1995 period as a result of increased product prices during the 1996 period. The Company-wide depletion, depreciation and amortization rate was \$0.73 per Mcfe during both periods.

Comparison of 1995 to 1994

The Company reported net income for the year ended December 31, 1995 of \$4.4 million, a 68% increase over 1994. This increase is the result of higher production volumes attributable to acquisition and development activities.

During the year, oil and gas production volumes increased 66% to 17.9 Bcfe, an average of 49.2 Mmcfe/d. The increased revenues recognized from production volumes were partially offset by an 8% decrease in the average price received per Mcfe of production to \$2.08. The average oil price increased 9% to \$16.57 per barrel while average gas prices dropped 15% to \$1.79 per Mcf. As a result of the Company's larger base of producing properties and production, oil and gas production expenses increased 49% to \$14.9 million in 1995 versus \$10.0 million in 1994. However, the average operating cost per Mcfe produced decreased 11% from \$0.93 in 1994 to \$0.83 in 1995.

Gas transportation and marketing revenues increased 50% to \$3.3 million versus \$2.2 million in 1994. Coupled with this increase in gas transportation and marketing revenues was a 73% increase in associated expenses for the year. These increases were due primarily to the acquisition of several pipeline systems, as well as the expansion of the gas marketing efforts.

Field services revenues increased 32% in 1995 to \$10.1 million, despite the September 1994 sale of virtually all well servicing and brine disposal assets in Ohio. The decrease in activities due to this sale was more than offset by an increase in well servicing and brine disposal activities in Oklahoma and well operations

on acquired properties. Field services expenses increased 12% in 1995 to \$6.5 million versus \$5.8 million. The increase is attributed to the Oklahoma well servicing and the cost of operating a larger base of properties. The increase in well operating costs was offset to a great extent by the disposal in September 1994 of the Company's lower margin well servicing and brine hauling and disposal businesses.

Exploration expense increased 43% to \$0.5 million due to the Company's increased involvement in exploration projects. These costs include delay rentals, seismic and exploratory drilling activities.

General and administrative expenses increased 10% from \$2.5 million in 1994 to \$2.7 million in 1995. As a percentage of revenues, general and administrative expenses were 5% in 1995 as compared to 7% in 1994. This improvement reflects the spreading of administrative costs over a growing asset base.

Interest and other income rose 180% primarily due to higher sales of non-strategic properties. Interest expense increased 99% to \$5.6 million as compared to \$2.8 million in 1994. This was primarily as a result of the higher average outstanding debt balance during the year due to the financing of capital expenditures. The average outstanding balances on the bank credit facility were \$42.0 million and \$73.3 million for 1994 and 1995, respectively. The weighted average interest rate on these borrowings was 6.3% and 7.3% for the years ended December 31, 1994 and 1995, respectively.

Depletion, depreciation and amortization increased 47% compared to 1994 as a result of increased production volumes during the year. The increased depletion of oil and gas properties was partially offset by the reduction of depreciation of field services assets due to the 1994 sale of field service assets. The Company-wide depletion, depreciation and amortization rate for 1995 was \$0.83 per Mcfe versus \$0.93 per Mcfe in 1994 due to the addition of properties at lower than historical Mcfe costs.

#### Comparison of 1994 to 1993

The Company reported net income for the year ended December 31, 1994 of \$2.6 million, an 88% increase over 1993 net income. This increase can be attributed primarily to the realization of income from properties acquired in the fourth quarter of 1993 and 1994, as well as the success of the 1994 drilling program.

During the year, oil and gas production volumes increased 141% to 10.8 Bcfe, an average of 29.7 Mmcf per day. The increased revenues recognized from production volumes were partially offset by a 9% decrease in the average price received per Mcfe of production to \$2.26. The average oil price decreased 5% to \$15.23 per barrel and average gas prices dropped 9% to \$2.10 per Mcf. As a result of the Company's larger base of producing properties and production, oil and gas production expenses increased 126% to \$10.0 million in 1994 versus \$4.4 million in 1993. However, the average operating cost per Mcfe produced decreased 5% from \$0.98 in 1993 to \$0.93 in 1994.

Gas transportation and marketing revenues rose almost 293% to \$2.2 million versus \$0.6 million in 1993. Coupled with this increase in gas transportation and marketing revenues was an increase in associated expenses for the year. These increases were due primarily to the acquisition of several pipeline systems in late 1993, as well as the expansion of the gas marketing efforts.

Field services revenues increased 10% in 1994, despite the September 1994 sale of virtually all well servicing and brine hauling and disposal assets in Ohio. The decrease was offset by a marked increase in well operating revenues recognized on acquired properties. Field services expenses increased marginally in 1994 to \$5.8 million versus \$5.7 million. The slight increase can be attributed to the cost of operating a growing base of properties. The increase in well operating costs was offset to a great extent by the disposal in September 1994 of the Company's low-margin well servicing and brine hauling and disposal businesses.

Exploration expense increased 317% due to the Company's increased involvement in drilling projects. The results of these costs can be seen in the increase in production due partially to its 1994 drilling program.

General and administrative expenses increased 21% from \$2.0 million in 1993 to \$2.5 million in 1994. As a percentage of revenues, general and administrative expenses were 7% in 1994 as compared to 11% in 1993. This improvement reflects the spreading of administrative costs over a growing asset base.

Interest and other income rose 13% primarily due to a higher level of non-strategic property sales. Interest expense increased 151% to \$2.8 million as compared to \$1.1 million in 1993. This was a result of the higher average outstanding debt balance during the year due to the financing of acquisitions and rising interest rates.

Depletion, depreciation and amortization increased 132% compared to 1993 as a result of increased production volumes during the year. The increased depletion of oil and gas properties was partially offset by the reduction of depreciation of field services assets due to the September 1994 sale of field service assets.

#### LIQUIDITY AND CAPITAL RESOURCES

##### General

Working capital at September 30, 1996 was \$9.0 million, representing a \$4.6 million increase over the corresponding amount at December 31, 1995. At September 30, 1996, the Company had \$4.9 million in cash and total assets of \$284.2 million. During the nine months, long-term debt rose from \$83.0 million to \$121.9 million.

At September 30, 1996, capitalization totaled approximately \$235 million, of which approximately 48% was represented by stockholders' equity and 52% by long-term debt. All of the long-term debt at that date was comprised of borrowings under the \$250 million revolving bank credit facility provided by the Credit Facility of which \$122 million was outstanding. The Credit Facility currently provides for quarterly payments of interest with principal payments beginning February 1999.

In December 1996, the Company sold \$55 million of 6% Convertible Subordinated Debentures Due 2007 (the "Convertible Debentures") in a private placement. Net proceeds to the Company of approximately \$53 million were used, together with internally generated funds, to reduce the amount outstanding under the Credit Facility to \$61 million at December 31, 1996. The Convertible Debentures are redeemable by the Company after February 1, 2000 and are convertible at the option of the holder into Common Stock at any time prior to maturity or redemption at a conversion price of \$19.25 per share, subject to adjustment in certain circumstances.

##### Cash Flow

The Company has three principal operating sources of cash: (i) sales of oil and gas; (ii) revenues from field services and (iii) revenues from gas transportation and marketing. The Company's cash flow is highly dependent upon oil and gas prices. Decreases in the market price of oil or gas could result in reductions of both cash flow and the borrowing base under the Credit Facility which would result in decreased funds available, including funds intended for planned capital expenditures.

The Company's net cash provided by operations for the years ended December 31, 1993, 1994 and 1995 and for the nine months ended September 30, 1996 was \$4.3 million, \$11.2 million, \$16.6 million and \$24.3 million, respectively. The consistent increases in the Company's cash flow from operations can be attributed to its growth primarily through acquisitions and development.

The Company's net cash used in investing for the years ended December 31, 1993, 1994 and 1995 and for the nine months ended September 30, 1996 was \$43.5 million, \$29.5 million, \$76.1 million and \$66.8 million, respectively. Investing activities for these periods are comprised primarily of additions to oil and gas properties through acquisitions and development and, to a lesser extent, exploitation and additions of field service assets. These uses of cash have historically been partially offset through the Company's policy of divesting those properties that it deems to be marginal or outside the Company's core areas of operations. The Company's acquisition and development activities have been financed through a combination of operating cash flow, bank borrowings and capital raised through equity and debt offerings.

The Company's net cash provided by financing for the years ended December 31, 1993, 1994 and 1995 and for the nine months ended September 30, 1996 was \$38.9 million, \$21.2 million, \$57.7 million and \$44.3 million, respectively. Sources of financing used by the Company have been primarily borrowings under its Credit Facility and capital raised through equity and debt offerings.

## Capital Requirements

For 1995, the Company incurred capital expenditures for development and exploration activities of \$10.0 million and \$0.2 million, respectively. In the first nine months of 1996, \$8.7 million and \$0.5 million of expenses were incurred for development activities and exploration activities, respectively. Although these expenditures are principally discretionary, the Company is currently projecting that it will spend approximately \$160 million on development, exploitation and exploration activities, which includes approximately \$45 million on exploitation and exploration expenditures through 1999. Internally generated funds are expected to be sufficient to fund development and exploration expenditures. See "Business -- Development Activities" and "-- Exploration Activities."

## Credit Facility

In connection with the financing of the Cometra Acquisition, the Company and its subsidiaries will expand the existing credit facility with the bank lenders. The Credit Facility will enable the Company to obtain revolving credit loans and to issue letters of credit for the account of the Company from time to time in an aggregate amount not to exceed \$400 million (of which not more than \$125 million may be represented by letters of credit). The Borrowing Base, which will initially be \$400 million under the expanded facility, will be reduced to \$325 million 180 days after the funding of the Cometra Acquisition, unless otherwise agreed by the lenders. The Borrowing Base is subject to semi-annual determination and is calculated based upon a variety of factors, including the discounted present value of estimated future net cash flow from oil and gas production.

The Company will be required to make a mandatory prepayment of all amounts outstanding under the Credit Facility in excess of \$325 million 180 days after the funding of the Cometra Acquisition. At the Company's option, loans may be prepaid, and revolving credit commitments may be reduced, in whole or in part at any time in certain minimum amounts.

At the Company's option, the applicable interest rates per annum will be either LIBOR plus a margin ranging from 0.625% to 1.125% or the Alternate Base Rate (as defined) plus a margin ranging from 0% to 0.25%. The Alternate Base Rate is the highest of (a) the agent banks' reference rate, (b) the secondary market rate for certificates of deposit (adjusted for maximum statutory reserve requirements) plus 1.0% and (c) the federal funds effective rate plus 0.5%. Until the occurrence of the Trigger Event (as defined below), the interest rate margins will be increased by 50 basis points prior to March 31, 1997 and 100 basis points thereafter.

The obligations of the Company under the Credit Facility will be unconditionally and irrevocably guaranteed by each of the Company's direct and indirect domestic subsidiaries (collectively, the "Subsidiary Guarantors"). In addition, the Credit Facility will be secured by first priority security interests in (i) existing mortgaged oil and gas properties of the Company and the Cometra Properties, (ii) all accounts receivable, inventory and intangibles of the Company and the Subsidiary Guarantors, and (iii) all of the capital stock of the Company's direct or indirect subsidiaries. Substantially all of the assets of the Company will be pledged as collateral if, 90 days after the funding of the Cometra Acquisition, the Borrowing Base and amounts outstanding under the Credit Facility have not been reduced to \$325 million. Such additional security interests will be released upon the (i) reduction of the amounts outstanding under the Credit Facility to \$325 million (or the then determined Borrowing Base) and (ii) issuance of \$75 million of Common Stock and/or the sale of Company assets in excess of the Borrowing Base value attributable to such assets as agreed by the lenders (the "Trigger Event").

Immediately following the Cometra Acquisition, the Company expects that approximately \$385 million will be outstanding (including \$125 million of then outstanding letters of credit to secure the promissory note issued to Cometra as part of the purchase price in the Cometra Acquisition) under the Credit Facility. Upon consummation of the Offerings, approximately \$230.9 million will be outstanding under the Credit Facility. Accordingly, the Company believes that a Trigger Event will occur upon completion of the Offerings.

## Hedging Activities

Periodically, the Company enters into futures, option and swap contracts to reduce the effects of fluctuations in crude oil and natural gas prices. At September 30, 1996, the Company had open contracts for oil and gas price swaps of 280,000 barrels of oil and 586,000 Mcf of gas. These swap contracts are designed to set average prices of \$23.09 per barrel and \$1.98 per Mcf. While these transactions have no carrying value, the Company's mark-to-market exposure under these contracts at September 30, 1996 was a net loss of \$129,000. These contracts expire monthly through March 1997. In October 1996, the Company entered into swap contracts for an additional 250,000 barrels of oil at an average price per barrel of \$22.86. These contracts expire monthly through April 1997. The gains or losses on the Company's hedging transactions is determined as the difference between the contract price and a reference price, generally closing prices on the New York Mercantile Exchange. The resulting transaction gains and losses are determined monthly and are included in net income for the contract month as an adjustment to oil and gas revenue. Net gains relating to these derivatives for the nine months ended September 30, 1996 approximated \$29,700.

## BUSINESS

## GENERAL

Lomak is an independent energy company engaged in oil and gas development, exploration and acquisition primarily in three core areas: the Midcontinent, Appalachia and the Gulf Coast. Over the past five years, the Company has significantly increased its reserves and production through acquisitions and, to a growing extent, development and exploration of its properties. On a pro forma basis as of December 31, 1996, the Company had proved reserves of 644 Bcfe with a Present Value of \$974 million. On an Mcfe basis, the reserves were 63% developed and 77% natural gas, with a reserve life in excess of 13 years. Properties operated by the Company accounted for 94% of its pro forma Present Value. After giving effect to the Cometra Acquisition, the Company also owns over 2,000 miles of gas gathering systems and a gas processing plant in proximity to its principal gas properties. On a pro forma basis for the nine months ended September 30, 1996, the Company had revenues of \$123 million and EBITDA of \$72 million.

From 1991 through 1996, the Company has made 63 acquisitions, including the Cometra Acquisition, for an aggregate purchase price of approximately \$627 million and has spent \$37 million on development and exploration activities. These activities have added approximately 720 Bcfe at an average cost of \$0.75 per Mcfe. As a result, the Company has achieved substantial growth since 1991:

- Reserves increased from 20 Bcfe in 1991 to 644 Bcfe in 1996, a compound annual growth rate of 101%;
- Production increased from 2 Bcfe in 1991 to 49 Bcfe in 1996, a compound annual growth rate of 88%;
- EBITDA increased from \$4 million in 1991 to \$72 million for the nine months ended September 30, 1996; and
- Net income increased from \$427,000 in 1991 to \$12 million for the nine months ended September 30, 1996.

The Company emphasizes strict cost controls in all aspects of its business. As a result, combined direct operating and administrative costs have been reduced from \$2.08 per Mcfe in 1991 to \$0.90 per Mcfe for the first nine months of 1996 on a pro forma basis. Consequently, while the average price realized by the Company has not increased significantly over the last five years, operating margins have increased from \$0.61 per Mcfe in 1991 to \$1.65 per Mcfe for the first nine months of 1996 on a pro forma basis.

## BUSINESS STRATEGY

The Company's objective is to maximize shareholder value through aggressive growth in its reserves, production, cash flow and earnings through a balanced program of development drilling and acquisitions, as well as a growing exploration effort. Management believes that the Cometra Acquisition has substantially enhanced the Company's ability to increase its production and reserves through drilling activities. The Cometra Acquisition substantially increased the Company's inventory of proven drilling locations and, to an even greater degree, its exploration and exploitation drilling potential. Including the Cometra Properties, the Company has over 1,100 proven recompletion and development drilling locations. As a result of the Cometra Acquisition, the Company believes that it can meet its growth objectives over the next several years without the benefit of future acquisitions. The Company currently plans to spend \$160 million over the next three years on the further development and exploration of its properties. Consequently, while acquisitions are expected to continue to play an important role in the Company's future growth, the primary emphasis will shift towards exploiting the potential of the Company's larger property base.

In order to most effectively implement its operating strategy, the Company has concentrated its activities in selected geographic areas. In each core area, the Company has established separate acquisition, engineering, geological, operating and other technical expertise. The Company believes that this geographic focus provides it with a competitive advantage in sourcing and evaluating new business opportunities within these areas, as well as providing economies of scale in developing and operating properties.

Lomak believes the competitive strengths described below will greatly enhance its ability to achieve its long-term goals and objectives.

- Diversified, Long Lived Reserve Base: Lomak has compiled a diversified group of predictable, long lived properties. The Company's oil and gas reserves are attributable to 7,280 producing wells that have a reserve life index in excess of 13 years. The reserves are concentrated in seven basins and are geographically and geologically diversified.
- Substantial Inventory of Development and Exploration Projects: Lomak has over 1,100 proven development projects and a substantial number of exploration and exploitation drilling projects located within core operating areas in which the Company has significant operating and technical expertise.
- Successful Acquisition Record: The Company's primary strength has historically been to identify and acquire properties that have increased reserves, production, cash flow and earnings. Excluding the Cometra Acquisition, since 1991 the Company has completed 62 acquisitions for an aggregate purchase price of \$252 million. These acquisitions have added reserves of approximately 422 Bcfe at an average acquisition cost of \$0.60 per Mcfe.
- Significant Operational Control: Lomak operates properties representing nearly 94% of its Present Value. This allows the Company to directly control operating and drilling costs and also allows it to dictate the timing of development and exploration activities.
- High Operating Margins: The Company's low cost structure, coupled with the premium gas price it receives for a significant portion of its production, creates high operating margins. For the first nine months of 1996, Lomak generated operating margins, after deducting direct operating and administrative costs, of \$1.65 per Mcfe.
- Experienced, Incentivized Management Team: The Company's board of directors, executive officers, technical staff and administrative personnel have considerable industry experience and will own, collectively, shares representing approximately 10% of the outstanding shares of Common Stock, after giving effect to the Cometra Acquisition and the Common Stock Offering. Over 80% of Lomak's employees either own, or hold options to acquire, shares of Common Stock.

#### DEVELOPMENT ACTIVITIES

The Company's development activities include recompletions of existing wells, infield drilling and installation of secondary recovery projects. Development projects are generated within core operating areas where the Company has significant operational and technical expertise. Currently, as described below, the Company has 1,163 proven development projects in inventory. These projects are geographically diverse, vary between oil and gas and are balanced with regard to risk. The following table sets forth information pertaining to the Company's proven development inventory at December 31, 1996.

#### PROVEN DEVELOPMENT INVENTORY

	NUMBER OF PROJECTS		
	RECOMPLETIONS	DRILLING LOCATIONS	TOTAL
Midcontinent Region			
Permian Basin.....	85	129	214
Val Verde Basin.....	76	134	210
Anadarko Basin.....	117	86	203
San Juan Basin.....	18	29	47
Subtotal.....	296	378	674
Appalachian Region.....	43	320	363
Gulf Coast Region.....	79	47	126
Total.....	418	745	1,163

The Company currently anticipates that it will initiate 175 to 200 development projects in 1997. Assuming that 200 projects are initiated per year, the Company currently has more than a five year inventory of proven development projects. Lomak expects to spend approximately \$115 million over the next three years for development.

#### EXPLORATION ACTIVITIES

The Company has a large inventory of moderate risk/moderate reward exploitation drilling opportunities, as well as higher risk/higher reward exploration projects. Lomak has identified 267 exploitation drilling projects on the Cometra Properties, principally consisting of step-out drilling from existing proved or proved undeveloped locations. In addition, the Company has identified numerous other exploitation drilling opportunities within its existing properties. Current exploration projects target deeper horizons within existing Company-operated fields, as well as establishing new fields in exploration trend areas in which Lomak's technical staff has experience. The Company has not previously, and does not currently, plan to participate in wildcat exploratory drilling outside its core operating areas.

Lomak's strategy is based on limiting its risk by allocating no more than 10% of its cash flow to higher risk exploration activities and by participating in a variety of projects with differing characteristics. The Company's existing inventory of exploration projects and leads varies in risk and reward based on their depth, location and geology. A significant portion of the existing, as well as future, exploration projects will be enhanced by use of advanced technology including 3-D seismic and improved completion techniques.

In each of its core operating areas, the Company's geological and geophysical staff generate both exploitation and exploration projects with the assistance of the Company's reservoir engineers, landmen and production engineers. The Company currently estimates that it will spend \$25 million on exploitation activities and \$20 million on exploration activities over the next three years. Existing exploitation and exploration project inventory is described below.

**Midcontinent.** In the Midcontinent region, exploitation and exploration projects are located on both the Company's existing properties as well as the Cometra Properties. Exploitation projects include 86 step-out drilling locations on unproved leasehold acreage adjacent to the Company's production in the Sterling area of the Permian Basin as well as 134 stepout locations primarily in the Oakridge and Francis Hill Fields in the Val Verde Basin. In the Big Lake area of the Permian Basin, the Company is conducting an analysis to determine the potential for recovery of additional reserves through increased density drilling. Based on the initial results of the study, the Company believes there is potential for 200 economic drill sites on its Big Lake area acreage.

Current exploration projects include deeper drilling to the Ellenburger and Fussleman formations in the Permian and Val Verde Basins. Several projects targeting the Red Fork, Morrow and Hunton formations are in various stages of development in the Anadarko Basin. In the San Juan Basin, the Company's acreage holds exploration potential for production from the Pictured Cliffs, Gallup and Dakota formations.

**Gulf Coast.** In the Gulf Coast region exploitation and exploration projects have been identified on both the Company's existing properties as well as the Cometra Properties. Exploitation projects include 34 step-out drilling locations for the Yegua and Frio formations in South Texas. Deeper, higher risk exploratory projects have been generated in South Texas targeting the Wilcox and Vicksburg formations. On the offshore properties, 10 exploitation and exploration projects have been identified to the Lenticulina and Marginulina sands. There are four exploration projects targeting the Taylor sand of the Cotton Valley formation in East Texas.

**Appalachia.** In the Appalachian region, the Company has identified approximately 100 step-out drilling projects on existing leasehold acreage. In addition, the Company has identified several hundred additional potential locations near Company-owned gathering systems on acreage the Company believes will be available for leasing in the future. The Company believes that the location of its pipelines will provide it with a competitive advantage in leasing this acreage, which is currently unleased. These locations target the blanket Clinton and Medina sandstones. Exploration activity in Appalachia centers around the drilling of deeper formations from leasehold acreage generally being held by existing production from shallower production. The targeted formations are in the Knox Sequence trend, which includes the Rose Run, Beekmantown and Trempealeau. Lomak currently owns leasehold aggregating over 250,000 net acres in the Knox Sequence trend

area. With the assistance of higher quality 2-D seismic as well as 3-D seismic, Lomak believes the Knox Sequence trend area could generate substantial reserves over the next five years.

#### ACQUISITION ACTIVITIES

The Company seeks to acquire properties that are expected to be immediately accretive to cash flow and earnings and provide long-term growth in reserves and production. The Company focuses on acquisitions that generally meet the following criteria.

- Location: The Company targets potential acquisitions located in its core operating areas which typically contain many small operators and where the major oil companies are less active.
- Operating Efficiency: The Company targets potential acquisitions in which it believes direct operating cost reductions and administrative cost efficiencies can be achieved.
- Potential for Increasing Reserves: The Company pursues properties that it believes have the potential for increased reserves and production through development and exploration activities.
- Potential for Incremental Purchases: The Company seeks acquisitions where opportunities to purchase additional interests in the same or adjoining properties exist.
- Complex Transactions: The Company often pursues transactions which are more complex as a result of ownership issues or financial structure as it believes such transactions will attract fewer potential buyers.

The following table sets forth information pertaining to acquisitions completed during the period January 1, 1991 through December 31, 1996 (including the Cometra Acquisition):

PERIOD	NUMBER OF TRANSACTIONS	PURCHASE PRICE(1) (IN THOUSANDS)	MMCFE ACQUIRED	COST PER MCFE(2)
1991	9	\$ 11,189	14,599	\$0.75
1992	7	6,884	12,512	0.41
1993	12	43,177	74,555	0.58
1994	17	63,354	103,292	0.58
1995	9	71,074	106,283	0.65
1996	9	431,812	371,409	0.85
	--	-----	-----	-----
Total	63	\$627,490	682,650	\$0.74
	==	=====	=====	=====

(1) Includes purchase price for proved reserves as well as other acquired assets, including gas gathering systems and a processing plant, undeveloped leasehold acreage and field service assets.

(2) Includes purchase price for proved reserves only. For the Cometra Acquisition, the purchase price for proved reserves includes the amount attributable to the above-market gas contract. If the cost per Mcfe was adjusted for the above-market gas contract, the 1996 cost per Mcfe would be reduced from \$0.85 to \$0.75 and the total cost per Mcfe would be reduced from \$0.74 to \$0.68.

#### RECENT SIGNIFICANT ACQUISITIONS

In addition to the Cometra Acquisition, the Company completed a number of significant acquisitions in 1995 and 1996 as described below. See "Cometra Acquisition" for a description of the Cometra Acquisition.

**Bannon Interests.** In April 1996, the Company acquired interests in approximately 270 producing wells and 108 proven recompletion and development drilling opportunities for \$37.0 million. After giving effect to a subsequent sale of certain Rocky Mountain region interests for \$6.5 million, the acquired properties were estimated to contain approximately 71 Bcfe of proved reserves. Also included were 17,300 net undeveloped acres located in east and south Texas.

**Red Eagle Resources Corporation.** Through a series of transactions effected in late 1994 and early 1995, the Company acquired Red Eagle Resources Corporation for \$30.0 million in cash and \$15.0 million of Common Stock. Red Eagle's assets included interests in approximately 370 producing wells located primarily

in the Okeene Field of Oklahoma's Anadarko Basin. Subsequently, the Company acquired additional interests in over 100 Red Eagle wells for \$3.9 million.

Eastern Petroleum Company. In January 1996, the Company acquired proved oil and gas reserves and 40 miles of gas gathering lines in Ohio for \$13.7 million. In the second quarter of 1996, the Company initiated a program extending purchase offers to other interest owners in these properties. Through September 30, 1996, interests in 61 wells had been purchased for approximately \$100,000.

Transfuel Interests. In September 1995, the Company acquired proved oil and gas reserves, 1,100 miles of gas gathering lines and 175,000 undeveloped acres in Ohio, Pennsylvania and New York from Transfuel, Inc. for \$21.0 million.

Parker & Parsley Interests. In August 1995, the Company purchased proved oil and gas reserves, 300 miles of gas gathering lines and 16,400 undeveloped acres in Pennsylvania and West Virginia from Parker & Parsley Petroleum Company for \$20.2 million.

#### SIGNIFICANT PROPERTIES

At December 31, 1996, on a pro forma basis, 98% of the Company's reserves were located in the Midcontinent, Appalachian and Gulf Coast regions. At December 31, 1996, the Company's properties included, on a pro forma basis, working interests in 7,280 gross (5,586 net) productive oil and gas wells and royalty interests in 310 additional wells. The Company also held interests in 243,100 gross (166,700 net) undeveloped acres on a pro forma basis at December 31, 1996. The following table sets forth summary information with respect to the Company's estimated proved oil and gas reserves on a pro forma basis at December 31, 1996.

	PRESENT VALUE		OIL & NGLS (MBBLS)	NATURAL GAS (MMCF)	NATURAL GAS EQUIV. (MMCFE)
	AMOUNT (IN THOUSANDS)	%			
Midcontinent Region					
Permian Basin.....	\$218,201	22	12,468	54,833	129,642
Val Verde Basin.....	208,613	21	34	126,579	126,783
Anadarko Basin.....	125,143	13	1,964	71,065	82,851
San Juan Basin.....	43,845	5	3,082	16,836	35,326
Subtotal.....	595,802	61	17,548	269,313	374,602
Appalachian Region.....	201,215	21	1,189	181,325	188,456
Gulf Coast Region.....	160,353	16	4,179	46,403	71,477
Other.....	16,293	2	1,489	559	9,495
Total.....	\$973,663	100%	24,405	497,600	644,030

#### MIDCONTINENT REGION

The Company's Midcontinent properties are situated in the Permian Basin of west Texas, the Val Verde Basin of west Texas, the Anadarko Basin of western Oklahoma and the Texas panhandle and the San Juan Basin of New Mexico. Reserves in these basins represent 61% of total Present Value. Midcontinent proved reserves total 375 Bcfe, of which approximately 57% are developed. On an Mcfe basis, 72% of the reserves are natural gas. Combined net daily production from these properties currently averages 3,300 barrels of oil and 52 Mmcf of natural gas. At December 31, 1996, the Midcontinent properties had an inventory of 674 proven development projects.

Permian Basin. The Permian Basin properties contain 130 Bcfe of proved reserves, or 22% of total Present Value. Net daily production currently averages 2,500 barrels of oil and 9 Mmcf of gas. Producing wells total 842 (617 net), of which the Company operates 88% on a Present Value basis. Major producing properties include the Sterling area and the Big Lake area. The Sterling area properties produce gas from Canyon/Cisco sub-marine sand deposits at 4,000 to 8,000 feet and oil from Silurian Fussleman carbonates. The Sterling area properties are complemented by a 25,000 Mcf/d gas plant, which processes gas from the Company's operated properties, as well as gas produced by third parties. The Big Lake area properties produce primarily oil from

approximately 2,500 feet in various sequences of the San Andres/Grayburg formations. At December 31, 1996, the Permian Basin properties contained 85 proven recompletions and 129 development drilling locations.

Val Verde Basin. The Val Verde Basin properties contain 127 Bcfe of proved reserves, or 21% of total Present Value. From 205 gross wells (163 net), the Company currently produces 27 Mmcf/d of natural gas. The Company operates 89% of the wells on a Present Value basis. Production is from 15 different deltaic Canyon/Cisco sandstones with complex stratigraphic traps at depths ranging from 2,600 to 6,000 feet. On a Present Value basis, the Oakridge and Francis Hill Fields contribute 95% of the Val Verde Basin reserves. At December 31, 1996, the Company had an inventory of 76 proven recompletions and 134 development drilling locations.

Anadarko Basin. The Anadarko Basin properties contain 83 Bcfe of proved reserves, or 13% of total Present Value. The 431 gross wells (345 net), of which 65% are operated by the Company on a Present Value basis. Net daily production averages 440 barrels of oil and 14 Mmcf of natural gas. Over 190 operated wells in the Okeene Field account for 58% of the reserves on a Present Value basis. The Anadarko Basin wells produce from a variety of sands and carbonates in both structural and stratigraphic traps in the Hunton, Red Fork and Morrow formations at depths ranging from 6,000 to 12,000 feet. At December 31, 1996, 117 proven recompletions and 86 development drilling locations had been identified with respect to the Anadarko Basin properties.

San Juan Basin. The San Juan Basin properties contain 35 Bcfe of proved reserves, or 5% of total Present Value. The properties consist of 122 gross wells (116 net) located in the southeastern portion of the basin, all of which are Company operated. On an Mcfe basis, 52% of the reserves are oil and natural gas liquids. Current daily production averages 350 barrels of oil and natural gas liquids and 2 Mmcf of gas. Producing depths range from 2,000 to 8,000 feet in the tight blanket sands of the Gallup and Pictured Cliffs zones, as well as the Dakota formation. These properties have an inventory of 18 proven recompletions and 29 development drilling locations.

#### APPALACHIAN REGION

The Appalachian properties contain 189 Bcfe of proved reserves, or 21% of total Present Value. The reserves are attributable to 5,326 gross wells (4,417 net wells) located in Pennsylvania, Ohio, West Virginia and New York. The Company operates 94% of these wells. The reserves, which on an Mcfe basis are 96% natural gas, produce principally from the Medina, Clinton and Rose Run formations at depths ranging from 2,500 to 7,000 feet. Net daily production currently totals 400 barrels of oil and 32 Mmcf of gas. After initial flush production, these properties are characterized by gradual decline rates. Gas production is transported through 1,900 miles of Company owned gas gathering systems and is sold primarily to utilities and industrial end-users.

#### GULF COAST REGION

The Gulf Coast region consists of onshore properties located in the East Texas Basin and in South Texas, as well as offshore properties located in the Gulf of Mexico. Reserves in these areas represent 16% of the Company's total Present Value. Gulf Coast properties contain 72 Bcfe of proved reserves, of which approximately 63% are developed. On an Mcfe basis, 65% of the reserves are natural gas. Current net daily production from these properties averages 1,800 barrels of oil and 21 Mmcf of natural gas. At December 31, 1996, the Gulf Coast properties were estimated to contain 126 proven development projects.

South Texas/Gulf of Mexico. The South Texas/Gulf of Mexico properties contain 54 Bcfe of proved reserves, or 13% of total Present Value. On an Mcfe basis, gas makes up 79% of the reserves. Current net daily production from the South Texas/Gulf of Mexico properties totals 1,200 barrels of oil and 21 Mmcf of gas. Onshore South Texas, these fields range in location from Brooks County in deep South Texas to Galveston County, near Houston. Significant fields include Hagist Ranch, Alta Mesa, Riverside, Keeran/Welder and Moses Bayou. These fields produce from the Wilcox, Frio, Yegua, Vicksburg and Miocene at depths ranging from 1,000 to 10,000 feet. In total, the onshore fields include 179 gross wells (153 net), of which 92% are Company operated. The offshore properties in the Gulf of Mexico include seven platforms offshore Texas and Louisiana in water depths ranging from 50 to 21 feet. All 15 gross wells (4 net) are operated by experienced

third parties. The Company's working interest in these wells ranges from 11% to 33%. The offshore properties produce from the Miocene and Pleistocene age formations, at depths ranging from 8,000 to 14,000 feet. With multiple producing horizons, untested formations and complex faulting, the South Texas/Gulf of Mexico properties contain substantial development and exploration potential, including the continued use of 3-D seismic technology. At December 31, 1996, these properties are estimated to contain 15 proven recompletions and 24 development drilling locations.

East Texas Basin. The East Texas properties contain 18 Bcfe of proved reserves accounting for 3% of total Present Value. On an Mcfe basis, 79% of the reserves are oil. Gross wells total 126 (110 net), of which 74% are Company operated. Current net daily production averages 620 barrels of oil and 150 Mcf of gas. Production ranges from the shallow Carrizo section of the Wilcox formation at a depth of approximately 1,600 feet to the tight Cotton Valley Taylor blanket sands at approximately 12,000 feet. Approximately 79% of the Present Value of the East Texas properties is ascribed to 64 operated wells in the Laura LaVelle Field. At December 31, 1996, 64 proven recompletions and 23 development drilling locations had been identified in the East Texas properties.

#### OIL AND GAS RESERVES

The following table sets forth estimated proved reserves for each year in the five-year period ended December 31, 1996 and pro forma for the Cometra Acquisition.

	DECEMBER 31,					PRO
	1992	1993	1994	1995	1996	FORMA 1996
Natural gas (Mmcf)						
Developed.....	13,171	38,373	97,251	174,958	207,601	311,350
Undeveloped.....	4,444	36,190	52,119	57,929	87,993	186,250
Total.....	17,615	74,563	149,370	232,887	295,594	497,600
Oil and NGLs (Mbbbls)						
Developed.....	1,643	3,344	6,431	8,880	10,703	15,298
Undeveloped.....	337	1,195	2,018	1,983	3,972	9,107
Total.....	1,980	4,539	8,449	10,863	14,675	24,405
Total equivalentents (Mmcf).....	29,495	101,797	200,064	298,065	383,644	644,030

In connection with the evaluation of its reserves, the Company has engaged the following independent petroleum consultants: Netherland, Sewell & Associates, Inc. (Cometra Properties), Wright & Company, Inc. (Appalachia), H.J. Gruy and Associates, Inc. (Midcontinent and Gulf Coast), Huddleston & Co., Inc. (Midcontinent) and Clay, Holt & Klammer (Appalachia). These engineers have been employed primarily based on geographic expertise as well as their history in engineering certain of the acquired properties. At December 31, 1996, approximately 96% of the proved reserves set forth above were evaluated by independent petroleum consultants, while the remainder were evaluated by the Company's engineering staff. All estimates of oil and gas reserves are subject to significant uncertainty. See "Risk Factors -- Uncertainty of Estimates of Reserves and Future Net Revenues."

The following table sets forth on a pro forma basis at December 31, 1996 the estimated future net cash flow from and the present value of the proved reserves. Future net cash flow represents future gross cash flow from the production and sale of proved reserves, net of production costs (including production taxes, ad valorem taxes and operating expenses) and future development costs. Such calculations, which are prepared in accordance with the Statement of Financial Accounting Standards No. 69 "Disclosures about Oil and Gas Producing Activities" are based on constant cost and price factors. Average product prices at December 31, 1996 were \$23.58 per barrel of oil and \$3.54 per Mcf of gas and pro forma average product prices at December 31, 1996 were \$23.23 per barrel of oil and \$3.99 per Mcf of gas. These prices were substantially higher than historical prices used by the Company to calculate Present Value in recent years. A decline in prices relative to year end 1996 would cause a substantial decline in Present Value. For example, a \$0.10 decline in gas prices, holding all other variables constant, would decrease Present Value by 1.9% or

\$18.5 million and a \$1.00 decline in oil and NGL prices would decrease Present Value by 1.3% or \$12.1 million. Furthermore, there can be no assurance that the proved reserves will be developed within the periods indicated and it is likely that actual prices received in the future will vary from those used in deriving this information. There are numerous uncertainties inherent in estimating reserves and related information and different reservoir engineers often arrive at different estimates for the same properties.

	DEVELOPED -----	UNDEVELOPED ----- (IN THOUSANDS)	TOTAL -----
Estimated future net cash flow.....	\$1,138,704	\$652,064	\$1,790,768
Present Value.....	658,121	315,541	973,663
Standardized Measure.....	N/A	N/A	665,035

#### PRODUCING WELLS

The following table sets forth certain information relating to productive wells at December 31, 1996 on a pro forma basis. The Company owns royalty interests in an additional 310 wells. Wells are classified as oil or gas according to their predominant production stream.

	GROSS WELLS -----	NET WELLS -----	AVERAGE WORKING INTEREST ---
Oil.....	1,510	816	54%
Natural gas.....	5,770	4,770	83%
Total.....	7,280 =====	5,586 =====	77% ===

#### ACREAGE

The following table sets forth the developed and undeveloped gross and net acreage held at December 31, 1996 on a pro forma basis.

	GROSS -----	NET -----	AVERAGE WORKING INTEREST ---
Developed.....	659,619	461,999	70%
Undeveloped.....	243,088	166,725	69%
Total.....	902,707 =====	628,724 =====	70% ===

#### DRILLING RESULTS

The following table summarizes actual drilling activities for the three years ended December 31, 1996. The drilling results below do not reflect the Cometra Acquisition (or any other acquisitions).

	YEAR ENDED DECEMBER 31,					
	1994		1995		1996	
	GROSS -----	NET -----	GROSS -----	NET -----	GROSS -----	NET -----
Exploratory wells:						
Productive.....	5.0	0.6	4.0	3.9	17.0	8.3
Dry.....	4.0	1.4	3.0	0.4	2.0	0.4
Development wells:						
Productive.....	59.0	55.8	53.0	35.3	54.0	48.1
Dry.....	3.0	1.4	2.0	--	3.0	1.0
Total.....	71.0 =====	58.2 =====	62.0 =====	39.6 =====	76.0 =====	57.8 =====

#### GAS GATHERING AND PROCESSING

The Company's natural gas gathering and processing assets are primarily comprised of (i) its Sterling system, which consists of 265 miles of gas gathering pipelines and a gas processing plant in the Sterling area of the

Permian Basin, and (ii) over 1,900 miles of gas gathering pipelines in Appalachia. The Sterling plant is a

refrigerated turbo-expander cryogenic gas plant that was placed in service in early 1995. The plant, designed for approximately 25,000 Mcf/d, is currently operating at 87% of capacity. The Company estimates that the plant's capacity can be increased to 35,000 Mcf/d for approximately \$4 million in additional capital expenditures.

The Appalachian gas gathering systems serve to transport a majority of the Company's Appalachian gas production as well as third party gas to major trunklines and directly to industrial end-users. This affords the Company considerable control and flexibility in marketing its Appalachian production. Third parties who transport their gas through the systems are charged a gathering fee ranging from \$0.20 to \$0.32 per Mcf.

#### OIL AND GAS MARKETING

In order to handle more efficiently the sale of its natural gas, the Company began to market its own gas production in 1993. On a pro forma basis, the Company is currently marketing 173 Mmcf/d for its own account as well as additional volumes for third party producers. The Company's gas production is sold primarily to utilities and directly to industrial users.

The Company has managed the impact of potential price declines by developing a balanced portfolio of fixed price and market sensitive contracts and commodity hedging. On a pro forma basis, approximately 47% of average gas production at December 31, 1996 was sold subject to fixed price sales contracts. These fixed price contracts are at prices ranging from \$2.15 to \$3.70 per Mcf. The fixed price contracts with terms of less than one year, between one and five years and greater than five years constitute approximately 31%, 65% and 4%, respectively, of the volume sold under fixed price contracts.

From time to time, the Company enters into oil and natural gas price hedges to reduce its exposure to commodity price fluctuations. At December 31, 1996, approximately 12% on an Mcfe basis of the Company's monthly production for the period January 1997 to April 1997 was hedged under such arrangements. No production after this period was hedged. In the future, the Company may hedge a larger percentage of its production.

Approximately 30% of the Company's pro forma December 1996 gas production on an Mcfe basis was attributable to Appalachia. Gas production in Appalachia has historically received a higher price, due to its proximity to the northeastern gas markets.

The Company's oil production is sold at the well site at posted field prices tied to the spot oil markets. Oil purchasers are selected on the basis of price and service.

As part of the Cometra Acquisition, the Company acquired a gas contract, which expires June 30, 2000, with a major Texas gas utility company representing 18% of the Company's pro forma December 1996 production on an Mcfe basis. The price paid pursuant to the contract was \$3.70 per Mcf at December 31, 1996 (55% higher than average 1996 natural gas prices received by the Company) and escalates at \$0.05 per Mcf per annum. No other purchaser of the Company's oil or gas during 1996 exceeded 10% of the Company's total revenues.

#### FACILITIES

The Company owns a 24,000 square foot facility located on approximately seven acres near Hartville, Ohio. The facility houses certain operating and administrative personnel. The Company leases approximately 33,000 square feet in Fort Worth and Oklahoma City under standard office lease arrangements that expire at various times through December 2003. All facilities are adequate to meet the Company's existing needs and can be expanded with minimal expense.

The Company owns various rolling stock and other equipment which is used in its field operations. Such equipment is believed to be in good repair and, while such equipment is important to its operations, it can be readily replaced as necessary.

## EMPLOYEES

As of January 17, 1997, the Company had 268 full-time employees, 163 of whom were field personnel. None are covered by a collective bargaining agreement and management believes that its relationship with its employees is good.

## LEGAL PROCEEDINGS

The Company is involved in various legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims will be resolved without a material adverse effect on the Company's financial position.

## MANAGEMENT

The current executive officers and Directors of the Company are listed below, together with a description of their experience and certain other information. Each of the Directors was re-elected for a one-year term at the Company's 1996 annual meeting of stockholders. Executive officers are appointed by the Board of Directors.

NAME	AGE	HELD OFFICE SINCE	POSITION WITH COMPANY
----	---	-----	-----
Thomas J. Edelman	45	1988	Chairman and Chairman of the Board
John H. Pinkerton	42	1988	President, Chief Executive Officer and Director
Robert E. Aikman	64	1990	Director
Anthony V. Dub	46	1995	Director
Allen Finkelson	50	1994	Director
Ben A. Guill	45	1995	Director
C. Rand Michaels	59	1976	Vice Chairman and Director
Jeffery A. Bynum	42	1985	Vice President-Land
Steven L. Grose	48	1980	Vice President-Appalachia Region
Chad L. Stephens	41	1990	Vice President-Midcontinent Region
Thomas W. Stoelk	41	1994	Vice President-Finance
Danny W. Sowell	46	1996	Vice President-Gas Management
John R. Frank	41	1990	Controller
Geoffrey T. Doke	30	1996	Treasurer

Thomas J. Edelman holds the office of Chairman and is Chairman of the Board of Directors. Mr. Edelman joined the Company in 1988 and served as its Chief Executive Officer until 1992. Since 1981, Mr. Edelman has been a director and President of Snyder Oil Corporation ("SOCO"), an independent, publicly traded oil and gas company. In 1996, Mr. Edelman was appointed Chairman, President and Chief Executive Officer of Patina Oil & Gas Corporation, a publicly traded affiliate of SOCO. Prior to 1981, Mr. Edelman was a Vice President of The First Boston Corporation. From 1975 through 1980, Mr. Edelman was with Lehman Brothers Kuhn Loeb Incorporated. Mr. Edelman received his Bachelor of Arts Degree from Princeton University and his Masters Degree in Finance from Harvard University's Graduate School of Business Administration. Mr. Edelman is also a director of Petroleum Heat & Power Co., Inc., a Connecticut-based fuel oil distributor, Star Gas Corporation, a private company, which is the general partner of Star Gas Partners, L.P., a publicly-traded master limited partnership, which distributes propane gas.

John H. Pinkerton, President, Chief Executive Officer and a Director, joined the Company in 1988. He was appointed President in 1990 and Chief Executive Officer in 1992. Previously, Mr. Pinkerton was a Senior Vice President-Acquisitions of SOCO. Prior to joining SOCO in 1980, Mr. Pinkerton was with Arthur Andersen & Co. Mr. Pinkerton received his Bachelor of Arts Degree in Business Administration from Texas Christian University and his Master of Arts Degree in Business Administration from the University of Texas. Mr. Pinkerton is also director of North Coast Energy, Inc. ("North Coast"), an exploration and production company in which Lomak acquired an approximately 50% interest in 1996.

Robert E. Aikman, a Director, joined the Company in 1990. Mr. Aikman has more than 40 years experience in petroleum and natural gas exploration and production throughout the United States and Canada. From 1984 to 1994 he was Chairman of the Board of Energy Resources Corporation. From 1979 through 1984, he was the President and principal shareholder of Aikman Petroleum, Inc. From 1971 to 1977, he was President of Dorchester Exploration Inc. and from 1971 to 1980, he was a Director and a member of the Executive Committee of Dorchester Gas Corporation. Mr. Aikman is also Chairman of Provident Trade Company, President of EROG, Inc., and President of The Hawthorne Company, an entity which organizes joint ventures and provides advisory services for the acquisition of oil and gas properties, including the financial restructuring, reorganization and sale of companies. He was President of Enertec Corporation which was reorganized under Chapter 11 of the Bankruptcy Code in December 1994. In addition, Mr. Aikman is a director of the Panhandle Producers and Royalty Owners Association and a member of the Independent

Petroleum Association of America, Texas Independent Producers and Royalty Owners Association and American Association of Petroleum Landmen. Mr. Aikman graduated from the University of Oklahoma in 1952.

Anthony V. Dub was elected to serve as a Director of the Company in 1995. Mr. Dub is Managing Director-Senior Advisor of Credit Suisse First Boston, an international investment banking firm with headquarters in New York City. Mr. Dub joined Credit Suisse First Boston in 1971 and was named a Managing Director in 1981. Mr. Dub received his Bachelor of Arts Degree from Princeton University in 1971.

Allen Finkelson was appointed a Director in 1994. Mr. Finkelson has been a partner at Cravath, Swaine & Moore since 1977, with the exception of the period from September 1983 through August 1985, when he was a managing director of Lehman Brothers Kuhn Loeb Incorporated. Mr. Finkelson was first employed by Cravath, Swaine & Moore as an associate in 1971. Mr. Finkelson received his Bachelor of Arts Degree from St. Lawrence University and his Doctor of Laws Degree from Columbia University School of Law.

Ben A. Guill was elected to serve as a Director of the Company in 1995. Mr. Guill is a Partner and Managing Director of Simmons & Company International, an investment banking firm located in Houston, Texas focused exclusively on the oil service and equipment industry. Mr. Guill has been with Simmons & Company since 1980. Prior to joining Simmons & Company, Mr. Guill was with Blyth Eastman Dillon & Company from 1978 to 1980. Mr. Guill received his Bachelor of Arts Degree from Princeton University and his Masters Degree in Finance from the Wharton Graduate School of Business at the University of Pennsylvania.

C. Rand Michaels, who holds the office of Vice Chairman and is a Director, served as President and Chief Executive Officer of the Company from 1976 through 1988 and Chairman of the Board from 1984 through 1988, when he became Vice Chairman. Mr. Michaels received his Bachelor of Science Degree from Auburn University and his Master of Business Administration Degree from the University of Denver. Mr. Michaels is also a director of American Business Computers Corporation of Akron, Ohio, a public company serving the beverage dispensing and fast food industries, and North Coast.

Jeffery A. Bynum, Vice President-Land and Secretary, joined the Company in 1985. Previously, Mr. Bynum was employed by Crystal Oil Company and Kinnebrew Energy Group of Shreveport, Louisiana. Mr. Bynum holds a Professional Certification with American Association of Petroleum Landmen and attended Louisiana State University in Baton Rouge, Louisiana and Centenary College in Shreveport, Louisiana.

Steven L. Grose, Vice President-Appalachia Region, joined the Company in 1980. Previously, Mr. Grose was employed by Halliburton Services, Inc. as a Field Engineer from 1971 until 1974. In 1974, he was promoted to District Engineer and in 1978, was named Assistant District Superintendent based in Pennsylvania. Mr. Grose is a member of the Society of Petroleum Engineers and a trustee of The Ohio Oil and Gas Association. Mr. Grose received his Bachelor of Science Degree in Petroleum Engineering from Marietta College. Mr. Grose is also a director of North Coast.

Chad L. Stephens, Vice President-Midcontinent Region, joined the Company in 1990. Previously, Mr. Stephens was a landman with Duer Wagner & Co., an independent oil and gas producer, since 1988. Prior thereto, Mr. Stephens was an independent oil operator in Midland, Texas for four years. From 1979 to 1984, Mr. Stephens was a landman for Cities Service Company and HNG Oil Company. Mr. Stephens received his Bachelor of Arts Degree in Finance and Land Management from the University of Texas.

Thomas W. Stoelk, Vice President-Finance and Chief Financial Officer, joined the Company in 1994. Mr. Stoelk is a Certified Public Accountant and was a Senior Manager with Ernst & Young LLP. Prior to rejoining Ernst & Young LLP in 1986 he was with Partners Petroleum, Inc. Mr. Stoelk received his Bachelor of Science Degree in Industrial Administration from Iowa State University.

Danny M. Sowell, Vice President-Gas Management, joined the Company in 1996. Previously, Mr. Sowell was Chief Executive Officer and President of Jay Gas Marketing, which Lomak acquired May 1, 1996. Prior to founding Jay Gas, Mr. Sowell was Director of Marketing for a subsidiary of Oklahoma Gas & Electric

Company. Mr. Sowell received his Master and Bachelor of Science Degrees in Mathematics from Lamar University.

John R. Frank, Controller and Chief Accounting Officer, joined the Company in 1990. From 1989 until he joined Lomak in 1990, Mr. Frank was Vice President Finance of Appalachian Exploration, Inc. Prior thereto, he held the positions of Internal Auditor and Treasurer with Appalachian Exploration, Inc. beginning in 1977. Mr. Frank received his Bachelor of Arts Degree in Accounting and Management from Walsh College and attended graduate studies at the University of Akron.

Geoffrey T. Doke, Treasurer, joined the Company in 1991. He was appointed Treasurer in 1996. Previously, Mr. Doke served in the accounting department of Edisto Resources Corporation. Mr. Doke received his Bachelor of Business Administration Degree in Finance and International Business from Baylor University and his Master of Business Administration Degree from Case Western Reserve University.

PRINCIPAL STOCKHOLDERS  
AND SHARE OWNERSHIP OF MANAGEMENT

The following table sets forth certain information regarding (i) the share ownership of the Company by each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, (ii) the share ownership of the Company by each Director and (iii) the share ownership by all Directors and executive officers of the Company as a group in each case as of January 17, 1997 and on a pro forma basis giving effect to the Cometra Acquisition and Offerings. The business address of each officer and Director listed below is: c/o Lomak Petroleum, Inc., 500 Throckmorton Street, Fort Worth, Texas 76102.

	ACTUAL		PRO FORMA	
	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF CLASS	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF CLASS
Thomas J. Edelman.....	979,541(1)	6.55%	979,541(1)	4.81%
John H. Pinkerton.....	494,093(2)	3.30%	494,093(2)	2.42%
C. Rand Michaels.....	296,598(3)	2.00%	296,598(3)	1.46%
Robert E. Aikman.....	77,966(4)	0.53%	77,966(4)	0.38%
Anthony V. Dub.....	64,165(5)	0.43%	64,165(5)	0.32%
Allen Finkelson.....	6,000(6)	0.04%	6,000(6)	0.03%
Ben A. Guill.....	52,400(7)	0.35%	52,400(7)	0.26%
All Directors and executive officers as a group (14 persons).....	2,342,489(8)	15.71%	2,342,489(8)	11.52%
Public Employees Retirement System of Ohio.....	1,350,000(9)	9.12%	1,350,000(9)	6.67%
American Cometra, Inc.....	--	--	1,428,571(10)	7.06%

- (1) Includes 145,000 shares which may be purchased under currently exercisable options; 113,333 shares held under IRA, KEOGH and pension plan accounts; 29,916 shares owned by Mr. Edelman's spouse; and 91,200 shares owned by Mr. Edelman's minor children, to which Mr. Edelman disclaims beneficial ownership.
- (2) Includes 171,667 shares which may be purchased under currently exercisable stock options; 115,899 shares held under IRA and pension plan accounts; 1,572 shares owned by Mr. Pinkerton's minor children; and 743 shares owned by Mr. Pinkerton's spouse, to which Mr. Pinkerton disclaims beneficial ownership.
- (3) Includes 55,666 shares which may be purchased under currently exercisable stock options; 1,804 shares held under the IRA account; 84,464 shares owned by Mr. Michael's spouse; and 19,460 shares owned by Mr. Michael's minor children, to which Mr. Michaels disclaims beneficial ownership.
- (4) Includes 21,000 shares which may be purchased under currently exercisable stock options.
- (5) Includes 2,400 shares which may be purchased under currently exercisable stock options.
- (6) Includes 6,000 shares which may be purchased under currently exercisable stock options.
- (7) Includes 2,400 shares which may be purchased under currently exercisable stock options.
- (8) Includes 644,682 shares which may be purchased under currently exercisable stock options.
- (9) Such stockholder's address is 227 East Town Street, Columbus, Ohio 43215.
- (10) Such stockholder's address is 500 Throckmorton, Suite 2500, Fort Worth, Texas 76102.

## CERTAIN TRANSACTIONS

During 1995, the Company incurred fees of \$145,000 with The Hawthorne Company for advisory services paid in connection with the purchase of oil and gas properties. Mr. Aikman, a Director of the Company, is an executive officer and a principal owner of The Hawthorne Company. The amount incurred was on a basis similar to that paid by the Company to third parties for similar services.

In 1995, the Company acquired SOCO's interest in 468 wells located in Appalachia for \$4 million. The price was determined based on arm's-length negotiations through a third-party broker retained by SOCO. After completion of this transaction, the Company and SOCO no longer held interests in any of the same properties. Mr. Edelman is Chairman of the Company and also an officer, director and shareholder of SOCO. Therefore, Mr. Edelman has an indirect interest in the foregoing relationships and transactions between the Company and SOCO.

## DESCRIPTION OF CAPITAL STOCK AND INDEBTEDNESS

The authorized capital stock of the Company consists of (i) 4,000,000 shares of serial preferred stock, \$1.00 par value, and (ii) 35,000,000 shares of Common Stock \$.01 par value. As of January 17, 1997, the Company had outstanding 14,801,654 shares of Common Stock and 1,150,000 shares of \$2.03 Convertible Preferred Stock.

## COMMON STOCK

Holders of Common Stock are entitled to receive dividends if, when and as declared by the Board of Directors of the Company out of funds legally available therefor (however, the Indenture for the Notes and the Credit Facility contain certain restrictions on the payment of cash dividends. If there is any arrearage in the payment of dividends on any preferred stock, the Company may not pay dividends upon, repurchase or redeem shares of its Common Stock. All shares of Common Stock have equal voting rights on the basis of one vote per share on all matters to be voted upon by stockholders. Cumulative voting for the election of directors is not permitted. Shares of Common Stock have no preemptive, conversion, sinking fund or redemption provisions and are not liable for further call or assessment. Each share of Common Stock is entitled to share on a pro rata basis in any assets available for distribution to the holders of the Common Stock upon liquidation of the Company after satisfaction of any liquidation preference on any series of the Company's preferred stock. All outstanding shares of Common Stock have been, and all shares offered in the Common Stock Offering will be when issued, validly issued, fully paid and nonassessable.

## OPTIONS

The Company's stock option plan, which is administered by the Compensation Committee, provides for the granting of options to purchase shares of Common Stock to key employees and certain other persons who are not employees for advice or other assistance or services to the Company. The plan permits the granting of options to acquire up to 2,000,000 shares of Common Stock subject to a limitation of 10% of the outstanding Common Stock on a fully diluted basis. At January 17, 1997, a total of 1,239,432 options had been granted under the plan of which options to purchase 523,932 shares were exercisable at that date. The options outstanding at January 17, 1997 were granted at an exercise price of \$3.38 to \$10.50 per share. The exercise price of all such options was equal to the fair market value of the Common Stock on the date of grant. All were options granted for a term of five years, with 30% of the options becoming exercisable after one year, an additional 30% becoming exercisable after two years and the remaining options becoming exercisable after three years.

## WARRANTS

Warrants to acquire 20,000 shares of Common Stock at a price of \$12.88 per share were outstanding at September 30, 1996. These warrants expire in December 1997.

## PREFERRED STOCK

The Board of Directors of the Company, without action by stockholders, is authorized to issue shares of serial preferred stock in one or more series and, within certain limitations, to determine the voting rights

(including the right to vote as a series on particular matters), preferences as to dividends and the liquidation, conversion, redemption and other rights of each such series. The Board of Directors could issue a series with rights more favorable with respect to dividends, liquidation and voting than those held by the holders of its Common Stock. At January 17, 1997, 1,150,000 shares of Preferred Stock were outstanding, designated as \$2.03 Convertible Exchangeable Preferred Stock, Series C (the "\$2.03 Convertible Preferred Stock").

The \$2.03 Convertible Preferred Stock bears an annual dividend rate of \$2.03 payable quarterly. If dividends have not been paid on the \$2.03 Convertible Preferred Stock, the Company cannot redeem or pay dividends on shares of stock ranking junior to the \$2.03 Convertible Preferred Stock. No new serial preferred stock can be created with rights superior to those of the \$2.03 Convertible Preferred Stock, as to dividends and liquidation rights, without the approval of the holders of a majority of the \$2.03 Convertible Preferred Stock. In addition, the holders of the \$2.03 Convertible Preferred Stock are entitled to one vote for each share owned. Additionally, if dividends remain unpaid for six full quarterly periods, or if any future class of preferred stockholders is entitled to elect members of the Board of Directors based on actual missed and unpaid dividends, the number of members of the Board of Directors will be increased to such number as may be necessary to entitle the holders of the \$2.03 Convertible Preferred Stock and such other future preferred stockholders, voting as a single class, to elect one-third of the members of the Board of Directors. The \$2.03 Convertible Preferred Stock has liquidation rights of \$25 per share. The Company may exchange the \$2.03 Convertible Preferred Stock for an aggregate of \$28,750,000 principal amount of 8.125% Convertible Subordinated Notes due December 31, 2005. Each share of \$2.03 Convertible Preferred Stock is convertible into Common Stock at a conversion price of \$9.50 per share, subject to adjustment under certain circumstances. The conversion price will be reduced for a limited period (but to not less than \$5.21) if a change in control or fundamental change in the Company occurs at a time that the market price of the Common Stock is less than the conversion price. The Company may redeem the \$2.03 Convertible Preferred Stock at any time after November 1, 1998, at redemption prices declining from \$26.50 to \$25.00 per share, plus cumulative unpaid dividends.

#### 6% CONVERTIBLE SUBORDINATED DEBENTURES DUE 2007

On December 27, 1996, the Company sold \$55,000,000 aggregate principal amount of 6% Convertible Subordinated Debentures due 2007 (the "Convertible Debentures") in a private offering not registered under the Securities Act. The Convertible Debentures are convertible at any time prior to maturity, unless previously redeemed or repurchased, into shares of Common Stock, at a conversion price of \$19.25 per share, subject to adjustment under certain circumstances. The Convertible Debentures are unsecured and subordinate to all senior and senior subordinated indebtedness and do not restrict the incurrence of additional indebtedness by the Company or any of its subsidiaries. The Convertible Debentures will mature on February 1, 2007. The Company may redeem the Convertible Debentures, in whole or in part, on or after February 1, 2000, at certain redemption prices, plus accrued but unpaid interest at the date fixed for redemption. Upon certain changes of control of the Company, the Company is required to offer to repurchase each holder's Convertible Debentures at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase.

Pursuant to a Registration Rights Agreement between the Company and the initial purchasers of the Convertible Debentures, the Company has agreed to file a shelf registration statement (the "Shelf Registration Statement") relating to the Debentures and the shares of Common Stock issuable upon conversion of the Convertible Debentures. The Company will use its reasonable best efforts to maintain the effectiveness of the Shelf Registration Statement until the third anniversary of the issuance of the Convertible Debentures, except that it shall be permitted to suspend the use of the Shelf Registration Statement during certain periods under certain circumstances. If the Company fails to meet certain of its obligations under the Shelf Registration Statement, then a supplemental payment will be made to the holders of the Convertible Debentures or shares of Common Stock actually issued upon conversion of the Convertible Debentures. During the first 90 days of such a default, the supplemental payment will be \$0.05 per week per \$1,000 principal amount of the Convertible Debentures and \$0.0005 per week per share of such Common Stock. The amount of such supplemental payment will increase over time if the default continues, subject to a maximum

supplemental payment of \$0.20 per week per \$1,000 principal amount of Convertible Debentures and \$0.002 per week per share of Common Stock.

#### CREDIT FACILITY

In connection with the financing of the Cometra Acquisition, the Company and its subsidiaries will expand the existing credit facility with the bank lenders. The Credit Facility will enable the Company to obtain revolving credit loans and to issue letters of credit for the account of the Company from time to time in an aggregate amount not to exceed \$400 million (of which not more than \$125 million may be represented by letters of credit). The Borrowing Base, which will initially be \$400 million under the expanded facility, will be reduced to \$325 million 180 days after the closing of the Cometra Acquisition, unless otherwise agreed by the lenders. The Borrowing Base is subject to semi-annual determination and is calculated based upon a variety of factors, including the discounted present value of estimated future net cash flow from oil and gas production.

The Company will be required to make a mandatory prepayment of all amounts outstanding under the Credit Facility in excess of \$325 million 180 days after the closing of the Cometra Acquisition. At the Company's option, loans may be prepaid, and revolving credit commitments may be reduced, in whole or in part at any time in certain minimum amounts.

At the Company's option, the applicable interest rate per annum will be either LIBOR plus a margin ranging from 0.625% to 1.125% or the Alternate Base Rate (as defined) plus a margin ranging from 0% to 0.25%. The Alternate Base Rate is the highest of (a) the agent banks' reference rate, (b) the secondary market rate for certificates of deposit (adjusted for maximum statutory reserve requirements) plus 1.0% and (c) the federal funds effective rate plus 0.5%. Until the occurrence of the Trigger Event, the interest rate margins will be increased by 50 basis points prior to March 31, 1997 and 100 basis points thereafter.

The obligations of the Company under the Credit Facility will be unconditionally and irrevocably guaranteed by each of the Company's direct and indirect domestic subsidiaries (collectively, the "Subsidiary Guarantors"). In addition, the Credit Facility will be secured by first priority security interests in (i) existing mortgaged oil and gas properties of the Company and the Cometra Properties, (ii) all accounts receivable, inventory and intangibles of the Company and the Subsidiary Guarantors, and (iii) all of the capital stock of the Company's direct or indirect subsidiaries. Substantially all of the assets of the Company will be pledged as collateral if, 90 days after the closing of the Cometra Acquisition, the Borrowing Base and amounts outstanding under the Credit Facility have not been reduced to \$325 million. Such additional security interests will be released upon the (i) reduction of the amounts outstanding under the Credit Facility to \$325 million (or the then determined Borrowing Base) and (ii) issuance of \$75 million of Common Stock and/or the sale of Company assets in excess of the Borrowing Base value attributable to such assets as agreed by the lenders.

Immediately following the Cometra Acquisition, the Company expects that approximately \$385 million will be outstanding (including \$125 million of then outstanding letters of credit to secure the promissory note issued to Cometra as part of the purchase price in the Cometra Acquisition) under the Credit Facility. Upon consummation of the Offerings, approximately \$230.9 million will be outstanding under the Credit Facility. Accordingly, the Company believes that a Trigger Event will occur upon completion of the Offerings.

The Credit Facility contains various covenants that, among other things, will restrict the ability of the Company to dispose of assets, incur additional indebtedness, repay other indebtedness or amend other debt instruments, pay dividends, create liens on assets, make investments or acquisitions, engage in mergers or consolidations, make capital expenditures or engage in certain transactions with affiliates. In addition, under the Credit Facility, the Company will be required to comply with specified minimum interest coverage and maximum leverage ratios.

## UNDERWRITING

Subject to the terms and subject to the conditions contained in an Underwriting Agreement dated the date hereof, the Underwriters named below, for whom Dean Witter Reynolds Inc., PaineWebber Incorporated, Smith Barney Inc., A.G. Edwards & Sons, Inc. and McDonald & Company Securities, Inc. are serving as Representatives, have severally agreed to purchase, and the Company has agreed to sell to the Underwriters, an aggregate of 4,000,000 shares of Common Stock. The number of shares of Common Stock that each Underwriter has agreed to purchase is set forth opposite its name below:

NAME ----	NUMBER OF SHARES -----
Dean Witter Reynolds Inc. ....	
PaineWebber Incorporated.....	
Smith Barney Inc. ....	
A.G. Edwards & Sons, Inc. ....	
McDonald & Company Securities, Inc. ....	
	-----
Total.....	4,000,000 =====

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock offered hereby are subject to the approval of certain legal matters by counsel and to certain other conditions. The Underwriters are obligated to take and pay for all of the shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any are taken.

The Underwriters propose to offer part of the shares directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price which represents a concession not in excess of \$ \_\_\_\_\_ per share under the public offering price. The Underwriters may allow, and such dealers may reallocate, a concession not in excess of \$ \_\_\_\_\_ per share to certain other dealers.

Pursuant to the Underwriting Agreement, the Company has granted to the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to 600,000 additional shares of Common Stock at the public offering price set forth on the cover page hereof, less underwriting discounts and commissions. The Underwriters may exercise such option to purchase solely for the purpose of covering over-allotments, if any, made in connection with the Common Stock Offering. To the extent such option is exercised, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such Underwriter's name in the preceding table bears to the total number of shares of Common Stock offered hereby.

The Company and certain other stockholders and officers of the Company have agreed with the Underwriters not to sell or otherwise dispose of any shares of Common Stock (other than gifts to family members) for a period of \_\_\_\_\_ days after the date of this Prospectus without the prior written consent of Dean Witter Reynolds Inc. for the Underwriters. Cometra has agreed with the Company not to sell or otherwise dispose of the 1,428,521 shares it will receive pursuant to the Cometra Acquisition for a period of 45 days following the closing of the Cometra Acquisition.

The Company and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

## LEGAL MATTERS

Certain legal matters with respect to the valid issuance, due authorization, full payment and nonassessability of the Common Stock offered hereby will be passed upon for the Company by Vinson & Elkins L.L.P., 2300 First City Tower, Houston, Texas 77002-6760, and for the Underwriters by Simpson Thacher & Bartlett (a partnership which includes professional corporations), 425 Lexington Avenue, New York, New York 10017-3909.

## EXPERTS

The Consolidated Financial Statements of the Company, as of December 31, 1994 and 1995 and for the years then ended, included and incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as stated in their reports appearing herein and incorporated by reference. The Consolidated Financial Statements of the Company for the year ended December 31, 1993 included and incorporated by reference in the Prospectus have been audited by Ernst & Young LLP, independent auditors, as stated in their reports thereon appearing herein and incorporated by reference.

The statements of revenues and direct operating expenses of the American Cometra Interests (referred to herein as the Cometra Properties) for the years ended December 31, 1994 and 1995 and the nine months ended September 30, 1996, included in the Registration Statement have been audited by Coopers & Lybrand L.L.P., independent accountants, and are included herein in reliance upon the authority of that firm as experts in accounting and auditing.

The financial statements of the Bannon Interests as of December 31, 1995 and for the year then ended, have been incorporated by reference herein and in the Registration Statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

Certain information with respect to the gas and oil reserves of the Company derived from the respective reports of Netherland, Sewell & Associates, Inc., Wright & Company, Inc., H. J. Gruy and Associates, Inc., Huddleston & Co., Inc. and Clay, Holt & Klammer, each of which is a firm of independent petroleum consultants, has been included and incorporated herein and elsewhere in the Registration Statement in reliance upon the authority of said firm as experts with respect to the matters contained in their respective reports.

## GLOSSARY

The terms defined in this glossary are used throughout this Prospectus.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to crude oil or other liquid hydrocarbons.

Bcf. One billion cubic feet.

Bcfe. One billion cubic feet of natural gas equivalents, based on a ratio of 6 Mcf for each barrel of oil, which reflects the relative energy content.

Development well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry hole. A well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or gas well.

Exploratory well. A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

Infield well. A well drilled between known producing wells to better exploit the reservoir.

Mbbl. One thousand barrels of crude oil or other liquid hydrocarbons.

Mcf. One thousand cubic feet.

Mcfe. One thousand cubic feet of natural gas equivalents, based on a ratio of 6 Mcf for each barrel of oil, which reflects the relative energy content.

Mmdbl. One million barrels of crude oil or other liquid hydrocarbons.

Mmcf. One million cubic feet.

Mmcfe. One million cubic feet of natural gas equivalents.

Net acres or net wells. The sum of the fractional working interests owned in gross acres or gross wells.

Net oil and gas sales. Oil and natural gas sales less oil and natural gas production expenses.

Present Value. The pre-tax present value, discounted at 10%, of future net cash flows from estimated proved reserves, calculated holding prices and costs constant at amounts in effect on the date of the report (unless such prices or costs are subject to change pursuant to contractual provisions) and otherwise in accordance with the Commission's rules for inclusion of oil and gas reserve information in financial statements filed with the Commission.

Productive well. A well that is producing oil or gas or that is capable of production.

Proved developed non-producing reserves. Reserves that consist of (i) proved reserves from wells which have been completed and tested but are not producing due to lack of market or minor completion problems which are expected to be corrected and (ii) provided reserves currently behind the pipe in existing wells and which are expected to be productive due to both the well log characteristics and analogous production in the immediate vicinity of the wells.

Proved developed producing reserves. Proved reserves that can be expected to be recovered from currently producing zones under the continuation of present operating methods.

Proved developed reserves. Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved reserves. 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.

Proved undeveloped reserves. 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 for recompletion.

Recompletion. The completion for production of an existing wellbore in another formation from that in which the well has previously been completed.

Royalty interest. An interest in an oil and gas property entitling the owner to a share of oil and natural gas production free of costs of production.

Standardized Measure. The present value, discounted at 10%, of future net cash flows from estimated proved reserves after income taxes calculated holding prices and costs constant at amounts in effect on the date of the report (unless such prices or costs are subject to change pursuant to contractual provisions) and otherwise in accordance with the Commission's rules for inclusion of oil and gas reserve information in financial statements filed with the Commission.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production, subject to all royalties, overriding royalties and other burdens and to all costs of exploration, development and operations and all risks in connection therewith.

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders  
Lomak Petroleum, Inc.

We have audited the accompanying consolidated balance sheets of Lomak Petroleum, Inc. (a Delaware corporation) as of December 31, 1994 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lomak Petroleum, Inc. as of December 31, 1994 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Cleveland, Ohio,  
February 27, 1996

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Lomak Petroleum, Inc.

We have audited the consolidated statements of income, stockholders' equity and cash flows of Lomak Petroleum, Inc. for the year ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements of Lomak Petroleum, Inc. referred to above present fairly, in all material respects, the consolidated results of its operations and its cash flows for the year ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 10 to the consolidated financial statements, in 1993 the Company changed its method of accounting for income taxes.

ERNST & YOUNG LLP

Cleveland, Ohio  
March 8, 1994

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## LOMAK PETROLEUM, INC.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 31,	
	1994	1995
	-----	-----
ASSETS		
Current assets:		
Cash and equivalents.....	\$ 4,897	\$ 3,047
Accounts receivable.....	9,431	14,938
Inventory and other.....	1,592	1,114
	-----	-----
	15,920	19,099
	-----	-----
Oil and gas properties, successful efforts method.....	133,373	210,073
Accumulated depletion.....	(20,409)	(33,371)
	-----	-----
	112,964	176,702
	-----	-----
Gas transportation and field service assets.....	16,125	23,167
Accumulated depreciation.....	(3,241)	(4,304)
	-----	-----
	12,884	18,863
	-----	-----
	\$141,768	\$214,664
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 8,421	\$ 9,084
Accrued liabilities.....	4,715	3,761
Accrued payroll and benefit costs.....	1,075	1,762
Current portion of debt (Note 5).....	707	53
	-----	-----
	14,918	14,660
	-----	-----
Long-term debt (Note 5).....	61,885	83,035
Deferred taxes (Note 10).....	16,390	17,726
Commitments and contingencies (Note 6)		
Minority interest.....	5,327	--
Stockholders' equity (Notes 7 and 8)		
Preferred stock, \$1 par, 2,000,000 shares authorized, 7 1/2% convertible preferred, 200,000 issued (liquidation preference \$5,000,000).....	200	200
\$2.03 convertible preferred, 1,150,000 issued (liquidation preference \$28,750,000).....	--	1,150
Common stock, \$.01 par, 20,000,000 shares authorized, 9,754,010 and 13,322,738 issued.....	97	133
Capital in excess of par value.....	50,495	101,773
Retained earnings (deficit).....	(7,544)	(4,013)
	-----	-----
	43,248	99,243
	-----	-----
	\$141,768	\$214,664
	=====	=====

See accompanying notes.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Revenues			
Oil and gas sales.....	\$11,132	\$24,461	\$37,417
Field services.....	6,966	7,667	10,097
Gas transportation and marketing.....	559	2,195	3,284
Interest and other.....	418	471	1,317
	-----	-----	-----
	19,075	34,794	52,115
	-----	-----	-----
Expenses			
Direct operating.....	4,438	10,019	14,930
Field services.....	5,712	5,778	6,469
Gas transportation and marketing.....	13	490	849
Exploration.....	86	359	512
General and administrative.....	2,049	2,478	2,736
Interest.....	1,120	2,807	5,584
Depletion, depreciation and amortization.....	4,347	10,105	14,863
	-----	-----	-----
	17,765	32,036	45,943
	-----	-----	-----
Income before taxes.....	1,310	2,758	6,172
Income taxes			
Current.....	69	21	86
Deferred.....	(150)	118	1,696
	-----	-----	-----
	(81)	139	1,782
	-----	-----	-----
Net income.....	\$ 1,391	\$ 2,619	\$ 4,390
	=====	=====	=====
Net income applicable to common shares.....	\$ 1,062	\$ 2,244	\$ 3,659
	=====	=====	=====
Earnings per common share.....	\$ 0.18	\$ 0.25	\$ 0.31
	=====	=====	=====
Weighted average shares outstanding.....	5,853	9,051	11,841
	=====	=====	=====

See accompanying notes.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS)

	PREFERRED STOCK		COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (DEFICIT)
	SHARES	PAR VALUE	SHARES	PAR VALUE		
Balance, December 31, 1992.....	33	\$ 33	4,776	\$ 48	\$ 20,274	\$(10,850)
Preferred dividends.....	--	--	--	--	--	(329)
Common issued.....	--	--	2,772	28	17,032	--
Common repurchased.....	--	--	(41)	(1)	(202)	--
7 1/2% preferred issued.....	200	200	--	--	4,639	--
Conversion of 8% preferred.....	(33)	(33)	802	8	25	--
Net income.....	--	--	--	--	--	1,391
Balance, December 31, 1993.....	200	200	8,309	83	41,768	(9,788)
Preferred dividends.....	--	--	--	--	--	(375)
Common issued.....	--	--	1,504	15	9,220	--
Common repurchased.....	--	--	(59)	(1)	(493)	--
Net income.....	--	--	--	--	--	2,619
Balance, December 31, 1994.....	200	200	9,754	97	50,495	(7,544)
Preferred dividends.....	--	--	--	--	--	(731)
Common dividends.....	--	--	--	--	--	(128)
Common issued.....	--	--	3,609	36	24,953	--
Common repurchased.....	--	--	(40)	--	(332)	--
\$2.03 preferred issued.....	1,150	1,150	--	--	26,657	--
Net income.....	--	--	--	--	--	4,390
Balance, December 31, 1995.....	1,350	\$1,350	13,323	\$ 133	\$ 101,773	\$ (4,013)

See accompanying notes.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Cash flows from operations:			
Net income.....	\$ 1,391	\$ 2,619	\$ 4,390
Adjustments to reconcile net income to net cash provided by operations:			
Depletion, depreciation and amortization.....	4,347	10,105	14,863
Deferred income taxes.....	(150)	118	1,335
Changes in working capital net of effects of purchases of businesses:			
Accounts receivable.....	(1,534)	2,572	(5,543)
Inventory and other.....	(334)	(45)	278
Accounts payable.....	(1,022)	(2,126)	663
Accrued liabilities and payroll and benefit costs...	1,928	(1,531)	1,778
Gain on sale of assets and other.....	(321)	(471)	(1,203)
Net cash provided by operations.....	4,305	11,241	16,561
Cash flows from investing:			
Acquisition of businesses, net of cash.....	(27,607)	(9,399)	--
Oil and gas properties.....	(15,219)	(22,251)	(69,992)
Additions to property and equipment.....	(1,237)	(813)	(9,102)
Proceeds on sale of assets.....	604	2,927	2,981
Net cash used in investing.....	(43,459)	(29,536)	(76,113)
Cash flows from financing:			
Proceeds from indebtedness.....	20,275	22,235	21,304
Repayments of indebtedness.....	(1,045)	(1,024)	(808)
Preferred stock dividends.....	(329)	(375)	(731)
Common Stock dividends.....	--	--	(128)
Proceeds from Common Stock issuance.....	15,385	830	10,590
Repurchase of Common Stock.....	(207)	(493)	(332)
Proceeds from preferred stock issuance.....	4,833	--	27,807
Net cash provided by financing.....	38,912	21,173	57,702
Change in cash.....	(242)	2,878	(1,850)
Cash and equivalents at beginning of period.....	2,261	2,019	4,897
Cash and equivalents at end of period.....	\$ 2,019	\$ 4,897	\$ 3,047

See accompanying notes.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (1) ORGANIZATION AND NATURE OF BUSINESS

Lomak Petroleum, Inc. ("Lomak" or the "Company") is an independent oil and gas company engaged in the acquisition, development, exploration and enhancement of oil and gas properties in the United States. Lomak's core areas of operation are located in Texas, Oklahoma and Appalachia. The company has grown through a combination of acquisition, development, exploration and enhancement activities. Since January 1, 1990, 60 acquisitions have been consummated at a total cost of approximately \$200 million and approximately \$24 million has been expended on development and exploration activities. As a result, proved reserves and production have each grown during this period at a rate in excess of 80% per annum. At December 31, 1995, proved reserves totaled 298 Bcfe, having a pre-tax present value at constant prices on that date of \$229 million and a reserve life of nearly 12 years.

Lomak's acquisition effort is focused on properties with prices of less than \$30 million within its core areas of operation. Management believes these purchases are less competitive than those involving larger property interests. To the extent purchases continue to be made primarily within existing core areas, efficiencies in operations, drilling, gas marketing and administration should be realized. In 1994, Lomak initiated a program to exploit its inventory of over 500 development projects. In the future, Lomak expects its growth to be driven principally by a combination of acquisitions and development and, to a lesser extent, exploration.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Basis of Presentation

The accompanying financial statements include the accounts of the Company, all majority owned subsidiaries and its pro rata share of the assets, liabilities, income and expenses of certain oil and gas properties. Temporary investments with an initial maturity of ninety days or less are considered cash equivalents.

## Oil and Gas Properties

The Company follows the successful efforts method of accounting for oil and gas properties. Exploratory costs which result in the discovery of reserves and the cost of development wells are capitalized. Geological and geophysical costs, delay rentals and costs to drill unsuccessful exploratory wells are expensed. Depletion is provided on the unit-of-production method. Oil is converted to Mcfe at the rate of six Mcf per barrel. The depletion rates per Mcfe were \$.74, \$.74 and \$.73 in 1993, 1994 and 1995, respectively. Approximately \$5.3 million, \$12.9 million and \$12.2 million of oil and gas properties were classified as proved undeveloped or unproved and, therefore, not subject to depletion as of December 31, 1993, 1994 and 1995, respectively. These costs are assessed periodically to determine whether their value has been impaired, and if impairment is indicated, the excess costs are charged to expense.

## Gas Transportation and Field Services Assets

The Company owns and operates approximately 1,900 miles of gas gathering lines in proximity to its principal gas properties. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from four to fifteen years.

The Company receives fees for providing field related services. These fees are recognized as earned. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from one to six years, except for buildings which are being depreciated over ten to twenty-five year periods.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In September 1994, the Company sold substantially all of its brine disposal and well servicing assets located in the Appalachian region for approximately \$1.8 million. Through an acquisition completed in early 1995, the Company began conducting brine disposal and well services in Oklahoma.

## Use of Estimates

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

## Nature of Business

The Company operates in an environment with many financial risks, including, but not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks of the search for, development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, and the highly competitive nature of the industry and worldwide economic conditions. The Company's ability to expand its reserve base and diversify its operations is also dependent upon the Company's ability to obtain the necessary capital through operating cash flow, additional borrowings or additional equity funds.

## Financial Instruments

The Company's financial instruments include cash and equivalents, accounts receivable, accounts payable and debt obligations. The book value of cash and equivalents, accounts receivable and payable and short term debt are considered to be representative of fair value because of the short maturity of these instruments. The Company believes that the carrying value of its borrowings under its bank credit facility approximates their fair value as they bear interest at the bank's prime rate or Libor. The Company's accounts receivable are concentrated in the oil and gas industry. The Company does not view such a concentration as an unusual credit risk.

Interest rate swap agreements, which are used by the Company in the management of interest exposure, is accounted for on an accrual basis. Income and expense resulting from these agreements are recorded in the same category as expense arising from the related liability. Amounts to be paid or received under interest rate swap agreements are recognized as an adjustment to expense in the periods in which they accrue. At December 31, 1995, the Company had \$40 million of borrowings subject to two swap agreements at rates of 6.25% and 6.49% through no less than July 1997 and no longer than October 1999, respectively.

The Company uses futures, option and swap contracts to reduce the effects of fluctuations in crude oil and natural gas prices. At December 31, 1995, the Company had open contracts for natural gas price swaps in the amount of 360,000 MMBtu's. These contracts expire monthly through September 1996. The resulting transaction gains and losses are included in net income and are determined monthly. Net gains for the year ended December 31, 1995 approximated \$221,000 relating to these derivatives.

## Accounting Standards

In March 1995, the Financial Standards Board (FASB) issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This standard requires the review of long-lived assets for impairment. Although the Company in the past has routinely reviewed its oil and gas assets for impairment, the new accounting rules may require a different grouping which may affect the amount of impairment, if any. SFAS No. 121 is required to be adopted for financial statements with fiscal

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

years beginning after December 15, 1995 and allows the cumulative effect of the accounting change to be reported in net income in the year of adoption. The Company is currently reviewing the accounting standard and has not yet determined the effect, if any, on its consolidated financial position or results of operations.

In October 1995, FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This standard requires an audited pro forma footnote disclosure of what net income and earnings per share would have been for the Company based upon valuing employee options and other stock based compensation, at their estimated fair value using an option pricing model. SFAS No. 123 is required to be adopted for financial statements with fiscal years beginning after December 15, 1995. The Company is currently reviewing the accounting standard and has not yet determined the effect, if any, on its financial statements.

## Earnings per Common Share

Net income per share is computed by subtracting preferred dividends from net income and dividing by the weighted average number of common and common equivalent shares outstanding. The calculation of fully diluted earnings per share assumes conversion of convertible securities when the result would be dilutive. Outstanding options and warrants are included in the computation of net income per common share when their effect is dilutive.

## Reclassifications

Certain reclassifications have been made to prior period presentation to conform with current period classifications.

## (3) ACQUISITION AND DEVELOPMENT

Since 1990, the Company has acquired \$200 million of oil and gas properties and field service assets. During 1995, the Company completed \$71.1 million of acquisitions. The purchases were funded by working capital, advances under a revolving credit facility and the issuance of Common Stock. These acquisitions are discussed below.

## 1995 Acquisitions

## Appalachia

Transfuel, Inc. In September 1995, the Company acquired proved oil and gas reserves, 1,100 miles of gas gathering lines and 175,000 undeveloped acres in Ohio, Pennsylvania and New York from Transfuel, Inc. for \$20.2 million and approximately \$800,000 of Common Stock.

Parker & Parsley Petroleum Company. In August 1995, the Company purchased proved oil and gas reserves, 300 miles of gas gathering lines and 16,400 undeveloped acres in Pennsylvania and West Virginia from Parker & Parsley Petroleum Company for \$20.2 million.

Interests in approximately 470 Company operated properties in Pennsylvania and Ohio were purchased for \$5.4 million.

## Oklahoma

The Company purchased interests in 52 wells in the Caddo and Canadian counties for \$4.8 million. The Company assumed operation of half of these wells.

Interests in Company operated properties were acquired for \$3.2 million.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Texas

The Company purchased interests in 140 wells located primarily in the Big Lake Area of west Texas and the Laura LaVelle Field of east Texas for \$2.8 million.

## 1994 Acquisitions

## Oklahoma

Red Eagle Resources Corporation. In December 1994, the Company acquired effective control of Red Eagle principally through the purchase of two common stockholders' holdings. In February 1995, the remaining stockholders of Red Eagle Common Stock voted to approve the merger of Red Eagle with a wholly owned subsidiary of the Company in exchange for approximately 2.2 million shares of the Company's Common Stock. The additional equity of Red Eagle acquired in February 1995 is reflected as minority interest on the Company's balance sheet at December 31, 1994. Acquisition costs of approximately \$46.5 million have been capitalized in regards to this acquisition. Red Eagle's assets included interests in approximately 370 producing wells located primarily in the Okeene Field of Oklahoma's Anadarko Basin. Subsequently, the Company acquired additional interests in 70 Red Eagle wells for \$1.7 million.

## Texas

Grand Banks Energy Company. The Company purchased Grand Banks for \$3.7 million. Grand Banks' assets included interests in 182 producing wells located in west Texas, essentially all of which are now operated by the Company. Grand Banks owned an average working interest of 70% in the producing reserves, of which 60% was oil. Approximately 40% of Grand Banks' proved reserves are attributed to the Mills-Strain Unit located in the Sharon Ridge Field of Mitchell County, Texas. The Mills-Strain Unit is a waterflood unit producing from the Clearfork Formation at a depth of approximately 2,000 feet. The Mills-Strain Unit has a remaining life of over 20 years. The Company also purchased, for \$1.2 million, additional interests in a number of the Grand Banks properties.

Gillring Oil Company. The Company acquired Gillring for \$11.5 million. Gillring's assets included \$5.2 million of working capital and interests in 106 producing oil and gas wells located in south Texas. Gillring owned an average working interest of 80% in the producing reserves of which 80% were gas. The Gillring properties are located principally in two fields producing from the Wilcox and Vicksburg formations ranging in depths from 4,000 to 11,000 feet. Subsequent to the purchase of Gillring, the Company acquired, for \$2.1 million, the limited partner interests and associated debt of a partnership for which Gillring acted as general partner.

The Company acquired from four parties interests in 118 producing wells in the Big Lake Area of west Texas and the Laura LaVelle Field of east Texas for \$6.5 million.

## Appalachia

The Company acquired, for \$5.0 million, interests in 98 new wells and additional interests in 436 wells which the Company already operated.

## 1993 Acquisitions

## Appalachia

Mark Resources Corporation. In December 1993, the Company acquired Mark for approximately \$28.4 million. Mark's assets were located primarily in the Meadville Area of the Appalachian Basin. Mark owned interests in 655 producing wells, 230 miles of gas gathering lines and over 180 proven drilling locations. Mark operated nearly all of its properties.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Ohio Trend Area. The Company acquired interests in 119 wells and over 70 miles of gas gathering systems in Ohio for \$2.9 million.

Meadville Area. The Company acquired interests in 274 wells, one disposal facility and various undeveloped leaseholds for \$2.5 million.

## Texas

Big Lake Area. The Company acquired from three parties interests in 84 producing wells in the Big Lake Area of west Texas for \$4.2 million.

Laura LaVelle Field. The Company acquired interests in 7,734 gross (7,524 net) acres in the Laura LaVelle Field located in east Texas for \$2.5 million. The Company assumed operations of 44 producing wells.

## Unaudited Pro Forma Financial Information

The following table presents unaudited, pro forma operating results as if the transactions had occurred at the beginning of each period presented. The pro forma operating results include the following acquisitions, all of which were accounted for as purchase transactions; (i) the purchase of Grand Banks Energy Company, (ii) the purchase of Gillring Oil Company, (iii) the purchase of Red Eagle Resources Corporation, (iv) the purchase by the Company of certain oil and gas properties from a subsidiary of Parker & Parsley Petroleum, Co., (v) the purchase by the Company of certain oil and gas properties from Transfuel, Inc., (vi) the private placement of 1.15 million shares of Convertible Preferred Stock and the application of the net proceeds therefrom and (vii) the private placement of 1.2 million shares of Common Stock and the application of the net proceeds therefrom.

	YEAR ENDED DECEMBER 31,	
	1994	1995
	(IN THOUSANDS EXCEPT PER SHARE DATA)	
Revenues.....	\$ 64,465	\$ 62,418
Net income.....	8,359	6,583
Earnings per share.....	0.51	0.39
Total assets.....	185,338	214,664
Stockholders' equity.....	81,755	99,243

The pro forma operating results have been prepared for comparative purposes only. They do not purport to present actual operating results that would have been achieved had the acquisition been made at the beginning of each period presented or to necessarily be indicative of future operations. Included in the 1994 pro forma financial information are revenues regarding partnership activities which contributed \$0.22 per share. These same activities did not occur in 1995.

## (4) NOTES RECEIVABLE

In 1994, the Company issued \$165,000 in notes receivable to three of its officers in connection with their exercise of stock options. The notes accrued interest at the prime rate plus 1% payable quarterly. In 1995, the notes were repaid.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## (5) INDEBTEDNESS

The Company had the following debt outstanding as of the dates shown. Interest rates at December 31, 1995 are shown parenthetically:

	DECEMBER 31,	
	1994	1995
	(IN THOUSANDS)	
Bank credit facility (6.7%).....	\$61,870	\$83,035
Other (5.9%-9.25%).....	722	53
	62,592	83,088
Less amounts due within one year.....	707	53
Long-term debt, net.....	\$61,885	\$83,035
	=====	=====

The Company maintains a \$250 million revolving bank credit facility. The facility provides for a borrowing base which is subject to semi-annual redeterminations. At December 31, 1995, the borrowing base on the credit facility was \$105 million. The facility bears interest at prime rate or LIBOR plus 0.75% to 1.25% depending upon the percentage of the borrowing base drawn. Interest is payable quarterly and the loan is payable in sixteen quarterly installments beginning February 1, 1999. A commitment fee of 3/8% of the undrawn balance is payable quarterly. It is the Company's policy to extend the term period of the credit facility annually. The weighted average interest rates on these borrowings were 6.3% and 7.3% for the years ended December 31, 1994 and 1995, respectively. The weighted average interest rate gives effect to interest rate swap arrangements which have the effect of fixing the interest rate on \$40 million of the credit facility at a rate of 6.4%. The existing interest rate swap arrangements will remain in effect through no less than July 1997 and no longer than October 1999. The Company's other debt is comprised of secured equipment financings.

The debt agreements contain various covenants relating to net worth, working capital maintenance and financial ratio requirements. Interest paid during the years ended December 31, 1993, 1994 and 1995 totaled \$1.2 million, \$2.8 million and \$4.9 million, respectively.

Maturities of indebtedness as of December 31, 1995 were as follows (in thousands):

1996.....	\$ 53
1997.....	--
1998.....	--
1999.....	15,569
2000.....	20,759
Remainder.....	46,707
	-----
	\$83,088
	=====

## (6) COMMITMENTS AND CONTINGENCIES

In January 1995, a lawsuit (the "Lawsuit") was filed in the Delaware Court of Chancery, New Castle County, against Red Eagle Resources Corporation, each of the members of the Board of Directors of Red Eagle and the Company. The Plaintiff sought to represent all holders (the "Class") of Red Eagle Common Stock, excluding the Red Eagle Directors and Lomak. A settlement was reached during 1995 under which the Company paid \$250,000 in cash plus 74,286 shares of the Company's Common Stock.

The Company is involved in various other legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims will be resolved without material adverse effect on the Company's financial position.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## (7) EQUITY SECURITIES

In 1993, \$5,000,000 of 7 1/2% cumulative convertible exchangeable preferred stock (the "7 1/2% Preferred Stock") was privately placed. The 7 1/2% Preferred Stock is convertible, at the option of the holders, into 576,945 shares of Common Stock, at an average conversion price of \$8.67 per share. The Company may convert the 7 1/2% Preferred Stock into Common Stock if the closing price for the Common Stock exceeds an average price of \$11.70 for twenty out of thirty consecutive trading days. Beginning in July 1996, the Company may redeem the 7 1/2% Preferred Stock at a 7 1/2% premium to liquidation value. Holders of the 7 1/2% Preferred Stock are entitled to two votes per share on matters presented to the shareholders. At the Company's option, it can exchange the 7 1/2% Preferred Stock for convertible subordinate notes due July 1, 2003. The notes carry the same conversion and redemption terms as the 7 1/2% Preferred Stock.

In November 1995, the Company sold 1,150,000 shares of \$2.03 convertible exchangeable preferred stock (the "\$2.03 Preferred Stock") for \$28.8 million. The \$2.03 Preferred Stock is convertible into the Company's Common Stock at a conversion price of \$9.50 per share, subject to adjustment in certain events. The \$2.03 Preferred Stock is redeemable, at the option of the Company, at any time on or after November 1, 1998, at redemption prices beginning at 105%. At the option of the Company, the \$2.03 Preferred Stock is exchangeable for the Company's 8 1/8% convertible subordinated notes due 2005. The notes would be subject to the same redemption and conversion terms as the \$2.03 Preferred Stock.

In December 1995, the Company privately placed 1.2 million shares of its Common Stock for \$10.2 million to a state sponsored retirement plan. Warrants to acquired 40,000 shares of Common Stock were outstanding at December 31, 1995. The warrants have an exercise price of \$7.50 per share and expire in December 1996.

## (8) STOCK OPTION AND PURCHASE PLAN

The Company maintains a Stock Option Plan which authorizes the grant of options of up to 1.5 million shares of Common Stock. However, no new options may be granted which would result in their being outstanding aggregate options exceeding 10% of the Company's common shares outstanding plus those shares issuable under convertible securities. Under the plan, incentive and non-qualified options may be issued to officers, key employees and consultants. The plan is administered by the Compensation Committee of the Board. All options issued under the plan vest 30% after one year, 60% after two years and 100% after three years. The following is a summary of stock option activity:

	NUMBER OF OPTIONS			EXERCISE PRICE RANGE PER SHARE
	1993	1994	1995	
Outstanding at beginning of year.....	254,001	428,983	680,483	\$3.38-\$9.38
Granted.....	174,982	298,500	342,000	4.01- 9.38
Canceled.....	--	(16,000)	(12,000)	3.75- 7.75
Exercised.....	--	(31,000)	(33,334)	3.75- 5.63
Outstanding at end of year.....	428,983	680,483	977,149	\$3.38-\$9.38

In 1994, the stockholders approved the 1994 Outside Directors Stock Option Plan (the "Directors Plan"). Only Directors who are not employees of the Company are eligible under the Directors Plan. The Directors Plan covers a maximum of 200,000 shares. At December 31, 1995, 44,000 options were outstanding under the Directors Plan of which 3,600 were exercisable as of that date. The exercise price of the options ranges from \$7.75 to \$8.00 per share.

In 1994, the stockholders approved the 1994 Stock Purchase Plan (the "1994 Plan") which authorizes the sale of up to 500,000 shares of Common Stock to officers, directors, key employees and consultants. Under

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the Plan, the right to purchase shares at prices ranging from 50% to 85% of market value may be granted. The Company had a 1989 Stock Purchase Plan (the "1989 Plan") which was identical to the 1994 Plan except that it covered 333,333 shares. Upon adoption of the 1994 Plan, the 1989 Plan was terminated. The plans are administered by the Compensation Committee of the Board. During the year ended December 31, 1995, the Company sold 85,800 unregistered common shares to officers and outside directors. From inception of the 1989 Plan through December 31, 1995, a total of 388,000 unregistered shares had been sold, for a total consideration of approximately \$1.8 million at prices equal to 75% of market value at the time of the sale.

## (9) BENEFIT PLAN

The Company maintains a 401(K) Plan for the benefit of its employees. The Plan permits employees to make contributions on a pre-tax salary reduction basis. The Company makes discretionary contributions to the Plan. Company contributions for 1993, 1994 and 1995 were \$189,000, \$226,000 and \$346,000, respectively.

## (10) INCOME TAXES

Federal income tax (benefit) expense was (\$81,000), \$139,000 and \$1.8 million for the years 1993, 1994 and 1995, respectively. The current portion of the income tax provision represents alternative minimum tax currently payable. A reconciliation between the statutory federal income tax rate and the Company's effective federal income tax rate is as follows:

	1993	1994	1995
	-----	-----	-----
Statutory tax rate.....	34%	34%	34%
Realization of valuation allowance.....	(46)	(29)	(5)
Alternative minimum tax.....	6	--	--
	-----	-----	-----
Effective tax rate.....	(6)%	5%	29%
	=====	=====	=====
Income taxes paid.....	\$159,000	\$47,500	\$60,000
	=====	=====	=====

In 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes". Under Statement 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption, income tax expense was determined using the deferred method and the Company reported tax expense equal to current alternative minimum taxes payable. Deferred taxes have not been provided on temporary differences prior to adoption due to the existence of net operating loss and other carryforwards.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

	DECEMBER 31,	
	1994	1995
Deferred tax liabilities:		
Depreciation.....	\$27,217	\$29,130
	=====	=====
Deferred tax assets:		
Net operating loss carryforwards.....	6,042	6,193
Percentage depletion carryforward.....	4,388	4,388
AMT credits and other.....	737	863
	-----	-----
Total deferred tax assets.....	11,167	11,444
Valuation allowance for deferred tax assets.....	(340)	(40)
	-----	-----
Net deferred tax assets.....	\$10,827	\$11,404
	=====	=====
Net deferred tax liabilities.....	\$16,390	\$17,726
	=====	=====

As permitted by Statement 109, the Company has elected not to restate prior year financial statements. As a result of tax basis in excess of the basis on the financial statements at January 1, 1993, the Company estimated deferred tax assets of \$2.6 million and deferred tax liabilities of \$0.9 million, for net deferred tax assets of \$1.7 million. Due to uncertainty as to the realizability of the tax benefit, a valuation allowance was established for the full amount of the net deferred tax assets. In 1993, 1994 and 1995, income taxes were reduced from the statutory rate of 34% by approximately \$0.5 million, \$0.9 million and \$0.3 million, respectively, through realization of a portion of the valuation allowance, resulting in \$1.2 million, \$0.3 million and \$40,000, respectively of the remaining allowance at December 31, 1993, 1994 and 1995.

During 1993, the Company acquired Mark Resources Corporation (See Note 3), a taxable business combination accounted for as a purchase. Deferred tax assets of \$3.9 million and a deferred tax liability of \$8.1 million were recorded in connection with the business combination. During 1994, the Company acquired Gilling Oil Company and Grand Banks Energy Company, taxable business combinations accounted for as purchases. Deferred tax assets of \$3.5 million and deferred tax liabilities of \$3.4 million were recorded in connection with these transactions. The Company acquired Red Eagle Resources Corporation, a taxable business combination accounted for as a purchase. Deferred tax liabilities of \$12.3 million and deferred tax assets of \$0.3 million were recorded in connection with this transaction.

As a result of the Company's issuance of equity and convertible debt securities, it experienced a change in control during 1988 as defined by Section 382 of the Internal Revenue Code. The change in control placed limitations to the utilization of net operating loss carryovers. At December 31, 1995, the Company had available for federal income tax reporting purposes net operating loss carryovers of approximately \$13.3 million which are subject to annual limitations as to their utilization and otherwise expire between 1996 and 2010, if unused. The Company has alternative minimum tax net operating loss carryovers of \$8.2 million which are subject to annual limitations as to their utilization and otherwise expire from 1996 to 2009 if unused. The Company has statutory depletion carryover of approximately \$8.5 million and an alternative minimum tax credit carryover of approximately \$500,000. The statutory depletion carryover and alternative minimum tax credit carryover are not subject to limitation or expiration.

## (11) MAJOR CUSTOMERS

The Company markets its oil and gas production on a competitive basis. The type of contract under which gas production is sold varies but can generally be grouped into three categories: (a) life-of-the-well; (b) long-term (1 year or longer); and (c) short-term contracts which may have a primary term of one year,

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

but which are cancelable at either party's discretion in 30-120 days. At December 31, 1995, approximately 59% of the Company's gas production was being sold under market sensitive contracts which do not contain floor price provisions. For the year ended December 31, 1995, no one customer accounted for more than 10% of the Company's total oil and gas revenues. Oil is sold on a basis such that the purchaser can be changed on 30 days notice. The price received is generally equal to a posted price set by the major purchasers in the area. The company sells to oil purchasers on a basis of price and service.

The Company has currently hedged less than 3% of its monthly production through September 1996. These hedges involve fixed price arrangements and other price arrangements at a variety of prices, floors and caps. Although these hedging activities provide the Company some protection against falling prices, these activities also reduce the potential benefits to the Company of price increases above the levels of the hedges.

## (12) OIL AND GAS ACTIVITIES

The following summarizes selected information with respect to oil and gas producing activities:

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
	----- (IN THOUSANDS) -----		
Capitalized costs:			
Proved properties.....	\$ 67,370	\$132,775	\$209,310
Unproved properties.....	723	598	763
	-----	-----	-----
Total.....	68,093	133,373	210,073
Accumulated depletion amortization.....	(12,783)	(20,409)	(33,371)
	-----	-----	-----
Net capitalized costs.....	\$ 55,310	\$112,964	\$176,702
	=====	=====	=====
Costs incurred:			
Acquisition.....	\$ 43,177	\$ 59,501	\$ 69,244
Development.....	3,695	9,518	9,968
Exploration.....	131	192	216
	-----	-----	-----
Total costs incurred.....	\$ 47,003	\$ 69,211	\$ 79,428
	=====	=====	=====

## (13) SUBSEQUENT EVENTS

In February 1996, the Company completed three oil and gas property acquisitions for \$17.5 million of consideration. The properties are located in Lomak's core operating areas of Appalachia and Texas. In aggregate, the acquisitions are estimated to contain proved reserves of 20.2 Bcf of gas and 240,000 of Bbls of oil, or 21.6 Bcfe in total.

In March 1996, the Company's Board of Directors approved resolutions authorizing the Company to repurchase shares of its Common Stock from odd-lot holders. The Company will acquire any and all shares from stockholders owning 99 or fewer shares for cash at market prices. Additionally, the Board of Directors approved a dividend of \$.01 per share to holders of its Common Stock to be paid on March 29, 1996.

## (14) RELATED PARTY TRANSACTIONS

Mr. Edelman, Chairman of the Company, is also an executive officer and shareholder of Snyder Oil Corporation ("SOCO"). At December 31, 1995, Mr. Edelman owned 6.0% of the Company's Common Stock. In 1994, the Company repurchased 30,000 shares of its Common Stock from SOCO for \$240,000. The purchase price was based upon the prior day's closing price for the stock. In 1995, SOCO sold its remaining shares of the Company's Common Stock.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In 1995, the Company acquired SOCO's interest in certain wells located in Appalachia for \$4 million. The price was determined based on arms-length negotiations through a third-party broker retained by SOCO. Subsequent to the transaction, the Company and SOCO no longer held interests in any of the same properties.

During 1994 and 1995, the Company incurred fees of \$369,000 and \$145,000, respectively, to the Hawthorne Company in connection with acquisitions. Mr. Aikman, a director of the Company, is an executive officer and a principal owner of the Hawthorne Company. The fees were consistent with those paid by the Company to third parties for similar services.

## (15) UNAUDITED SUPPLEMENTAL RESERVE INFORMATION

The Company's proved oil and gas reserves are located in the United States. Proved reserves are those quantities of crude oil and natural gas which, upon analysis of geological and engineering data, can with reasonable certainty be recovered in the future from known oil and gas reservoirs. Proved developed reserves are those proved reserves which can be expected to be recovered from existing wells with existing equipment and operating methods. Proved undeveloped oil and gas reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage.

## Quantities of Proved Reserves

	CRUDE OIL ----- (BBLS) (IN THOUSANDS)	NATURAL GAS ----- (MCF) (IN THOUSANDS)
Proved reserves		
Balance, December 31, 1992.....	1,980	17,615
Revisions.....	(35)	2,559
Extensions, discoveries and additions.....	9	305
Purchases.....	2,905	57,125
Sales.....	(2)	(451)
Production.....	(318)	(2,590)
	-----	-----
Balance, December 31, 1993.....	4,539	74,563
Revisions.....	15	630
Extensions, discoveries and additions.....	15	6,605
Purchases.....	4,599	75,698
Sales.....	(79)	(1,130)
Production.....	(640)	(6,996)
	-----	-----
Balance, December 31, 1994.....	8,449	149,370
Revisions.....	255	(3,513)
Extensions, discoveries and additions.....	475	10,076
Purchases.....	2,618	90,575
Sales.....	(21)	(1,150)
Production.....	(913)	(12,471)
	-----	-----
Balance, December 31, 1995.....	10,863	232,887
	=====	=====
Proved developed reserves		
December 31, 1993.....	3,344	38,373
	=====	=====
December 31, 1994.....	6,430	97,251
	=====	=====
December 31, 1995.....	8,880	174,958
	=====	=====

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The "Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves" (Standardized Measure) is a disclosure requirement under Statement of Financial Accounting Standards No. 69 "Disclosures about Oil and Gas Producing Activities". The Standardized Measure does not purport to present the fair market value of proved oil and gas reserves. This would require consideration of expected future economic and operating conditions, which are not taken into account in calculating the Standardized Measure.

Future cash inflows were estimated by applying year end prices to the estimated future production less estimated future production costs based on year end costs. Future net cash inflows were discounted using a 10% annual discount rate to arrive at the Standardized Measure.

## Standardized Measure

	FOR THE YEAR ENDED DECEMBER 31,		
	1993	1994	1995
	(IN THOUSANDS)		
Future cash inflows.....	\$255,363	\$ 457,048	\$ 729,566
Future costs:			
Production.....	(74,247)	(133,972)	(256,374)
Development.....	(40,224)	(52,102)	(60,554)
Future net cash flows.....	140,892	270,974	412,638
Income taxes.....	(34,031)	(59,950)	(102,108)
Total undiscounted future net cash flows.....	106,861	211,024	310,530
10% discount factor.....	(53,110)	(91,475)	(136,480)
Standardized measure.....	\$ 53,751	\$ 119,549	\$ 174,050

## Changes in Standardized Measure

	FOR THE YEAR ENDED DECEMBER 31,		
	1993	1994	1995
	(IN THOUSANDS)		
Standardized measure, beginning of year.....	\$ 21,608	\$ 53,751	\$ 119,549
Revisions:			
Prices.....	(963)	4,224	(4,100)
Quantities.....	(1,085)	2,240	2,267
Estimated future development costs.....	--	--	(5,238)
Accretion of discount.....	2,161	6,512	15,054
Income taxes.....	(6,936)	(19,624)	(24,200)
Net revisions.....	(6,823)	(6,648)	(16,217)
Purchases.....	45,271	84,836	87,741
Extensions, discoveries and additions.....	716	2,402	7,419
Production.....	(6,711)	(14,442)	(22,487)
Sales.....	(310)	(350)	(1,955)
Standardized measure, end of year.....	\$ 53,751	\$ 119,549	\$ 174,050

## LOMAK PETROLEUM, INC.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 31, 1995	SEPTEMBER 30, 1996
	-----	-----
		(UNAUDITED)
<b>ASSETS</b>		
Current assets:		
Cash and equivalents.....	\$ 3,047	\$ 4,880
Accounts receivable.....	14,109	14,861
Marketable securities.....	829	13,176
Inventory and other.....	1,114	1,696
	-----	-----
	19,099	34,613
	-----	-----
Oil and gas properties, successful efforts method.....	210,073	280,089
Accumulated depletion, depreciation and amortization.....	(33,371)	(48,025)
	-----	-----
	176,702	232,064
	-----	-----
Gas transportation and field service assets.....	23,167	22,597
Accumulated depreciation.....	(4,304)	(5,122)
	-----	-----
	18,863	17,475
	-----	-----
	\$214,664	\$ 284,152
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable.....	\$ 9,084	\$ 16,752
Accrued liabilities.....	5,523	8,817
Current portion of debt (Note 4).....	53	--
	-----	-----
	14,660	25,569
	-----	-----
Long-term debt (Note 4).....	83,035	121,905
Deferred taxes (Note 10).....	17,726	23,812
Commitments and contingencies (Note 6)		
Stockholders' equity (Notes 7 and 8)		
Preferred stock, \$1 par, 4,000,000 shares authorized, 7 1/2% convertible preferred, 200,000 issued.....	200	--
\$2.03 convertible preferred, 1,150,000 issued (liquidation preference \$28,750,000).....	1,150	1,150
Common Stock, \$.01 par, 35,000,000 shares authorized, 13,322,738 and 14,705,293 issued.....	133	147
Capital in excess of par value.....	101,773	109,915
Retained earnings (deficit).....	(4,013)	1,654
	-----	-----
	99,243	112,866
	-----	-----
	\$214,664	\$ 284,152
	=====	=====

See accompanying notes.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
	(UNAUDITED)		(UNAUDITED)	
<b>Revenues</b>				
Oil and gas sales.....	\$ 8,802	\$16,623	\$24,135	\$49,878
Field services.....	2,216	3,638	7,109	10,483
Gas transportation and marketing.....	817	1,660	2,332	4,137
Interest and other.....	301	391	1,052	1,102
	-----	-----	-----	-----
	12,136	22,312	34,628	65,600
	-----	-----	-----	-----
<b>Expenses</b>				
Direct operating.....	3,496	6,103	9,935	18,268
Field services.....	1,315	2,671	4,192	7,813
Gas transportation and marketing.....	206	493	595	1,206
Exploration.....	197	345	473	836
General and administrative.....	669	960	2,187	2,862
Interest.....	1,423	2,053	3,822	5,563
Depletion, depreciation and amortization.....	3,704	5,508	9,808	16,589
	-----	-----	-----	-----
	11,010	18,133	31,012	53,137
	-----	-----	-----	-----
Income before taxes.....	1,126	4,179	3,616	12,463
<b>Income taxes</b>				
Current.....	19	120	66	299
Deferred.....	210	1,340	832	4,061
	-----	-----	-----	-----
	229	1,460	898	4,360
	-----	-----	-----	-----
Net income.....	\$ 897	\$ 2,719	\$ 2,718	\$ 8,103
	=====	=====	=====	=====
Earnings per common share.....	\$ .07	\$ .14	\$ .21	\$ .43
	=====	=====	=====	=====
Weighted average shares outstanding.....	12,130	15,158	11,588	14,615
	=====	=====	=====	=====

See accompanying notes.

LOMAX PETROLEUM, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996
	----- (UNAUDITED) -----	
Cash flows from operations:		
Net income.....	\$ 2,718	\$ 8,103
Adjustments to reconcile net income to net cash provided by operations:		
Depletion, depreciation and amortization.....	9,808	16,589
Deferred income taxes.....	832	4,061
Changes in working capital net of effects of purchases of businesses:		
Accounts receivable.....	(768)	(264)
Marketable securities.....	(295)	(12,342)
Inventory and other.....	121	(659)
Accounts payable.....	(1,223)	7,703
Accrued liabilities and payroll and benefit costs.....	(698)	1,868
Gain on sale of assets and other.....	(740)	(724)
	-----	-----
Net cash provided by operations.....	9,755	24,335
Cash flows from investing:		
Acquisition of businesses, net of cash.....	--	(13,950)
Oil and gas properties.....	(56,913)	(55,491)
Additions to gas transportation and field service assets.....	(7,733)	(723)
Proceeds on sale of assets.....	1,770	3,399
	-----	-----
Net cash used in investing.....	(62,876)	(66,765)
Cash flows from financing:		
Proceeds from indebtedness, net of repayments.....	50,671	38,817
Stock dividends.....	(281)	(2,435)
Proceeds from Common Stock issuance, net of repurchases.....	235	7,881
	-----	-----
Net cash provided by financing.....	50,625	44,263
	-----	-----
Change in cash.....	(2,496)	1,833
Cash and equivalents at beginning of period.....	4,897	3,047
	-----	-----
Cash and equivalents at end of period.....	\$ 2,401	\$ 4,880
	=====	=====

See accompanying notes.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (1) ORGANIZATION

Lomak Petroleum, Inc. ("Lomak" or the "Company") is an independent oil and gas company engaged in the acquisition, production, development and exploration of oil and gas in the United States. Lomak's core areas of operation are located in the Mid-Continent and Appalachia regions. Since January 1, 1990, the Company has made 68 acquisitions at a total cost of \$256 million and \$34 million has been expended on development and exploration activities. As a result, proved reserves and production have each grown during this period at a rate in excess of 80% per annum. At December 31, 1995, proved reserves totaled 298 Bcfe, having a pre-tax present value at constant prices of \$229 million and a reserve life of nearly 12 years.

Lomak's acquisition effort is focused on properties with prices of less than \$30 million within its core areas of operation. Management believes these purchases are less competitive than those involving larger property interests. To the extent purchases continue to be made primarily within existing core areas, efficiencies in operations, drilling, marketing and administration should be realized. In 1992, Lomak began to exploit its growing inventory of development projects. In 1994, the Company initiated exploration activities. In the future, Lomak expects its growth to be driven by a combination of acquisitions, development and exploration.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Basis of Presentation

The accompanying financial statements include the accounts of the Company, all majority owned subsidiaries and its pro rata share of the assets, liabilities, income and expenses of certain oil and gas properties. Temporary investments with an initial maturity of ninety days or less are considered cash equivalents.

## Oil and Gas Properties

The Company follows the successful efforts method of accounting. Exploratory costs which result in the discovery of reserves and the cost of development wells are capitalized. Geological and geographical costs, delay rentals and costs to drill unsuccessful exploratory wells are expensed. Depletion is provided on the unit-of-production method. Oil is converted to Mcfe at the rate of six Mcf per barrel. The depletion rate per Mcfe produced was \$.73 in both the third quarters of 1995 and 1996. Approximately \$12.2 million (\$11.5 million -- proved undeveloped properties and \$.8 million -- unproved acreage) and \$21.7 million (\$20.6 million proved undeveloped properties and \$1.1 million -- unproved acreage) of oil and gas properties were not subject to depletion as of December 31, 1995 and September 30, 1996, respectively. These costs are assessed periodically to determine whether their value has been impaired. If they have, the amount of any impairment is expensed.

## Gas Transportation and Field Service Assets

The Company owns and operates over 1,900 miles of gas gathering systems in proximity to its principal gas properties. Depreciation of these systems is calculated on the straight-line method based on estimated useful lives ranging from four to fifteen years.

The Company receives fees for providing field related services. These fees are recognized as earned. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from one to five years, except buildings which are being depreciated over ten to twenty-five years.

## Nature of Business

The Company operates in an environment with many financial risks, including, but not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks of the search for,

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, and the highly competitive nature of the industry and worldwide economic conditions. The Company's ability to expand its reserve base and diversify its operations is also dependent upon the Company's ability to obtain the necessary capital through cash flow, borrowings or equity funds.

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

## Financial Instruments and Hedging Activities

The following table sets for the book value and estimated fair values of the Company's financial instruments:

	DECEMBER 31, 1995		SEPTEMBER 30, 1996	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
(IN THOUSANDS)				
Cash and equivalents.....	\$ 3,047	\$ 3,047	\$ 4,880	\$ 4,880
Marketable securities.....	829	1,020	13,176	13,392
Senior debt.....	(83,035)	(83,035)	(121,905)	(121,905)
Commodity swaps.....	--	93	--	(129)
Interest rate swaps.....	--	375	--	88

The Company's financial instruments include cash and equivalents, accounts receivable, accounts payable and debt obligations. The book value of cash and equivalents, accounts receivable and payable and short term debt are considered to be representative of fair value because of the short maturity of these instruments. The Company believes that the carrying value of its borrowings under its bank credit facility approximates their fair value as they bear interest at rates indexed at LIBOR. The Company's accounts receivable are concentrated in the oil and gas industry. The Company does not view such a concentration as an unusual credit risk.

A portion of the Company's prices received in crude oil and natural gas sales are periodically hedged against market risks through the use of futures, option or swap contracts. The gains and losses on these instruments are included in the valuation of the production being hedged in the contract month and are included as an adjustment to oil and gas revenue. The company also manages interest rate risk on its credit facility through the use of interest rate swap agreements. Gains and losses on swap agreements are included as an adjustment to interest expenses.

## Marketable Securities

In 1996, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under Statement No. 115, debt and marketable equity securities are required to be classified in one of three categories: trading, available-for-sale, or held to maturity. The Company's equity securities qualify under the provisions of Statement No. 115 as available-for-sale. Such securities are recorded at fair value, and unrealized holding gains and losses, net of the related tax effect, are not reflected in earnings or as a separate component of stockholders' equity because the amounts are immaterial. A decline in the market value of an available-for-sale security below cost that is deemed other than temporary is charged to earnings and results in the establishment of a new cost basis for the security. Realized gains and losses are determined on the specific identification method and are reflected in income.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Net Income Per Share

Net income per share is computed by subtracting preferred dividends from net income and dividing by the weighted average number of common and common equivalent shares outstanding. The calculation of fully diluted earnings per share assumes conversion of convertible securities when the result would be dilutive. Outstanding options and warrants are included in the computation of net income per common share when their effect is dilutive.

## Reclassifications

Certain reclassifications have been made to prior period presentations to conform with current period classifications.

## (3) ACQUISITIONS

Since 1990, the Company has acquired over \$256 million of oil and gas properties. During 1995, the Company completed \$71.1 million of acquisitions. In the first nine months of 1996, acquisitions totaling \$56.8 million were completed. The purchases were funded by working capital, advances under a revolving credit facility and the issuance of common and preferred stock. These acquisitions are discussed below.

## 1996 Acquisitions

## Mid-Continent

Bannon Interests. In April 1996, the Company acquired interests in approximately 270 producing wells and 108 proven recompletion and development drilling opportunities for \$37.0 million. Also included were 17,300 net undeveloped acres located in east and south Texas.

The Company purchased incremental interests in approximately 40 properties located in the Laura La Velle Field of east Texas for \$.8 million.

## Appalachia

Eastern Petroleum Company. In January 1996, the Company acquired proven oil and gas reserves and 40 miles of gas gathering lines in Ohio for \$13.7 million. In the second quarter of 1996, the Company initiated a program extending purchase offers to other interest owners in these properties. Through September 30, 1996, interests in 61 wells had been purchased for approximately \$100,000.

The Company purchased incremental interests in approximately 440 operated properties in Pennsylvania and Ohio for \$5.2 million.

## 1995 Acquisitions

## Mid-Continent

Red Eagle Resources Corporation. In late 1994, the Company acquired effective control of Red Eagle through the purchase of two stockholders' holdings. In early 1995, the remaining stockholders of Red Eagle voted to approve the merger of Red Eagle with a wholly owned subsidiary of the Company in exchange for approximately 2.2 million shares of the Company's Common Stock. The additional equity of Red Eagle acquired in February 1995 was reflected as minority interest on the Company's balance sheet at December 31, 1994. Acquisition costs of approximately \$46.5 million were capitalized in regards to this acquisition. Red Eagle's assets included interests in approximately 370 producing wells located primarily in the Okeene Field of Oklahoma's Anadarko Basin. Subsequently, the Company acquired additional interests in 70 Red Eagle wells for \$1.7 million.

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company purchased interests in 52 wells in the Caddo and Canadian counties of Oklahoma for \$4.8 million. The Company assumed operation of half of these wells.

Additional interests in properties acquired from Red Eagle in 1994 were purchased for \$3.2 million.

The Company purchased interests in 140 wells located primarily in the Big Lake Area of west Texas and the Laura La Velle Field of east Texas for \$2.8 million.

## Appalachia

Transfuel Interests. In September 1995, the Company acquired proved oil and gas reserves, 1,100 miles of gas gathering lines and 175,000 undeveloped acres of Ohio, Pennsylvania and New York from Transfuel, Inc. for \$21 million.

Parker & Parsley Interests. In August, the Company purchased proved oil and gas reserves, 300 miles of gas gathering lines and 16,400 undeveloped acres in Pennsylvania and West Virginia from Parker & Parsley Petroleum Company for \$20.2 million.

## Unaudited Pro Forma Financial Information

The following table presents unaudited, pro forma operating results as if the transactions had occurred at the beginning of each period presented. The pro forma operating results include the following acquisitions, all of which were accounted for as purchase transactions; (i) the purchase of certain oil and gas properties from a subsidiary of Parker & Parsley Petroleum Co., (ii) the purchase of certain oil and gas properties from Transfuel, Inc., (iii) the purchase of certain oil and gas properties from Bannon Energy Inc. and (iv) the private placement of preferred and Common Stock of the Company and the application of the net proceeds, therefrom.

	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996
Revenues.....	\$50,366	\$67,303
Net income.....	3,819	8,055
Earnings per share.....	.29	.42

The pro forma operating results have been prepared for comparative purposes only. They do not purport to present actual results had the acquisitions been made at the beginning of each period presented or to necessarily be indicative of future operations.

## (4) INDEBTEDNESS

The Company had the following debt outstanding as of the dates shown. Interest rates at September 30, 1996 are shown parenthetically (in thousands):

	DECEMBER 31, 1995	SEPTEMBER 30, 1996
		(UNAUDITED)
Bank credit facility (6.7%).....	\$ 83,035	\$ 121,905
Other.....	53	--
	83,088	121,905
Less amounts due within one year.....	53	--
Long-term debt, net.....	\$ 83,035	\$ 121,905

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the Company maintains a \$250 million revolving bank credit facility. The facility provides for a borrowing base which is subject to semi-annual redeterminations. At November 4, 1996, the borrowing base on the credit facility was \$150 million, of which \$112 million was outstanding. The facility bears interest at the prime rate or LIBOR plus 0.75% to 1.25% depending upon the percentage of the borrowing base drawn. Interest is payable quarterly and the loan is payable in sixteen quarterly installments beginning February 1, 1999. A commitment fee of 3/8% of the undrawn balance is payable quarterly. It is the Company's policy to extend the term period of the credit facility annually. The weighted average interest rate on these borrowings were 7.5% and 6.7% for the nine months ended September 30, 1995 and 1996, respectively. The weighted average interest rate gives effect to two \$20 million interest rate swap arrangements which have the effect of fixing the interest rate on \$40 million of the credit facility at a rate of 6.4%. The interest rate swaps will remain in effect through July 1997 and October 1997, respectively, but may be extended at the counterparties' option for two years.

The debt agreements contain various covenants relating to net worth, working capital maintenance and financial ratio requirements. Interest paid in cash during the nine months ended September 30, 1995 and 1996 totaled \$3.5 million and \$4.1 million, respectively.

## (5) FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to manage well-defined commodity price and interest rate risks and does not use them for speculative purposes.

Periodically, the Company enters into futures, option and swap contracts to reduce the effects of fluctuations in crude oil and natural gas prices. At September 30, 1996, the Company had open contracts for oil and gas price swaps of 280,000 barrels and 586,000 Mcfs. These swap contracts are designed to set average prices of \$23.09 per barrel and \$1.98 per Mcf. While these transactions have no carrying value, their fair value, represented by the estimated amount that would be required to terminate the contracts, was a net cost of approximately \$129,000 at September 30, 1996. These contracts expire monthly through March 1997. In October 1996, the Company entered into swap contracts for an additional 250,000 barrels of oil at an average price per barrel of \$22.86. These contracts expire monthly through April 1997. The gains or losses on the Company's hedging transactions is determined as the difference between the contract price and a reference price, generally closing prices on the New York Mercantile Exchange. The resulting transaction gains and losses are determined monthly and are included in net income for the contract month as an adjustment to oil and gas revenue. Net gains relating to these derivatives for the nine months ended September 30, 1996 approximated \$29,700.

Interest rate swap agreements, which are used by the Company in the management of interest exposure, is accounted for on an accrual basis. Income and expense resulting from these agreements are recorded in the same category as expense arising from the related liability. Amounts to be paid or received under interest rate swap agreements are recognized as an adjustment to expense in the periods in which they accrue. At September 30, 1996, the Company had \$40 million of borrowings subject to two interest rate swap agreements at rates of 5.25% and 5.49% through July 1997 and October 1997, respectively, but may be extended at the counterparties' option for two years. The agreements require that the Company pay the counterparty interest at the above fixed swap rates and requires the counterparty to pay the Company interest at the 30-day LIBOR rate. The closing 30-day LIBOR rate on September 30, 1996 was 5.44%. The fair value of the interest rate swap agreements at September 30, 1996, based upon current quotes for equivalent agreements, amounted to \$87,700, which represents the Company's income if the agreements were terminated on this date. In October 1996, the Company entered into a swap arrangement on an additional \$20 million of the credit facility at a rate of 5.7%, which will remain in effect through October 1998, but may be extended at the counterparties' option for two years.

These financial instruments are executed with major financial or commodities institutions which expose the Company to acceptable levels of market and credit risks and may at times be concentrated with certain

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

counterparties or groups of counterparties. The credit worthiness of counterparties is subject to continuing review and full performance is anticipated.

## (6) COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims are likely to be resolved without material adverse effect on the Company's financial position.

## (7) EQUITY SECURITIES

In 1993, \$5 million of 7 1/2% cumulative convertible exchangeable preferred stock (the "7 1/2% Preferred Stock") was privately placed. In April and May 1996, the Company exercised its option and converted the 7 1/2% Preferred Stock into 576,945 shares of Common Stock.

In November 1995, the Company sold 1,150,000 shares of \$2.03 convertible exchangeable preferred stock (the "\$2.03 Preferred Stock") for \$28.8 million. The \$2.03 Preferred Stock is convertible into the Company's Common Stock at a conversion price of \$9.50 per share, subject to adjustment in certain events. The \$2.03 Preferred Stock is redeemable, at the option of the Company, at any time on or after November 1, 1998, at redemption prices beginning at 105%. At the option of the Company, the \$2.03 Preferred Stock is exchangeable for the Company's 8 1/8% convertible subordinated notes due 2005. The notes would be subject to the same redemption and conversion terms as the \$2.03 Preferred Stock.

In December 1995, the Company privately placed 1.2 million shares of its Common Stock for \$10.2 million to a state employees retirement plan. In April 1996, the Company privately placed 600,000 shares of its Common Stock to a limited number of institutional investors for approximately \$6.9 million. Warrants to acquire 40,000 shares of Common Stock at a price of \$7.50 per share were exercised in October 1996. Additionally, warrants to acquire 20,000 shares of Common Stock at a price of \$12.88 per share were outstanding at September 30, 1996 and will expire in December 1997.

## (8) STOCK OPTION AND PURCHASE PLAN

The Company maintains a Stock Option Plan which authorizes the grant of options of up to 2.0 million shares of Common Stock. However, no new options may be granted which would result in their being outstanding aggregate options exceeding 10% of common shares outstanding plus those shares issuable under convertible securities. Under the plan, incentive and non-qualified options may be issued to officers, key employees and consultants. The plan is administered by the Compensation Committee of the Board. All options issued under the plan vest 30% after one year, 60% after two years and 100% after three years. During the nine months ended September 30, 1996, options covering 109,750 shares were exercised at prices ranging from \$3.38 to \$8.25 per share. At September 30, 1996, options covering a total of 1.2 million shares were outstanding under the plan, of which 504,000 options were exercisable. The exercise prices of the outstanding options range from \$3.38 to \$10.50.

In 1994, the stockholders approved the 1994 Outside Directors Stock Option Plan (the "Directors Plan"). Only Directors who are not employees of the Company are eligible under the Directors Plan. The Directors Plan covers a maximum of 200,000 shares. At September 30, 1996, 76,000 options were outstanding under the Directors Plan of which 16,800 were exercisable as of that date. The exercise price of the options ranges from \$7.75 to \$13.88 per share.

In 1994, the stockholders approved the 1994 Stock Purchase Plan (the "1994 Plan") which authorizes the sale of up to 500,000 shares of Common Stock to officers, directors, key employees and consultants. Under the Plan, the right to purchase shares at prices ranging from 50% to 85% of market value may be granted. The Company had a 1989 Stock Purchase Plan (the "1989 Plan") which was identical to the 1994 Plan except

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

that it covered 333,333 shares. Upon adoption of the 1994 Plan, the 1989 Plan was terminated. The plans are administered by the Compensation Committee of the Board. During the nine months ended September 30, 1996, the Company sold 100,000 unregistered common shares to officers and outside directors. From inception of the 1989 Plan through September 30, 1996, a total of 488,000 unregistered shares had been sold, for a total consideration of approximately \$2.8 million at prices equal to 75% of market value at the time of the sale.

## (9) BENEFIT PLAN

The Company maintains a 401(K) Plan for the benefit of its employees. The Plan permits employees to make contributions on a pre-tax salary reduction basis. The Company makes discretionary contributions to the Plan. Company contributions for 1995 totaled \$346,000.

## (10) INCOME TAXES

In 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes". As permitted by Statement 109, the Company elected not to restate prior year financial statements. As a result of tax basis in excess of the basis on the financial statements at January 1, 1993, the Company estimated deferred tax assets of \$2.6 million and deferred tax liabilities of \$900,000, for net deferred tax assets of \$1.7 million. Due to uncertainty as to the Company's ability to realize the tax benefit, a valuation allowance was established for the full amount of the net deferred tax assets. In 1993 and 1994, income taxes were reduced from the statutory rate of 34% by approximately \$0.5 million and \$0.3 million, respectively, through realization of the valuation allowance that was established.

During 1993, the Company acquired Mark Resources Corporation, in a taxable combination accounted for as a purchase. Deferred tax assets of \$3.9 million and a deferred tax liability of \$8.1 million were recorded in the transaction. During 1994, the Company acquired Gillring Oil Company and Grand Banks Energy Company, taxable combinations accounted for as purchases. Deferred tax assets of \$3.5 million and deferred tax liabilities of \$3.4 million were recorded in these transactions. In late 1994, the Company acquired Red Eagle Resources Corporation, a taxable combination accounted for as a purchase. Deferred tax liabilities of \$12.3 million and deferred tax assets of \$0.3 million were recorded in this transaction. In 1996, the Company acquired Eastern Petroleum Company in a taxable combination accounted for as a purchase. A net deferred tax liability of \$2.1 million was recorded in the transaction.

For the nine months ended September 30, 1995 and 1996, the Company made a provision for federal income taxes of \$898,000 and \$4.4 million, respectively. At September 30, 1996, the Company had available for federal income tax reporting purposes net operating loss carryovers of approximately \$16.9 million which are subject to annual limitations as to their utilization and expire between 1996 and 2010. The Company has alternative minimum tax net operating loss carryovers of \$11.6 million which are subject to annual limitations as to their utilization and expire from 1996 to 2009. The Company has statutory depletion carryover of approximately \$8.2 million and an alternative minimum tax credit carryover of \$500,000. The statutory depletion carryover and alternative minimum tax credit carryover are not subject to limitation or expiration.

## (11) MAJOR CUSTOMERS

The Company markets its oil and gas production on a competitive basis. The type of contract under which gas production is sold varies but can generally be grouped into three categories: (a) life-of-the-well; (b) long-term (1 year or longer); and (c) short-term contracts which may have a primary term of one year, but which are cancelable at either party's discretion in 30-120 days. Approximately 60% of the Company's gas production is currently sold under market sensitive contracts which do not contain floor price provisions. For the nine months ended September 30, 1996, no one customer accounted for 10% or more of the Company's total oil and gas revenues. Management believes that the loss of any one customer would not have a material adverse effect on the operations of the Company. Oil is sold on a basis such that the purchaser can be changed

## LOMAK PETROLEUM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

on 30 days notice. The price received is generally equal to a posted price set by the major purchasers in the area. Oil is sold on a basis of price and service.

The Company has currently hedged 88% of its oil production through April 1997. These hedges involve fixed price arrangements and other price arrangements at a variety of prices, floors and caps. Although these hedging activities provide the Company some protection against falling prices, these activities also reduce the potential benefits to the Company of price increases above the levels of the hedges.

## (12) OIL AND GAS ACTIVITIES

The following summarizes selected information with respect to oil and gas activities (in thousands):

	DECEMBER 31, 1995	SEPTEMBER 30, 1996
	-----	-----
		(UNAUDITED)
Capitalized costs:		
Proved properties.....	\$209,310	\$ 279,001
Unproved properties.....	763	1,088
	-----	-----
Total.....	210,073	280,089
Accumulated depletion, depreciation and amortization.....	(33,371)	(48,025)
	-----	-----
Net capitalized costs.....	\$176,702	\$ 232,064
	=====	=====
	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	-----	-----
		(UNAUDITED)
Costs incurred:		
Property acquisition.....	\$ 69,244	\$ 63,538
Development.....	9,968	8,621
Exploration.....	216	638
	-----	-----
Total costs incurred.....	\$ 79,428	\$ 72,797
	=====	=====

## (13) RELATED PARTY TRANSACTIONS

Mr. Edelman, Chairman of the Company, is also an executive officer and shareholder of Snyder Oil Corporation ("SOCO"). At September 30, 1996, Mr. Edelman owned 5.7% of the Company's Common Stock. In 1995, the Company acquired SOCO's interest in certain wells located in Appalachia for \$4 million. The price was determined based on arms-length negotiations through a third-party broker retained by SOCO. Subsequent to the transaction, the Company and SOCO no longer hold interests in any of the same properties.

During 1995, the Company incurred fees of \$145,000 to the Hawthorne Company in connection with acquisitions. Mr. Aikman, a director of the Company, is an executive officer and a principal owner of the Hawthorne Company. The fees were consistent with those paid by the Company to third parties for similar services.

## REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders  
Lomak Petroleum, Inc.:

We have audited the accompanying statements of revenues and direct operating expenses of the American Cometra Interests, as described in Note 1, for the years ended December 31, 1994 and 1995 and the nine months ended September 30, 1996. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The accompanying statements of revenues and direct operating expenses reflect the revenues and direct operating expenses attributable to the American Cometra Interests, as described in Note 1, and are not intended to be a complete presentation of the revenues and expenses of the American Cometra Interests.

In our opinion, the statements referred to above present fairly the revenues and direct operating expenses of the American Cometra Interests, as described in Note 1, for the years ended December 31, 1994 and 1995 and the nine months ended September 30, 1996, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Fort Worth, Texas  
January 20, 1997

THE AMERICAN COMETRA INTERESTS  
STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	-----	-----	-----
Revenues:			
Oil and gas production.....	\$46,808,830	\$43,513,982	\$42,649,511
Marketing and gas plant operating activities (net).....	3,370,500	5,276,900	4,563,600
	-----	-----	-----
Total revenues.....	50,179,330	48,790,882	47,213,111
Direct operating expenses.....	14,447,533	12,727,532	10,309,096
	-----	-----	-----
Excess of revenues over operating expenses.....	\$35,731,797	\$36,063,350	\$36,904,015
	=====	=====	=====

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

## THE AMERICAN COMETRA INTERESTS

NOTES TO THE STATEMENTS OF REVENUES  
AND DIRECT OPERATING EXPENSES

## 1. GENERAL:

## Organization

The accompanying statements present the revenues and direct operating expenses of certain working and other interests in oil and gas properties and the Sterling gas plant and related pipeline owned by American Cometra, Inc. (the "American Cometra Interests") which were purchased by Lomak Petroleum, Inc. ("Lomak"). Such financial statements were derived from the historical records of the predecessor owner and represent Lomak's interest.

## Basis of Presentation

The historical financial statements reflecting financial position, results of operations and cash flows required by generally accepted accounting principles are not presented, as such information is neither readily available on an individual property basis nor meaningful for the American Cometra Interests. During the periods presented, the American Cometra Interests were not accounted for as a separate entity. These statements do not include depreciation, depletion and amortization, general and administrative, interest, federal income tax expenses, or federal income tax credits allowed under Section 29 of the Internal Revenue Code. Accordingly, the accompanying financial statements are not intended to be a complete presentation of the results of operations of the American Cometra Interests in conformity with generally accepted accounting principles.

## Revenue Recognition

Revenues are recognized when oil and gas production is sold. Direct operating expenses are accrued when services are provided. Netted against marketing and gas plant operating activities is \$9,758,300, \$7,700,000 and \$8,156,900 for the years ended December 31, 1994 and 1995 and the nine months ended September 30, 1996, respectively, relating to costs associated with those activities.

## Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of the revenues and direct operating expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

## 2. SALES TO MAJOR CUSTOMERS:

For the years ended December 31, 1994 and 1995, four purchasers accounted for 33% and 54% of total revenues, respectively. For the nine months ended September 30, 1996, four purchasers accounted for 60% of total revenues.

## 3. OIL AND GAS RESERVES INFORMATION (UNAUDITED):

The estimates of the American Cometra Interests in proved oil and gas reserves, which are located entirely in the United States, are based on evaluations by an independent petroleum engineer, Netherland, Sewell & Associates as of September 30, 1996. These reserves were estimated in accordance with guidelines established by the Securities and Exchange Commission which require that reserve reports be prepared under existing economic and operating conditions with no provision for price escalations except by contractual arrangements. Reserves as of December 31, 1994 and 1995 were derived from the September 30, 1996 reserve estimates after considering production and drilling activities.

Lomak's management emphasizes that reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as future information becomes available.

## THE AMERICAN COMETRA INTERESTS

NOTES TO THE STATEMENTS OF REVENUES  
AND DIRECT OPERATING EXPENSES -- (CONTINUED)

The following unaudited table sets forth the estimated proved oil and gas reserve quantities of the American Cometra Interests at December 31, 1994 and 1995 and September 30, 1996:

	CRUDE OIL (BBLs)	NATURAL GAS (MCFS)
	-----	-----
	(IN THOUSANDS)	
PROVED RESERVES:		
Balance, December 31, 1993.....	10,107	194,508
Production.....	(404)	(14,372)
Purchases.....	--	1,294
Extensions, discoveries, renewals.....	505	12,683
Sales.....	--	--
Balance, December 31, 1994.....	10,208	194,113
Production.....	(626)	(15,212)
Purchases.....	93	1,502
Extensions, discoveries, renewals.....	24	9,210
Sales.....	(14)	--
Balance, December 31, 1995.....	9,685	189,613
Production.....	(576)	(11,807)
Extensions, discoveries, renewals.....	669	20,379
	-----	-----
	9,778	198,185
	=====	=====
PROVED DEVELOPED RESERVES:		
Balance, December 31, 1994.....	5,062	97,269
	=====	=====
Balance, December 31, 1995.....	4,550	93,398
	=====	=====
Balance, September 30, 1996.....	4,643	104,109
	=====	=====

The "Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves" (Standardized Measure) is a disclosure requirement under Statement of Financial Accounting Standards No. 69. The Standardized Measure does not purport to present the fair market value of proved oil and gas reserves. This would require consideration of expected future economic and operating conditions, which are not taken into account in calculating the Standardized Measure.

Future cash inflows were estimated by applying September 30, 1996 prices, adjusted for fixed and determinable escalations to the estimated future production less estimated future production costs based on period-end costs and future development costs. Future net cash inflows were discounted using a 10% annual discount rate to arrive at the Standardized Measure. Future income tax estimates are not included, as the historical tax basis of the properties is not relevant.

## THE AMERICAN COMETRA INTERESTS

NOTES TO THE STATEMENTS OF REVENUES  
AND DIRECT OPERATING EXPENSES -- (CONTINUED)

The standardized measure of discounted future net cash flows relating to proved oil and gas properties is as follows:

	AS OF DECEMBER 31, 1994	AS OF DECEMBER 31, 1995	AS OF SEPTEMBER 30, 1996
	-----	-----	-----
	(IN THOUSANDS)		
Future cash inflows.....	\$ 769,841	\$ 741,378	\$ 736,914
Future costs:			
Production.....	(192,086)	(180,713)	(171,482)
Development.....	(94,386)	(87,567)	(83,383)
	-----	-----	-----
Future net cash flows.....	483,369	473,098	482,049
Income taxes.....	--	--	--
	-----	-----	-----
Undiscounted future net cash flows.....	483,369	473,098	482,049
10% discount factor.....	(236,628)	(217,624)	(196,261)
	-----	-----	-----
Standardized measure.....	\$ 246,741	\$ 255,474	\$ 285,788
	=====	=====	=====

Changes in standardized measure of discounted future net cash flows from proved reserve quantities are as follows:

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	-----	-----	-----
	(IN THOUSANDS)		
Standardized measure, beginning of year.....	\$ 238,067	\$ 246,741	\$ 255,474
Purchases.....	627	1,228	--
Extensions, discoveries, additions.....	17,730	15,051	38,185
Production.....	(33,490)	(32,141)	(33,418)
Sales.....	--	(79)	--
Accretion of discount.....	23,807	24,674	25,547
	-----	-----	-----
Standardized measure, end of year.....	\$ 246,741	\$ 255,474	\$ 285,788
	=====	=====	=====

[Lomak Logo]

4,000,000 SHARES

COMMON STOCK

PROSPECTUS

DEAN WITTER REYNOLDS INC.  
PAINWEBBER INCORPORATED  
SMITH BARNEY INC.  
A.G. EDWARDS & SONS, INC.  
MCDONALD & COMPANY  
SECURITIES, INC.

, 1997

\*\*\*\*\*  
 \*  
 \* INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A \*  
 \* REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED \*  
 \* WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT \*  
 \* BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE \*  
 \* REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT \*  
 \* CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY \*  
 \* NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH \*  
 \* SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO \*  
 \* REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH \*  
 \* STATE. \*  
 \*  
 \*\*\*\*\*

SUBJECT TO COMPLETION, DATED JANUARY 23, 1997

PROSPECTUS  
 \$100,000,000

LOMAK PETROLEUM, INC.

% SENIOR SUBORDINATED NOTES DUE 2007

[LOMAK PETROLEUM LOGO]

The % Senior Subordinated Notes due 2007 (the "Notes") are being offered (the "Notes Offering") by Lomak Petroleum, Inc., a Delaware corporation ("Lomak" or the "Company"). The Company's payment obligations under the Notes will be jointly, severally and unconditionally guaranteed (the "Guarantees") on a senior subordinated basis by each Subsidiary of the Company and any future Subsidiary of the Company (the "Subsidiary Guarantors").

Interest on the Notes will accrue at the rate of % per annum and will be payable semi-annually in arrears on and of each year, commencing on , 1997. The Notes mature on , 2007, unless previously redeemed. The Notes will be subject to redemption at the option of the Company, in whole or in part, on or after , 2002, at the redemption prices set forth herein, plus accrued and unpaid interest, if any, thereon to the applicable redemption date. Upon the occurrence of a Change of Control (as defined), the Company will be required to offer to repurchase all or a portion of each Holder's Notes at an offer price in cash equal to 101% of the aggregate principal amount of such Notes plus accrued and unpaid interest, if any, thereon to the date of repurchase. Prior to , 2000, the Company may, at its option, on any one or more occasions, redeem up to 33 1/3% of the original aggregate principal amount of the Notes at a redemption price equal to % of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the redemption date, with all or a portion of the net proceeds of public sales of Common Stock of the Company. See "Description of Notes."

Concurrently with the Notes Offering, the Company is offering 4,000,000 shares of its Common Stock (the "Common Stock Offering" and together with the Notes Offering, the "Offerings") by a separate prospectus. The closing of the Notes Offering and the Common Stock Offering are contingent upon each other. Neither the Notes Offering nor the Common Stock Offering will be completed until after the Cometra Acquisition (as defined herein) has been consummated.

The Notes will be general unsecured obligations of the Company and will be subordinated in right of payment to Senior Debt (as defined) of the Company, which will include borrowings under the Credit Facility (as defined herein). As of September 30, 1996, after giving pro forma effect to the Offerings, the application of the proceeds therefrom, as described under "Use of Proceeds," and the consummation of the Cometra Acquisition, the principal amount of Senior Debt outstanding would have been \$238 million, which represents borrowings under the Credit Facility (as defined herein). The Company also has \$55 million principal amount outstanding of 6% Convertible Subordinated Debentures due 2007, which are expressly subordinated to the Notes.

The Company does not intend to apply for listing of the Notes on any securities exchange or inclusion of the Notes in any automated quotation system.

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 SEE "RISK FACTORS" BEGINNING ON PAGE FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN EVALUATING AN INVESTMENT IN THE NOTES.  
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THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.  
 -----

	PRICE TO PUBLIC(1)	UNDERWRITING DISCOUNT(2)	PROCEEDS TO COMPANY(1)(3)
Per Note.....	%	%	%
Total.....	\$	\$	\$

- .....
- (1) Plus accrued interest, if any, from the date of issuance.
  - (2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
  - (3) Before deducting expenses estimated at \$                      payable by the Company.
- 

The Notes are offered by Chase Securities Inc., NationsBanc Capital Markets, Inc., Bear, Stearns & Co. Inc. and Credit Suisse First Boston Corporation (together, the "Underwriters"), subject to prior sale, when, as and if issued by the Company and delivered to and accepted by the Underwriters, and subject to certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and reject orders in whole or in part. It is expected that delivery of the Notes will be made in New York, New York in book-entry form through the facilities of The Depository Trust Company on or about                      , 1997.

CHASE SECURITIES INC.  
    NATIONS Banc CAPITAL MARKETS, INC.  
            BEAR, STEARNS & CO. INC.  
                    CREDIT SUISSE FIRST BOSTON CORPORATION

, 1997

## AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements, and other information filed by the Company can be inspected and copied at the public reference facilities of the Commission, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as the following regional offices: 7 World Trade Center, Suite 1300, New York, New York 10048; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies can be obtained by mail at prescribed rates. Requests for copies should be directed to the Commission's Public Reference Section, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission also maintains a Website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. In addition, reports, proxy statements and other information concerning the Company can be inspected and copied at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which the Common Stock is listed.

The Company has filed with the Commission a Registration Statement on Form S-3 ("Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Notes being offered by this Prospectus and the Common Stock which is being offered by a separate prospectus. This Prospectus does not contain all the information set forth on the Registration Statement and the exhibits thereto. For further information with respect to the Company and the Notes being offered hereby, reference is made to the Registration Statement and the exhibits thereto. Statements contained in this Prospectus concerning the provisions of documents filed with the Registration Statement as exhibits are necessarily summaries of such documents, and each such statement is qualified in its entirety by reference to the copy of the applicable document filed with the Commission. All of these documents may be inspected without charge at the offices of the Commission, the addresses of which are set forth above, and copies may be obtained therefrom at prescribed rates.

## INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The following documents and information heretofore filed with the Commission by the Company are hereby incorporated by reference into this Prospectus:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.
2. The Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1996, June 30, 1996 and September 30, 1996.
3. The Company's Current Report on Form 8-K, dated April 19, 1996, and Form 8-K/A, dated May 31, 1996.

All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the Notes Offering shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. The Company will provide without charge to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered, upon the written or oral request of any such person, a copy of any document described above (other than exhibits). Requests for such copies should be directed to Lomak Petroleum, Inc., 500 Throckmorton Street, Fort Worth, Texas 76102, Attn: Corporate Secretary, Telephone No. (817) 870-2601.

## THE OFFERING

ISSUER..... Lomak Petroleum, Inc.

SECURITIES OFFERED..... \$100 million aggregate principal amount  
of % Senior Subordinated Notes due 2007.

MATURITY..... , 2007.

INTEREST PAYMENT DATES..... and of each year,  
commencing on , 1997.

MANDATORY REDEMPTION..... None.

OPTIONAL REDEMPTION..... Except as otherwise described below, the Notes will not be redeemable at the Company's option prior to , 2002. Thereafter, the Notes will be subject to redemption at the option of the Company, in whole or in part, at the redemption prices set forth herein, plus accrued and unpaid interest thereon to the applicable redemption date. In addition, prior to , 2000, the Company may, at its option, on any one or more occasions, redeem up to 33 1/3% of the original principal amount of the Notes at a redemption price equal to % of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, with all or a portion of the net proceeds of public sales of Common Stock of the Company; provided that at least 66 2/3% of the original aggregate principal amount of the Notes remains outstanding immediately after the occurrence of such redemption. See "Description of the Notes -- Optional Redemption."

CHANGE OF CONTROL..... Upon the occurrence of a Change of Control, the Company will generally be required to offer to repurchase all or a portion of each Holder's Notes, at an offer price in cash equal to 101% of the aggregate principal amount of such Notes, plus accrued and unpaid interest, if any, to the date of repurchase, and to repurchase all Notes tendered pursuant to such offer. The Credit Facility will prohibit the Company from repurchasing any Notes pursuant to a Change of Control offer prior to the repayment in full of the Senior Debt under the Credit Facility. Therefore, if a Change of Control were to occur, there can be no assurance that the Company or the Subsidiary Guarantors will have the financial resources or be permitted under the terms of their indebtedness to repurchase the Notes. If any Event of Default (as defined) occurs, the applicable trustee or holders of at least 25% in principal amount of the applicable Notes then outstanding may declare the principal of and the accrued and unpaid interest on such Notes to be due and payable immediately. However, such repayment would be subject to certain subordination provisions in the Indenture. See "Risk Factors-Risks Relating to a Change of Control" and "Description of the Notes--Subordination" and "--Repurchase at the Option of Holders--Change of Control," and "--Events of Default and Remedies."

RANKING..... The Notes will be general, unsecured obligations of the Company, will be subordinated in right of payment to Senior Debt of the Company, which includes borrowings under the Credit Facility and any other permitted indebtedness which does not expressly provide

that it is on a parity with or subordinated in right of payment to the Notes. The claims of the holders of the Notes will be subordinated to Senior Debt, which, as of September 30, 1996, on a pro forma basis after giving effect to the Offerings and the application of the proceeds therefrom, would have been approximately \$238 million, which represents borrowings under the Credit Facility. See "Capitalization," "Description of the Notes-Subordination" and "Description of Capital Stock and Indebtedness--Credit Facility."

- SUBSIDIARY GUARANTEES..... The Company's payment obligations under the Notes will be jointly, severally and unconditionally guaranteed on a senior subordinated basis (the "Guarantees") by each Subsidiary of the Company and any future Subsidiary of the Company. The Guarantees will be subordinated to Senior Debt of the Subsidiary Guarantors to the same extent and in the same manner as the Notes are subordinated to Senior Debt. See "Description of the Notes-Guarantees" and "Description of Capital Stock and Indebtedness -- Credit Facility."
- CERTAIN COVENANTS..... The Notes will be issued pursuant to an indenture (the "Indenture") containing certain covenants that will, among other things, limit the ability of the Company and its Subsidiaries to incur additional indebtedness and issue Disqualified Stock, pay dividends, make distributions, make investments, make certain other Restricted Payments, enter into certain transactions with affiliates, dispose of certain assets, incur liens securing Indebtedness (as defined) of any kind (other than Permitted Liens, as defined) and engage in mergers and consolidations. See "Description of the Notes--Certain Covenants."
- USE OF PROCEEDS..... The Company will use the proceeds of the Notes Offering and the Common Stock Offering to repay a portion of the indebtedness incurred to fund the purchase price for the Cometra Properties. See "Use of Proceeds."

#### RISK FACTORS

See "Risk Factors" for a discussion of certain factors that should be considered in connection with an investment in the Notes offered hereby, including information regarding the Company's highly leveraged capital structure, the uncertainty of oil and gas prices and certain risks associated with an investment in the Notes offered hereby.

[NOTE: THESE RISK FACTORS SUPPLEMENT THE RISK FACTORS CONTAINED IN THE COMMON STOCK PROSPECTUS.]

#### SUBORDINATION OF NOTES

The Notes will be subordinated in right of payment to all existing and future Senior Debt of the Company, including borrowings under the Credit Facility. In the event of bankruptcy, liquidation or reorganization of the Company, the assets of the Company will be available to pay obligations on the Notes only after all Senior Debt has been paid in full, and there may not be sufficient assets remaining to pay amounts due on any or all of the Notes outstanding. The aggregate principal amount of Senior Debt of the Company, as of September 30, 1996, would have been \$238 million on a pro forma basis. Additional Senior Debt may be incurred by the Company from time to time, subject to certain restrictions. In addition to being subordinated to all existing and future Senior Debt of the Company, the Notes will not be secured by any of the Company's assets, unlike the borrowings under the Credit Facility. See "Description of Notes--Subordination."

#### FRAUDULENT CONVEYANCE

The incurrence of indebtedness (such as the Notes) in connection with the financing and refinancing of the Cometra Acquisition is subject to review under relevant federal and state fraudulent conveyance statutes in a bankruptcy or reorganization case or a lawsuit by or on behalf of other creditors of the Company. The Company's obligations under the Notes will be guaranteed on a senior subordinated basis by its subsidiaries. To the extent that a court were to find that (x) the Notes or a Subsidiary Guarantee was incurred with the intent to hinder, delay or defraud any present or future creditor or that the Company or such Subsidiary Guarantor contemplated insolvency with a design to favor one or more creditors to the exclusion in whole or in part of others or (y) the Company or a Subsidiary Guarantor did not receive fair consideration or reasonably equivalent value for issuing the Notes or Subsidiary Guarantee and, at the time thereof, the Company or such Subsidiary Guarantor (i) was insolvent or rendered insolvent by reason of the issuance of the Notes or the Subsidiary Guarantee, (ii) was engaged or about to engage in a business or transaction for which its remaining assets constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, a court could avoid or subordinate the Notes or Subsidiary Guarantee in favor of other creditors. Among other things, a legal challenge of the Subsidiary Guarantee issued by such Subsidiary Guarantor on fraudulent conveyance grounds may focus on the benefits, if any, realized by such Subsidiary Guarantor as a result of the issuance by the Company of the Notes. To the extent the Subsidiary Guarantee issued by a Subsidiary Guarantor is voided as a fraudulent conveyance or held unenforceable for any other reason, the Holders of the Notes would cease to have any claim in respect of such Subsidiary Guarantor and would be creditors solely of the Company and any other Subsidiary Guarantors.

On the basis of historical financial information, recent operating history as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other information currently available to it, the Company believes that the Notes and the Subsidiary Guarantees issued concurrently with the issuance of the Notes are being incurred for proper purposes and in good faith and that, after giving effect to Indebtedness incurred in connection with the issuance of the Notes and the issuance of the Subsidiary Guarantees, the Company and the Subsidiary Guarantors are solvent, will have sufficient capital for carrying on their respective businesses and will be able to pay their debts as such debts become absolute and mature. There can be no assurance, however, that a court passing on such questions would reach the same conclusions.

#### ABSENCE OF A PUBLIC MARKET FOR NOTES

There is no existing market for the Notes and, although the Underwriters have advised the Company that they currently intend to make a market in the Notes, the Underwriters are not obligated to do so and may discontinue such market making at any time. The Company does not intend to apply for listing of the Notes on a securities exchange or to seek approval for quotation through an automated quotation system. Accordingly, there can be no assurance that an active market will develop upon completion of the Notes Offering or, if developed, that such market will be sustained or as to the liquidity of any market. The initial offering price of

the Notes will be determined through negotiations between the Company and the Underwriters, and may bear no relationship to the market price of the Notes after the Notes Offering. Factors such as quarterly or cyclical variations in the Company's financial results, variations in interest rates, future announcements concerning the Company or its competitors, government regulation, general economic and other conditions and developments affecting the oil and gas industry could cause the market price of the Notes to fluctuate substantially.

#### RISKS RELATING TO A CHANGE OF CONTROL

Upon a Change of Control (as defined herein), holders of the Notes will have the right to require the Company to repurchase all or any part of such holders' Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. The events that constitute a Change of Control hereunder would constitute a default under the Credit Facility, which prohibits the purchase of the Notes by the Company in the event of certain Change of Control events unless and until such time as the Company's indebtedness under the Credit Facility is repaid in full. There can be no assurance that the Company and the Subsidiary Guarantors would have sufficient financial resources available to satisfy all of its or their obligations under the Credit Facility and the Notes in the event of a Change of Control. The Company's failure to purchase the Notes would result in a default under the Indenture and under the Credit Facility, each of which could have adverse consequences for the Company and the holders of the Notes. See "Description of Capital Stock and Indebtedness" and "Description of the Notes - - Repurchase at the Option of Holders - - Change of Control." The definition of "Change of Control" in the Indenture includes a sale, lease, conveyance or other disposition of "all or substantially all" of the assets of the Company and its Subsidiaries taken as a whole to a person or group of persons. There is little case law interpreting the phrase "all or substantially all" in the context of an indenture. Because there is no precise established definition of this phrase, the ability of a holder of the Notes to require the Company to repurchase such Notes as a result of a sale, lease, conveyance or transfer of all or substantially all of the Company's assets to a person or group of persons may be uncertain.

## USE OF PROCEEDS

The net proceeds of the Notes Offering are estimated to be approximately \$96.7 million and the net proceeds of the Common Stock Offering are estimated to be approximately \$79.3 million (assuming an offering of \$21 per share), after deducting underwriting discounts and estimated expenses. The Company intends to use all of such net proceeds to repay certain indebtedness incurred under the Credit Facility to fund a portion of the cash purchase price for the Cometra Properties. See "Cometra Acquisition." As of December 31, 1996, indebtedness under the Credit Facility, which expires in January, 2002, had a weighted average interest rate of 6.7%. For additional information with respect to the interest rates, maturity and covenants related to the Credit Facility, see "Description of Capital Stock and Indebtedness -- Credit Facility."

## DESCRIPTION OF THE NOTES

## GENERAL

The Senior Subordinated Notes (the "Notes") will be issued pursuant to an Indenture (the "Indenture") among the Company, the Subsidiary Guarantors and \_\_\_\_\_, as trustee (the "Trustee"). Copies of the Indenture are filed as exhibits to the Registration Statement of which this Prospectus forms a part and will be made available to prospective purchasers of the Notes upon request. The Indenture is subject to and governed by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. The Notes are subject to all such terms, and Holders of the Notes are referred to the Indenture and the Trust Indenture Act for a statement thereof. The following summary of certain provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, including the definitions therein of certain terms used below. The definitions of certain terms used in the following summary are set forth below under "-- Certain Definitions."

The Notes will be general unsecured obligations of the Company and will be subordinated in right of payment to Senior Debt. The Notes will be guaranteed on a senior subordinated basis by each of the Subsidiaries of the Company and any future Subsidiary of the Company. The obligations of the Subsidiary Guarantors under the Guarantees will be general unsecured obligations of each of the Subsidiary Guarantors and will be subordinated in right of payment to all obligations of the Subsidiary Guarantors in respect of Senior Debt. See "-- Guarantees" and "Risk Factors -- Subordination."

For purposes of this section, the term "Company" means Lomak Petroleum, Inc.

## SUBORDINATION

The payment of principal of, premium, if any, and interest on the Notes and any other payment obligations of the Company in respect of the Notes (including any obligation to repurchase the Notes) will be subordinated in certain circumstances in right of payment, as set forth in the Indenture, to the prior payment in full in cash of all Senior Debt, whether outstanding on the date of the Indenture or thereafter incurred.

Upon any payment or distribution of property or securities to creditors of the Company in a liquidation or dissolution of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property, or in an assignment for the benefit of creditors or any marshalling of the Company's assets and liabilities, the holders of Senior Debt will be entitled to receive payment in full of all Obligations due in respect of such Senior Debt (including interest after the commencement of any such proceeding at the rate specified in the applicable Senior Debt, whether or not a claim for such interest would be allowed in a proceeding) before the Holders of the Notes will be entitled to receive any payment with respect to the Notes, and until all Obligations with respect to Senior Debt are paid in full, any distribution to which the Holders of the Notes would be entitled shall be made to the holders of Senior Debt (except that Holders of the Notes may receive payments made from the trust described under "-- Legal Defeasance and Covenant Defeasance").

The Company also may not make any payment (whether by redemption, purchase, retirement defeasance or otherwise) upon or in respect of the Notes (except from the trust described under "-- Legal Defeasance and Covenant Defeasance") if (i) a default in the payment of the principal of, premium, if any, or interest on Designated Senior Debt occurs or (ii) any other default occurs and is continuing with respect to Designated Senior Debt that permits, or with the giving of notice or passage of time or both (unless cured or waived) will permit, holders of the Designated Senior Debt as to which such default relates to accelerate its maturity and the Trustee receives a notice of such default (a "Payment Blockage Notice") from the Company or the holders of any Designated Senior Debt. Cash payments on the Notes shall be resumed (a) in the case of a payment default, upon the date on which such default is cured or waived and (b) in case of a nonpayment default, the earlier of the date on which such nonpayment default is cured or waived or 90 days after the date on which the applicable Payment Blockage Notice is received, unless the maturity of any Designated Senior Debt has been accelerated or a default of the type described in clause (ix) under the caption "Events of

Default" has occurred and is continuing. No new period of payment blockage may be commenced unless and until 360 days have elapsed since the date of commencement of the payment blockage period resulting from the immediately prior Payment Blockage Notice. No nonpayment default in respect of Designated Senior Debt that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee shall be, or be made, the basis for a subsequent Payment Blockage Notice.

The Indenture will further require that the Company promptly notify holders of Senior Debt if payment of the Notes is accelerated because of an Event of Default.

As a result of the subordination provisions described above, in the event of a liquidation or insolvency of the Company, Holders of the Notes may recover less ratably than creditors of the Company who are holders of Senior Debt. On a pro forma basis, after giving effect to the Cometra Acquisition, the related financing transactions and the application of the proceeds therefrom, the principal amount of Senior Debt outstanding at September 30, 1996 would have been approximately \$ million, which includes \$ million of borrowings under the Credit Agreement. See "Description of Capital Stock and Indebtedness." The Indenture will limit, subject to certain financial tests, the amount of additional Indebtedness, including Senior Debt, that the Company and its Subsidiaries can incur. See "-- Certain Covenants -- Incurrence of Indebtedness and Issuance of Disqualified Stock."

#### GUARANTEES

The Company's payment obligations under the Notes will be jointly, severally and unconditionally guaranteed (the "Guarantees") by each Subsidiary of the Company and any future Subsidiary of the Company. The Guarantees will be subordinated to Indebtedness of the Subsidiary Guarantors to the same extent and in the same manner as the Notes are subordinated to the Senior Debt. Each Guarantee by a Subsidiary Guarantor will be limited in an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering such Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting rights of creditors generally.

The Indenture will provide that no Subsidiary Guarantor may consolidate with or merge with or into (whether or not such Subsidiary Guarantor is the surviving Person), another Person whether or not affiliated with such Subsidiary Guarantor, unless (i) subject to the provisions of the following paragraph, the Person formed by or surviving any such consolidation or merger (if other than such Subsidiary Guarantor) assumes all the obligations of such Subsidiary Guarantor pursuant to a supplemental indenture in form and substance reasonably satisfactory to the Trustee in respect of the Notes, the Indenture and the Guarantees; (ii) immediately after giving effect to such transaction, no Default or Event of Default exists; and (iii) such transaction does not violate any of the covenants described under the heading "-- Certain Covenants."

The Indenture will provide that in the event of a sale or other disposition of all or substantially all of the assets of a Subsidiary Guarantor to a third party in a transaction that does not violate any of the covenants in the Indenture, by way of merger, consolidation or otherwise, or a sale or other disposition of all of the capital stock of a Subsidiary Guarantor, then such Subsidiary Guarantor (in the event of a sale or other disposition, by way of such a merger, consolidation or otherwise, of all of the capital stock of such Subsidiary Guarantor) or the Person acquiring the property (in the event of a sale or other disposition of all or substantially all of the assets of such Subsidiary Guarantor) will be released from and relieved of any obligations under its Guarantee; provided that the Net Proceeds of such sale or other disposition are applied in accordance with the covenant described under the caption "-- Repurchase at the Option of Holders -- Asset Sales."

#### PRINCIPAL, MATURITY AND INTEREST

The Notes will be limited in aggregate principal amount to \$100.00 million and will mature on \_\_\_\_\_, 2007. Interest on the Notes will accrue at the rate of \_\_\_\_\_ % per annum and will be payable semi-annually in arrears on \_\_\_\_\_ and \_\_\_\_\_ of each year, commencing on \_\_\_\_\_, 1997, to Holders of the Notes of record on the immediately preceding \_\_\_\_\_ and \_\_\_\_\_. Interest on the

Notes will accrue from the most recent date on which interest has been paid or, if no interest has been paid, from the date of original issuance.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Principal, premium, if any, and interest on the Notes will be payable at the office or agency of the Company maintained for such purpose within the City and State of New York or, at the option of the Company, payment of interest may be made by check mailed to the Holders of the Notes at their respective addresses set forth in the applicable register of Holders of the Notes. Until otherwise designated by the Company, the Company's office or agency in New York will be the office of the Trustee maintained for such purpose. The Notes will be fully registered as to principal and interest in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

OPTIONAL REDEMPTION

Except as otherwise described below, the Notes will not be redeemable at the Company's option prior to \_\_\_\_\_, 2002. Thereafter, the Notes will be subject to redemption at the option of the Company, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on \_\_\_\_\_ of the years indicated below:

YEAR ----	PERCENTAGE -----
2002.....	%
2003.....	%
2004.....	%
2005 and thereafter.....	100%

Prior to \_\_\_\_\_, 2000, the Company may, at its option, on any one or more occasions, redeem up to 33 1/3% of the original aggregate principal amount of the Notes at a redemption price equal to \_\_\_\_\_% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the redemption date, with all or a portion of the net proceeds of public sales of Common Stock of the Company; provided that at least 66 2/3% of the original aggregate principal amount of the Notes remains outstanding immediately after the occurrence of such redemption; and provided, further, that such redemption shall occur within 60 days of the date of the closing of the related sale of Common Stock of the Company.

SELECTION AND NOTICE

In the case of any partial redemption, selection of the Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed, or, if such Notes are not so listed, on a pro rata basis, by lot or by such method as such Trustee shall deem fair and appropriate; provided that no Note of \$1,000 or less shall be redeemed in part. Notices of redemption shall be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of the Notes to be redeemed at its registered address. If any Note is to be redeemed in part only, the notice of redemption that relates to such Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

MANDATORY REDEMPTION

Except as set forth below under "-- Repurchase at the Option of Holders," the Company is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

## REPURCHASE AT THE OPTION OF HOLDERS

## Change of Control

Upon the occurrence of a Change of Control, each Holder of the Notes will have the right to require the Company to repurchase all or any part (equal to \$1,000 or an integral multiple thereof) of such Holder's Notes pursuant to the offer described below (the "Change of Control Offer") at an offer price in cash equal to 101% of the aggregate principal amount of the Notes plus accrued and unpaid interest, if any, thereon to the date of purchase (the "Change of Control Payment"). Within 30 days following any Change of Control, the Company will (i) mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offer to repurchase the Notes pursuant to the procedures required by the Indenture and described in such notice and (ii) (a) offer to repay in full all Obligations under the Credit Agreement and to repay in full all Obligations of each lender who has accepted such offer or (b) obtain the requisite consent under the Credit Agreement to permit the purchase of the Notes as described herein. The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control.

On the Change of Control Payment Date, the Company will, to the extent lawful, (i) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer, (ii) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all the Notes or portions thereof so tendered and (iii) deliver or cause to be delivered to the Trustee the relevant Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of such Notes or portions thereof being purchased by the Company. The Paying Agent will promptly mail to each Holder of the Notes so tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each such new Note will be in a principal amount of \$1,000 or an integral multiple thereof. The Indenture will provide that, prior to complying with the provisions of this covenant, but in any event within 90 days following a Change of Control, the Company will either repay all outstanding Senior Debt or obtain the requisite consents, if any, under all agreements governing outstanding Senior Debt to permit the repurchase of the Notes required by this covenant. The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

Except as described above with respect to a Change of Control, the Indenture will not contain provisions that permit the Holders of the Notes to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Company will not be required to make a Change of Control Offer if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the assets of the Company and its Subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of the Notes to require the Company to repurchase such Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Subsidiaries taken as a whole to another Person or group may be uncertain.

## Asset Sales

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, engage in an Asset Sale unless (i) the Company or the Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value (as determined in good faith by a

resolution of the Board of Directors set forth in an Officers' Certificate delivered to the Trustee, which determination shall be conclusive evidence of compliance with this provision) of the assets or Equity Interests issued or sold or otherwise disposed of and (ii) at least 85% of the consideration therefor received by the Company or such Subsidiary is in the form of cash or Cash Equivalents; provided that the amount of (x) any liabilities (as shown on the Company's or such Subsidiary's most recent balance sheet), of the Company or any Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any guarantee thereof) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases the Company or such Subsidiary from further liability and (y) any non-cash consideration received by the Company or any such Subsidiary from such transferee that is converted by the Company or such Subsidiary into cash within 180 days of closing such Asset Sale, shall be deemed to be cash for purposes of this provision (to the extent of the cash received).

Within 180 days after the receipt of any Net Proceeds from an Asset Sale, the Company may apply such Net Proceeds, at its option, (a) to reduce Senior Debt or (b) to acquire a controlling interest in another Oil and Gas Business, to make capital expenditures in respect of the Company's or its Subsidiaries' Oil and Gas Business, or to purchase long-term assets that are used or useful in the Oil and Gas Business. Pending the final application of any such Net Proceeds, the Company may temporarily reduce Senior Debt that is revolving debt or otherwise invest such Net Proceeds in any manner that is not prohibited by the Indenture. Any Net Proceeds from Asset Sales that are not applied as provided in the first sentence of this paragraph will (after the expiration of the periods specified in this paragraph) be deemed to constitute "Excess Proceeds."

When the aggregate amount of Excess Proceeds exceeds \$5 million, the Company will be required to make an offer to all Holders of the Notes and, to the extent required by the terms thereof, to all holders or lenders of Pari Passu Indebtedness (an "Asset Sale Offer") to purchase the maximum principal amount of the Notes and any such Pari Passu Indebtedness to which the Asset Sale Offer applies that may be purchased out of the Excess Proceeds, at an offer price in cash equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon to the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable. To the extent that the aggregate principal amount of the Notes and Pari Passu Indebtedness tendered pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Company may use any remaining Excess Proceeds for general corporate purposes. If the aggregate principal amount of the Notes surrendered by Holders thereof and other Pari Passu Indebtedness surrendered by holders or lenders thereof, collectively, exceeds the amount of Excess Proceeds, the Trustee shall select the Notes and Pari Passu Indebtedness to be purchased on a pro rata basis, based on the aggregate principal amount thereof surrendered in such Asset Sale Offer. Upon completion of such Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

The Credit Agreement may prohibit the Company from purchasing any Notes and also provides that certain change of control events with respect to the Company would constitute a default thereunder. Any future credit agreements or other agreements relating to Senior Debt to which the Company becomes a party may contain similar restrictions and provisions. In the event a Change of Control or Asset Sale Offer occurs at a time when the Company is prohibited from purchasing the Notes, the Company could seek the consent of its lenders to the purchase or could attempt to refinance the borrowings that contain such prohibition. If the Company does not obtain such a consent or repay such borrowings, the Company may remain prohibited from purchasing the Notes. In such case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture which would, in turn, constitute a default under the Credit Agreement. In such circumstances, the subordination provisions in the Indenture would likely restrict payments to the Holders of the Notes.

#### CERTAIN COVENANTS

##### Restricted Payments

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly: (i) declare or pay any dividend or make any other payment or distribution on account of the Company's Equity Interests (including, without limitation, any payment in connection with any merger or

consolidation involving the Company) to the direct or indirect holders of the Company's Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company); (ii) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Company or any direct or indirect parent or other Affiliate of the Company that is not a Subsidiary of the Company; (iii) make any principal payment on, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the Notes, except at final maturity; or (iv) make any Restricted Investment (all such payments and other actions set forth in clauses (i) through (iv) above being collectively referred to as "Restricted Payments"), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof; and

(b) the Company would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "-- Incurrence of Indebtedness and Issuance of Disqualified Stock"; and

(c) such Restricted Payment, together with the aggregate of all other Restricted Payments made by the Company and its Subsidiaries after the date of the Indenture (excluding Restricted Payments permitted by clauses (2), (3), (5), (6) and (7) of the next succeeding paragraph), is less than the sum of (i) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the date of the Indenture to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), plus (ii) 100% of the aggregate net cash proceeds received by the Company from the issue or sale since the date of the Indenture of Equity Interests of the Company or of debt securities of the Company that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or convertible debt securities) sold to a Subsidiary of the Company and other than Disqualified Stock or debt securities that have been converted into Disqualified Stock), plus (iii) to the extent that any Restricted Investment that was made after the date of the Indenture is sold for cash or otherwise liquidated or repaid for cash, the lesser of (A) the net proceeds of such sale, liquidation or repayment and (B) the initial amount of such Restricted Investment, provided, however, that the foregoing provisions of this paragraph (c) will not prohibit Restricted Payments in an aggregate amount not to exceed \$10 million.

The foregoing provisions will not prohibit (1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Indenture; (2) the redemption, repurchase, retirement or other acquisition of any Equity Interests of the Company in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Company) of other Equity Interests of the Company (other than any Disqualified Stock); provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement or other acquisition shall be excluded from clause (c)(ii) of the preceding paragraph; (3) the defeasance, redemption or repurchase of subordinated Indebtedness with the net cash proceeds from an incurrence of subordinated Permitted Refinancing Debt or the substantially concurrent sale (other than to a Subsidiary of the Company) of Equity Interests of the Company (other than Disqualified Stock); provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement or other acquisition shall be excluded from clause (c)(ii) of the preceding paragraph; (4) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Company or any Subsidiary of the Company held by any of the Company's (or any of its Subsidiaries') employees pursuant to any management equity subscription agreement or stock option agreement in effect as of the date of the Indenture; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests shall not exceed \$1 million in any twelve-month period; and provided further that no Default or Event of Default shall have occurred and be continuing immediately after such transaction; (5) repurchases

of Equity Interests deemed to occur upon exercise of stock options if such Equity Interests represent a portion of the exercise price of such options; (6) the redemption of the Company's 6% Convertible Subordinated Debentures Due February 1, 2007; provided that the average closing price of the Company's common stock for the 30 trading days prior to the date of such redemption is greater than 120% of the conversion price and (7) conversion of the Company's \$2.03 Convertible Preferred Stock in accordance with its terms.

The amount of all Restricted Payments (other than cash) shall be the fair market value (as determined in good faith by a resolution of the Board of Directors set forth in an Officers' Certificate delivered to the Trustee, which determination shall be conclusive evidence of compliance with this provision) on the date of the Restricted Payment of the asset(s) proposed to be transferred by the Company or the applicable Subsidiary, as the case may be, pursuant to the Restricted Payment. Not later than five days after the date of making any Restricted Payment, the Company shall deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by the covenant "Restricted Payments" were computed.

#### Incurrence of Indebtedness and Issuance of Disqualified Stock

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt) and that the Company will not issue any Disqualified Stock and will not permit any of its Subsidiaries to issue any shares of preferred stock; provided, however, that the Company may incur Indebtedness (including Acquired Debt) or issue shares of Disqualified Stock if:

(i) the Fixed Charge Coverage Ratio for the Company's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued would have been at least 2.5 to 1, determined on a pro forma basis as set forth in the definition of Fixed Charge Coverage Ratio; and

(ii) no Default or Event of Default shall have occurred and be continuing at the time such additional Indebtedness is incurred or such Disqualified Stock is issued or would occur as a consequence of the incurrence of the additional Indebtedness or the issuance of the Disqualified Stock.

Notwithstanding the foregoing, the Indenture will not prohibit any of the following (collectively, "Permitted Indebtedness"): (a) the Indebtedness evidenced by the Notes; (b) the incurrence by the Company of Indebtedness pursuant to Credit Facilities, so long as the aggregate principal amount of all Indebtedness outstanding under all Credit Facilities does not, at any one time, exceed the lesser of (i) \$500 million (or, if there is any permanent reduction in the aggregate principal amount permitted to be borrowed under the Credit Agreement, such lesser aggregate principal amount) and (ii) the Borrowing Base; (c) the guarantee by any Subsidiary Guarantor of any Indebtedness that is permitted by the Indenture to be incurred by the Company; (d) all Indebtedness of the Company and its Subsidiaries in existence as of the date of the Indenture after giving effect to the Cometra Acquisition, the related financing transactions and the application of the proceeds thereof; (e) intercompany Indebtedness between or among the Company and any of its Wholly Owned Subsidiaries; provided, however, that (i) if the Company is the obligor on such Indebtedness, such Indebtedness is expressly subordinate to the payment in full of all Obligations with respect to the Notes and (ii)(A) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Wholly Owned Subsidiary and (B) any sale or other transfer of any such Indebtedness to a Person that is not either the Company or a Wholly Owned Subsidiary shall be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Subsidiary, as the case may be; (f) Indebtedness in connection with one or more standby letters of credit, guarantees, performance bonds or other reimbursement obligations, in each case, issued in the ordinary course of business and not in connection with the borrowing of money or the obtaining of advances or credit (other than advances or credit on open account, includible in current liabilities, for goods and services in the ordinary course of business and on terms and conditions which are customary in the Oil and Gas Business, and other than the extension of credit represented by such letter of credit, guarantee or performance bond itself), not to

exceed in the aggregate at any given time 5% of Total Assets; (g) Indebtedness under Interest Rate Hedging Agreements entered into for the purpose of limiting interest rate risks, provided that the obligations under such agreements are related to payment obligations on Indebtedness otherwise permitted by the terms of this covenant and that the aggregate notional principal amount of such agreements does not exceed the principal amount of the Indebtedness to which such agreements relate; (h) Indebtedness under Oil and Gas Hedging Contracts, provided that such contracts were entered into in the ordinary course of business for the purpose of limiting risks that arise in the ordinary course of business of the Company and its Subsidiaries; (i) the incurrence by the Company of Indebtedness not otherwise permitted to be incurred pursuant to this paragraph, provided that the aggregate principal amount of all Indebtedness incurred pursuant to this clause (i), together with all Permitted Refinancing Debt incurred pursuant to clause (j) of this paragraph in respect of Indebtedness previously incurred pursuant to this clause (i), does not exceed \$[ ] million at any one time outstanding; (j) Permitted Refinancing Debt incurred in exchange for, or the net proceeds of which are used to refinance, extend, renew, replace, defease or refund, Indebtedness that was permitted by the Indenture to be incurred (including Indebtedness previously incurred pursuant to this clause (j)); (k) accounts payable or other obligations of the Company or any Subsidiary to trade creditors created or assumed by the Company or such Subsidiary in the ordinary course of business in connection with the obtaining of goods or services; (l) Indebtedness consisting of obligations in respect of purchase price adjustments, guarantees or indemnities in connection with the acquisition or disposition of assets; and (m) production imbalances that do not, at any one time outstanding, exceed 2% of the Total Assets of the Company.

#### No Layering

The Indenture will provide that (i) the Company will not incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any Senior Debt and senior in any respect in right of payment to the Notes and (ii) the Subsidiary Guarantors will not directly or indirectly incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any guarantees issued in respect of Senior Debt and senior in any respect in right of payment to the Guarantees, provided, however, that the foregoing limitations will not apply to distinctions between categories of Indebtedness that exist by reason of any Liens arising or created in respect of some but not all such Indebtedness.

#### Liens

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien securing Indebtedness of any kind (other than Permitted Liens) upon any of its property or assets, now owned or hereafter acquired.

#### Dividend and Other Payment Restrictions Affecting Subsidiaries

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to (i)(x) pay dividends or make any other distributions to the Company or any of its Subsidiaries (1) on its Capital Stock or (2) with respect to any other interest or participation in, or measured by, its profits, or (y) pay any indebtedness owed to the Company or any of its Subsidiaries, (ii) make loans or advances to the Company or any of its Subsidiaries or (iii) transfer any of its properties or assets to the Company or any of its Subsidiaries, except for such encumbrances or restrictions existing under or by reason of (a) the Credit Agreement as in effect as of the date of the Indenture, and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings thereof or any other Credit Facility, provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements, refinancings or other Credit Facilities are no more restrictive with respect to such dividend and other payment restrictions than those contained in the Credit Agreement as in effect on the date of the Indenture, (b) the Indenture and the Notes, (c) applicable law, (d) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any of its Subsidiaries as in effect at the time of such acquisition (except, in the case of Indebtedness, to the extent

such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person and its Subsidiaries, or the property or assets of the Person and its Subsidiaries, so acquired, provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred, (e) by reason of customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices, (f) purchase money obligations for property acquired in the ordinary course of business that impose restrictions of the nature described in clause (iii) above on the property so acquired, or (g) Permitted Refinancing Debt, provided that the restrictions contained in the agreements governing such Permitted Refinancing Debt are no more restrictive than those contained in the agreements governing the Indebtedness being refinanced.

#### Merger, Consolidation, or Sale of Assets

The Indenture will provide that the Company may not consolidate or merge with or into (whether or not the Company is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to another Person, and the Company may not permit any of its Subsidiaries to enter into any such transaction or series of transactions if such transaction or series of transactions would, in the aggregate, result in a sale, assignment, transfer, lease, conveyance, or other disposition of all or substantially all of the properties or assets of the Company to another Person unless (i) the Company is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made (the "Surviving Entity") is a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia; (ii) the Surviving Entity (if the Company is not the continuing obligor under the Indenture) assumes all the obligations of the Company under the Notes and the Indenture pursuant to a supplemental indenture in a form reasonably satisfactory to the Trustee; (iii) immediately before and after giving effect to such transaction or series of transactions no Default or Event of Default exists; (iv) immediately after giving effect to such transaction or a series of transactions on a pro forma basis (and treating any Indebtedness not previously an obligation of the Company and its Subsidiaries which becomes the obligation of the Company or any of its Subsidiaries as a result of such transaction or series of transactions as having been incurred at the time of such transaction or series of transactions), the Consolidated Net Worth of the Company and its Subsidiaries or the Surviving Entity (if the Company is not the continuing obligor under the Indenture) is equal to or greater than the Consolidated Net Worth of the Company and its Subsidiaries immediately prior to such transaction or series of transactions and (v) the Company or the Surviving Entity (if the Company is not the continuing obligor under the Indenture) will, at the time of such transaction or series of transactions and after giving pro forma effect thereto as if such transaction or series of transactions had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the test set forth in the first paragraph of the covenant described above under the caption "-- Incurrence of Indebtedness and Issuance of Disqualified Stock."

#### Transactions with Affiliates

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any of its Affiliates (each of the foregoing, an "Affiliate Transaction"), unless (i) such Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Subsidiary with an unrelated Person and (ii) the Company delivers to the Trustee (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$1.0 million, an Officers' Certificate certifying that such Affiliate Transaction complies with clause (i) above, (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$5.0 million, a resolution of the Board of Directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with clause (i) above and that such Affiliate Transaction has been approved in good faith by a majority of the members of the Board of Directors who are

disinterested with respect to such Affiliate Transaction, which resolution shall be conclusive evidence of compliance with this provision, and (c) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million, an opinion as to the fairness to the Holders of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal, engineering or investment banking firm of national standing; provided that the following shall not be deemed Affiliate Transactions: (1) transactions contemplated by any employment agreement or other compensation plan or arrangement entered into by the Company or any of its Subsidiaries in the ordinary course of business and consistent with the past practice of the Company or such Subsidiary, (2) transactions between or among the Company and/or its Subsidiaries, (3) Restricted Payments and Permitted Investments that are permitted by the provisions of the Indenture described above under the caption "-- Restricted Payments," and (4) the transactions described in this Prospectus under the caption "Certain Transactions".

#### Additional Subsidiary Guarantees

The Indenture will provide that if the Company or any of its Subsidiaries shall acquire or create another Subsidiary after the date of the Indenture, then such newly acquired or created Subsidiary will be required to execute a Guarantee and deliver an opinion of counsel, in accordance with the terms of the Indenture.

#### Business Activities

The Company will not, and will not permit any Subsidiary to, engage in any material respect in any business other than the Oil and Gas Business.

#### Commission Reports

Notwithstanding that the Company may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, to the extent permitted by the Exchange Act the Company will file with the Commission and provide, within 15 days after such filing, the Trustee and Holders and prospective Holders (upon request) with the annual reports and the information, documents and other reports which are specified in Sections 13 and 15(d) of the Exchange Act. In the event that the Company is not permitted to file such reports, documents and information with the Commission, the Company will provide substantially similar information to the Trustee, the Holders, and prospective Holders (upon request) as if the Company were subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act. The Company also will comply with the other provisions of Section 314(a) of the Trust Indenture Act.

#### EVENTS OF DEFAULT AND REMEDIES

The Indenture will provide that each of the following constitutes an Event of Default: (i) a default for 30 days in the payment when due of interest on the Notes (whether or not prohibited by the subordination provisions of the Indenture); (ii) a default in payment when due of the principal of or premium, if any, on the Notes (whether or not prohibited by the subordination provisions of the Indenture); (iii) the failure by the Company to comply with its obligations under "Certain Covenants -- Merger, Consolidation or Sale of Assets" above; (iv) the failure by the Company for 30 days after notice from the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding to comply with the provisions described under the captions "Repurchase at the Option of Holders and "Certain Covenants" other than the provisions described under "-- Merger, Consolidation or Sale of Assets"; (v) failure by the Company for 60 days after notice from the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding to comply with any of its other agreements in the Indenture or the Notes; (vi) except as permitted by the Indenture, any Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or a Subsidiary Guarantor, or any Person acting on behalf of such Subsidiary Guarantor, shall deny or disaffirm its obligations under its Guarantee; (vii) a default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Subsidiaries (or the payment of which is guaranteed by the Company or any of its Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of the Indenture, which default (a) is caused by a failure to pay principal of

or premium, if any, or interest on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default") or (b) results in the acceleration of such Indebtedness prior to its express maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there is then existing a Payment Default or the maturity of which has been so accelerated, aggregates \$10.0 million or more; (viii) the failure by the Company or any of its Subsidiaries to pay final, non-appealable judgments aggregating in excess of \$5.0 million, which judgments remain unpaid or discharged for a period of 60 days; and (ix) certain events of bankruptcy or insolvency with respect to the Company or any of its Subsidiaries.

If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes then outstanding may declare the principal of and accrued but unpaid interest on such Notes to be due and payable immediately. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Company or any Subsidiary, all outstanding Notes will become due and payable without further action or notice. Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest or premium on, or the principal of, the Notes.

The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Company is required, within five business days of becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

#### LEGAL DEFEASANCE AND COVENANT DEFEASANCE

The Company may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding Notes ("Legal Defeasance") except for (i) the rights of Holders of such outstanding Notes to receive payments in respect of the principal of, premium, if any, interest on such Notes when such payments are due from the trust referred to below, (ii) the Company's obligations with respect to such Notes concerning issuing temporary Notes, registration of such Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust, (iii) the rights, powers, trusts, duties and immunities of the Trustee, and the Company's obligations in connection therewith and (iv) the Legal Defeasance provisions of the Indenture. In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "Events of Default and Remedies" will no longer constitute an Event of Default.

In order to exercise either Legal Defeasance or Covenant Defeasance, (i) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding Notes on the stated maturity or on the applicable redemption date, as the case may be, and the Company must specify whether the Notes are being defeased to maturity or to a particular redemption date; (ii) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to such Trustee confirming that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or

(B) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred; (iii) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to such Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; (iv) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit: (v) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound; (vi) the Company must have delivered to the Trustee an opinion of counsel to the effect that after the 91st day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally; (vii) the Company must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders of the Notes over the other creditors of the Company, or with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others; and (viii) the Company must deliver to the Trustee an Officers' Certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

#### TRANSFER AND EXCHANGE

A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Company may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company is not required to transfer or exchange any Note selected for redemption. Also, the Company is not required to transfer or exchange any Note for a period of 15 days before a selection of the Notes to be redeemed.

The registered Holder of a Note will be treated as the owner of it for all purposes.

#### AMENDMENT, SUPPLEMENT AND WAIVER

Except as provided in the next two succeeding paragraphs, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes), and any existing default or compliance with any provision of such Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for the Notes).

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder): (i) reduce the principal amount of the Notes whose Holders must consent to an amendment, supplement or waiver, (ii) reduce the principal of or change the fixed maturity of any Note, (iii) reduce the rate of or change the time for payment of interest on any Note, (iv) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in principal amount of such Notes and a waiver of the payment default that resulted from such acceleration), (v) make any Note payable in money other than that stated in the Notes, (vi) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of the Notes to receive payments of principal of or premium,

if any, or interest on the Notes or (vii) make any change in the foregoing amendment and waiver provisions. In addition, any amendment to the provisions of Article [ ] of the Indenture (which relate to subordination) will require the consent of the Holders of at least 66 2/3% in principal amount of the Notes then outstanding if such amendment would adversely affect the rights of Holders of such Notes. However, no amendment may be made to the subordination provisions of the Indenture that adversely affects the rights of any holder of Senior Debt then outstanding unless the holders of such Senior Indebtedness (or any group or representative thereof authorized to give a consent) consents to such change.

Notwithstanding the foregoing, without the consent of any Holder of the Notes the Company and the Trustee may amend or supplement the Indenture or the Notes to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Company's obligations to Holders of the Notes in the case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights under the Indenture of any such Holder, or to comply with requirements of the Commission in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act.

#### CONCERNING THE TRUSTEE

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest, it must eliminate such conflict within 90 days, apply to the Commission for permission to continue or resign.

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

#### CERTAIN DEFINITIONS

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full definition of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Acquired Debt" means, with respect to any specified Person, (i) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, including, without limitation, Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary of such specified Person, and (ii) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the voting securities of a Person shall be deemed to be control.

"Asset Sale" means (i) the sale, lease, conveyance or other disposition (but excluding the creation of a Lien) of any assets including, without limitation, by way of a sale and leaseback (provided that the sale, lease,

conveyance or other disposition of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "--Repurchase at the Option of Holders -- Change of Control" and/or the provisions described above under the caption "-- Certain Covenants -- Merger, Consolidation, or Sale of Assets" and not by the provisions described above under "-- Repurchase at the Option of Holders -- Asset Sales"), and (ii) the issue or sale by the Company or any of its Subsidiaries of Equity Interests of any of the Company's Subsidiaries, in the case of either clause (i) or (ii), whether in a single transaction or a series of related transactions (a) that have a fair market value in excess of \$2 million or (b) for net proceeds in excess of \$2 million. Notwithstanding the foregoing, the following shall not be deemed to be Asset Sales: (i) a transfer of assets by the Company to a Wholly Owned Subsidiary of the Company or by a Wholly Owned Subsidiary of the Company to the Company or to another Wholly Owned Subsidiary of the Company, (ii) an issuance of Equity Interests by a Wholly Owned Subsidiary of the Company to the Company or to another Wholly Owned Subsidiary of the Company, (iii) a Restricted Payment or Permitted Investment that is permitted by the covenant described above under the caption "-- Certain Covenants -- Restricted Payments," (iv) the abandonment, farm-out, lease or sublease of undeveloped oil and gas properties in the ordinary course of business, (v) the trade or exchange by the Company or any Subsidiary of the Company of any oil and gas property owned or held by the Company or such Subsidiary for any oil and gas property owned or held by another Person, which the Board of Directors of the Company determine in good faith to be of approximately equivalent value or (vi) the sale or transfer of hydrocarbons or other mineral products or surplus or obsolete equipment in the ordinary course of business.

"Attributable Debt" in respect of a sale and leaseback transaction means, at the time of determination, the present value (discounted at the rate of interest implicit in such transaction, determined in accordance with GAAP) of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction (including any period for which such lease has been extended or may, at the option of the lessor, be extended).

"Borrowing Base" means, as of any date, the aggregate amount of borrowing availability as of such date under all Credit Facilities that determine availability on the basis of a borrowing base or other asset-based calculation.

"Capital Lease Obligation" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized on a balance sheet in accordance with GAAP.

"Capital Stock" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Cash Equivalents" means (i) United States dollars, (ii) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof having maturities of not more than six months from the date of acquisition, (iii) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case with any lender party to the Credit Agreement or with any domestic commercial bank having capital and surplus in excess of \$500 million and a Thompson Bank Watch Rating of "B" or better, (iv) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (ii) and (iii) above entered into with any financial institution meeting the qualifications specified in clause (iii) above and (v) commercial paper having a rating of at least P1 from Moody's Investors Service, Inc. (or its successor) and a rating of at least A1 from Standard & Poor's Ratings Group (or its successor).

"Change of Control" means the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole to any

"person" or group of related "persons" (a "Group") (as such terms are used in Section 13(d)(3) of the Exchange Act), (ii) the adoption of a plan relating to the liquidation or dissolution of the Company, (iii) the consummation of any transaction (including, without limitation, any purchase, sale, acquisition, disposition, merger or consolidation) the result of which is that any "person" (as defined above) or Group becomes the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act) of more than 35% of the aggregate voting power of all classes of Capital Stock of the Company having the right to elect directors under ordinary circumstances or (iv) the first day on which a majority of the members of the Board of Directors of the Company are not Continuing Directors.

"Commission" means the Securities and Exchange Commission.

"Consolidated Cash Flow" means, with respect to any Person for any period, the Consolidated Net Income of such Person for such period plus (i) an amount equal to any extraordinary loss, plus any net loss realized in connection with an Asset Sale (together with any related provision for taxes), to the extent such losses were included in computing such Consolidated Net Income, plus (ii) provision for taxes based on income or profits of such Person and its Subsidiaries for such period, to the extent that such provision for taxes was included in computing such Consolidated Net Income, plus (iii) consolidated interest expense of such Person and its Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization of original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letters of credit or bankers' acceptance financings, and net payments (if any) pursuant to Interest Rate Hedging Agreements), to the extent that any such expense was included in computing such Consolidated Net Income, plus (iv) depreciation, depletion and amortization expenses (including amortization of goodwill and other intangibles) for such Person and its Subsidiaries for such period to the extent that such depreciation, depletion and amortization expenses were included in computing such Consolidated Net Income, plus (v) exploration expenses for such Person and its Restricted Subsidiaries for such period to the extent such exploration expenses were included in computing such Consolidated Net Income, plus (vi) other non-cash charges (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash charges in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Subsidiaries for such period to the extent that such other non-cash charges were included in computing such Consolidated Net Income, in each case, on a consolidated basis and determined in accordance with GAAP. Notwithstanding the foregoing, the provision for taxes on the income or profits of, and the depreciation, depletion and amortization and other non-cash charges and expenses of, a Subsidiary of the referent Person shall be added to Consolidated Net Income to compute Consolidated Cash Flow only to the extent (and in the same proportion) that the Net Income of such Subsidiary was included in calculating the Consolidated Net Income of such Person and only if a corresponding amount would be permitted at the date of determination to be dividend to the Company by such Subsidiary without prior governmental approval (that has not been obtained), and without direct or indirect restriction pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Subsidiary or its stockholders.

"Consolidated Net Income" means, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that (i) the Net Income (but not loss) of any Person that is not a Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid in cash to the referent Person or a Wholly Owned Subsidiary thereof, (ii) the Net Income of any Subsidiary shall be excluded to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary or its stockholders, (iii) the Net Income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded and (iv) the cumulative effect of a change in accounting principles shall be excluded.

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its consolidated Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the end of the most recent fiscal quarter of the Company ending prior to the taking of any action for the purpose of which the determination is being made and for which financial statements are available (but in no event ending more than 135 days prior to the taking of such action), as (i) the par or stated value of all outstanding Capital Stock of the Company, plus (ii) paid-in capital or capital surplus relating to such Capital Stock plus (iii) any retained earnings or earned surplus less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock.

"Continuing Directors" means, as of any date of determination, any member of the Board of Directors of the Company who (i) was a member of such Board of Directors on the date of original issuance of the Notes or (ii) was nominated for election or elected to such Board of Directors with the approval of (x) two-thirds of the Continuing Directors who were members of such Board at the time of such nomination or election or (y) two-thirds of those Directors who were previously approved by Continuing Directors.

"Credit Agreement" means that certain Credit Agreement, dated as of , 1997, by and among the Company, the Subsidiaries, BankOne, as administrative agent and as a lender, The Chase Manhattan Bank, as syndication agent and as a lender, NationsBank, as documentation agent and as a lender, and certain banks, financial institutions and other entities, as lenders, providing for up to \$400 million of Indebtedness, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, modified, renewed, refunded, replaced or refinanced, in whole or in part, from time to time, whether or not with the same lenders or agents.

"Credit Facilities" means, with respect to the Company, one or more debt facilities (including, without limitation, the Credit Agreement) or commercial paper facilities with banks or other institutional lenders providing for revolving credit loans, term loans, production payments, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time. Indebtedness under Credit Facilities outstanding on the date on which the Notes are first issued and authenticated under the Indenture (after giving effect to the use of proceeds thereof) shall be deemed to have been incurred on such date in reliance on the exception provided by clause (b) of the definition of Permitted Indebtedness.

"Default" means any event that is or with the passage of time or the giving of notice or both would be an Event of Default.

"Designated Senior Debt" means (i) the Credit Agreement and (ii) any other Senior Debt permitted under the Indenture the principal amount of which is \$25 million or more and that has been designated by the Company as "Designated Senior Debt."

"Disqualified Stock" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature.

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

"Equity Interests" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Fixed Charges" means, with respect to any Person for any period, the sum of (i) the consolidated interest expense of such Person and its Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization of original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and

charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to Interest Rate Hedging Agreements) and (ii) the consolidated interest expense of such Person and its Subsidiaries that was capitalized during such period, and (iii) any interest expense on Indebtedness of another Person that is guaranteed by such Person or any of its Subsidiaries or secured by a Lien on assets of such Person or any of its Subsidiaries (whether or not such guarantee or Lien is called upon) and (iv) the product of (a) all cash dividend payments (and non-cash dividend payments in the case of a Person that is a Subsidiary) on any series of preferred stock of such Person or any of its Subsidiaries, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"Fixed Charge Coverage Ratio" means with respect to any Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the Company or any of its Subsidiaries incurs, assumes, guarantees or redeems any Indebtedness (other than revolving credit borrowings) or issues preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated but prior to the date on which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, guarantee or redemption of Indebtedness, or such issuance or redemption of preferred stock, as if the same had occurred at the beginning of the applicable four-quarter reference period. In addition, for purposes of making the computation referred to above, (i) acquisitions that have been made by the Company or any of its Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date (including, without limitation, any acquisition to occur on the Calculation Date) shall be deemed to have occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period shall be calculated without giving effect to clause (iii) of the proviso set forth in the definition of Consolidated Net Income, (ii) the net proceeds of Indebtedness incurred or Disqualified Stock issued by the Company pursuant to the first paragraph of the covenant described under the caption "-- Certain Covenants -- Incurrence of Indebtedness and Issuance of Disqualified Stock" during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date shall be deemed to have been received by the Company on the first day of the four-quarter reference period and applied to its intended use on such date, (iii) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be excluded, and (iv) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the referent Person or any of its Subsidiaries following the Calculation Date.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect from time to time.

"Guarantee" means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

"Indebtedness" means, with respect to any Person, without duplication, (a) any indebtedness of such Person, whether or not contingent, (i) in respect of borrowed money, (ii) evidenced by bonds, notes, debentures or similar instruments, (iii) evidenced by letters of credit (or reimbursement agreements in respect thereof) or banker's acceptances, (iv) representing Capital Lease Obligations, (v) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable, (vi) representing any obligations in respect of Interest Rate Hedging Agreements or Oil and Gas Hedging Contracts, and (vii) in respect of any Production Payment, (b) all indebtedness of

others secured by a Lien on any asset of such Person (whether or not such indebtedness is assumed by such Person), (c) obligations of such Person in respect of production imbalances, (d) Attributable Debt of such Person, and (e) to the extent not otherwise included in the foregoing, the guarantee by such Person of any indebtedness of any other Person, provided that the indebtedness described in clauses (a)(i), (ii), (iv) and (v) shall be included in this definition of Indebtedness only if, and to the extent that, the indebtedness described in such clauses would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP.

"Interest Rate Hedging Agreements" means, with respect to any Person, the obligations of such Person under (i) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements and (ii) other agreements or arrangements designed to protect such Person against fluctuations in interest rates.

"Investments" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the forms of direct or indirect loans (including guarantees of Indebtedness or other obligations, but excluding trade credit and other ordinary course advances customarily made in the oil and gas industry), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP; provided that the following shall not constitute Investments: (i) an acquisition of assets, Equity Interests or other securities by the Company for consideration consisting of common equity securities of the Company, (ii) Interest Rate Hedging Agreements entered into in accordance with the limitations set forth in clause (h) of the second paragraph of the covenant described under the caption "-- Certain Covenants -- Incurrence (g) of Indebtedness and Issuance of Disqualified Stock" and (iii) Oil and Gas Hedging Agreements entered into in accordance with the limitations set forth in clause (h) of the second paragraph of the covenant described under the caption "-- Certain Covenants -- Incurrence of Indebtedness and Issuance of Disqualified Stock." If the Company or any Subsidiary of the Company sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Company, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Subsidiary not sold or disposed of.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction).

"Net Income" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however, (i) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with (a) any Asset Sale (including, without limitation, dispositions pursuant to sale and leaseback transactions) or (b) the disposition of any securities by such Person or any of its Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Subsidiaries and (ii) any extraordinary or nonrecurring gain (but not loss), together with any related provision for taxes on such extraordinary or nonrecurring gain (but not loss).

"Net Proceeds" means the aggregate cash proceeds received by the Company or any of its Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale, but excluding cash amounts placed in escrow, until such amounts are released to the Company), net of the direct costs relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees, and sales commissions) and any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), amounts required to be applied to the

repayment of Indebtedness (other than Indebtedness under any Credit Facility) secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP and any reserve established for future liabilities.

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Oil and Gas Business" means (i) the acquisition, exploration, development, operation and disposition of interests in oil, gas and other hydrocarbon properties, (ii) the gathering, marketing, treating, processing, storage, selling and transporting of any production from such interests or properties, (iii) any business relating to exploration for or development, production, treatment, processing, storage, transportation or marketing of oil, gas and other minerals and products produced in association therewith and (iv) any activity that is ancillary to or necessary or appropriate for the activities described in clauses (i) through (iii) of this definition.

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

"Pari Passu Indebtedness" means Indebtedness that ranks pari passu in right of payment to the Notes.

"Permitted Indebtedness" has the meaning given in the covenant described under the caption "-- Certain Covenants -- Incurrence of Indebtedness and Issuance of Disqualified Stock."

"Permitted Investments" means (a) any Investment in the Company or in a Wholly Owned Subsidiary of the Company; (b) any Investment in Cash Equivalents or securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof having maturities of not more than one year from the date of acquisition; (c) any Investment by the Company or any Subsidiary of the Company in a Person if, as a result of such Investment and any related transactions that at the time of such Investment are contractually mandated to occur, (i) such Person becomes a Wholly Owned Subsidiary of the Company or (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Company or a Wholly Owned Subsidiary of the Company; (d) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "-- Repurchase at the Option of Holders -- Asset Sales"; (e) other Investments in any Person or Persons having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (e) that are at the time outstanding, not to exceed \$5 million; (f) any Investment acquired by the Company in exchange for Equity Interests in the Company (other than Disqualified Stock); and (g) shares of Capital Stock received in connection with any good faith settlement of a bankruptcy proceeding involving a trade creditor.

"Permitted Liens" means (i) Liens securing Indebtedness of a Subsidiary or Senior Debt that is outstanding on the date of issuance of the Notes (after giving effect to the Cometra Acquisition, the related financing transactions and the application of the proceeds therefrom) or that is permitted by the terms of the Indenture to be incurred; (ii) Liens in favor of the Company; (iii) Liens on property existing at the time of acquisition thereof by the Company or any Subsidiary of the Company and Liens on property or assets of a Subsidiary existing at the time it became a Subsidiary, provided that such Liens were in existence prior to the contemplation of the acquisition and do not extend to any assets other than the acquired property; (iv) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance or other kinds of social security, or to secure the payment or performance of tenders, statutory or regulatory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business (including lessee or operator obligations under statutes, governmental regulations or instruments related to the ownership, exploration and production of oil, gas and minerals on state or federal lands or waters); (v) Liens existing on the date of the Indenture (after giving effect to the Cometra Acquisition, the related financing transactions and the application of proceeds

therefrom); (vi) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded, provided that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefor; (vii) statutory liens of landlords, mechanics, suppliers, vendors, warehousemen, carriers or other like Liens arising in the ordinary course of business; (viii) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceeding that may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such proceeding may be initiated shall not have expired; (ix) Liens on, or related to, properties or assets to secure all or part of the costs incurred in the ordinary course of the Oil and Gas Business for the exploration, drilling, development, or operation thereof; (x) Liens in pipeline or pipeline facilities that arise under operation of law; (xi) Liens arising under operating agreements, joint venture agreements, partnership agreements, oil and gas leases, farm-out agreements, division orders, contracts for the sale, transportation or exchange of oil or natural gas, unitization and pooling declarations and agreements, area of mutual interest agreements and other agreements that are customary in the Oil and Gas Business; and (xiii) Liens reserved in oil and gas mineral leases for bonus or rental payments and for compliance with the terms of such leases.

"Permitted Refinancing Debt" means any Indebtedness of the Company or any of its Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness (other than Indebtedness incurred under a Credit Facility) of the Company or any of its Subsidiaries; provided that: (i) the principal amount of such Permitted Refinancing Indebtedness does not exceed the principal amount of the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (plus the amount of reasonable expenses incurred in connection therewith); (ii) such Permitted Refinancing Indebtedness has a final maturity date on or later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; (iii) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Notes on terms at least as favorable to the Holders of the Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and (iv) such Indebtedness is incurred either by the Company or by the Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"Production Payments" means Dollar-Denominated Production Payments and Volumetric Production Payments, collectively.

"Restricted Investment" means an Investment other than a Permitted Investment.

"Senior Debt" means (i) Indebtedness of the Company or any Subsidiary of the Company under or in respect of any Credit Facility, whether for principal, interest (including interest accruing after the filing of a petition initiating any proceeding pursuant to any bankruptcy law, whether or not the claim for such interest is allowed as a claim in such proceeding), reimbursement obligations, fees, commissions, expenses, indemnities or other amounts, and (ii) any other Indebtedness permitted under the terms of the Indenture, unless the instrument under which such Indebtedness is incurred expressly provides that it is on a parity with or subordinated in right of payment to the Notes. Notwithstanding anything to the contrary in the foregoing sentence, Senior Debt will not include (w) any liability for federal, state, local or other taxes owed or owing by the Company, (x) any Indebtedness of the Company to any of its Subsidiaries or other Affiliates, (y) any trade payables or (z) any Indebtedness that is incurred in violation of the Indenture (other than Indebtedness under (i) any Credit Agreement or (ii) any other Credit Facility that is incurred on the basis of a representation by the Company to the applicable lenders that it is permitted to incur such Indebtedness under the Indenture).

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

owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"Subsidiary Guarantors" means Lomak Operating Company, Lomak Production Company, Lomak Resources Company, Buffalo Oilfield Services, Inc., Lomak Energy Services Company, Talon Trucking Co., Eastern Petroleum Company, Lomak Energy Company, LPI Acquisition, Inc., Lomak Production I, L.P. and Lomak Resources, L.L.C. and any other Subsidiary of the Company that executes a Guarantee in accordance with the provisions of the Indenture, and, in each case, their respective successors and assigns.

"Total Assets" means, with respect to any Person, the total consolidated assets of such Person and its Subsidiaries, as shown on the most recent balance sheet of such Person.

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

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest-twelfth) that will elapse between such date and the making of such payment, by (ii) the then outstanding principal amount of such Indebtedness.

"Wholly Owned Subsidiary" of any Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than directors' qualifying shares) shall at the time be owned, directly or indirectly, by such Person or by one or more Wholly Owned Subsidiaries of such Person.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement (the "Underwriting Agreement") among the Company and the underwriters named below (the "Underwriters"), the Company has agreed to sell to the Underwriters, and the Underwriters have severally agreed to purchase from the Company, the following respective principal amounts of Notes:

UNDERWRITERS -----	PRINCIPAL AMOUNT -----
Chase Securities Inc.....	\$
NationsBanc Capital Markets, Inc.....	
Bear, Stearns & Co. Inc.....	
Credit Suisse First Boston Corporation.....	
	-----
Total.....	\$ =====

In the Underwriting Agreement, the Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all of the Notes offered hereby if any are purchased. The Company has been advised by the Underwriters that the Underwriters propose to offer the Notes to the public initially at the public offering price set forth on the cover page of this Prospectus, and to certain dealers initially at such price less a discount not in excess of % of the principal amount of the Notes. The Underwriters may allow, and such dealers may reallow, a concession to certain other dealers not in excess of % of the principal amount of the Notes. After the initial offering of the Notes to the public, the Underwriters may change the public offering price, concession and discount.

The Notes comprise new issues of securities with no established trading market. The Company has been advised by the Underwriters that the Underwriters currently intend to make a market in the Notes, as permitted by applicable laws and regulations. No assurance can be given, however, that the Underwriters will make a market in the Notes, or as to the liquidity of, or the trading market for, the Notes.

The Company has agreed to indemnify the Underwriters against certain civil liabilities including liabilities under the Securities Act, and to contribute to payments which the Underwriters might be required to make in respect thereof.

The Chase Manhattan Bank, an affiliate of Chase Securities Inc., and NationsBank of Texas, N.A., an affiliate of NationsBanc Capital Markets, Inc., are each an agent and a lender under the Credit Facility. See "Description of Capital Stock and Indebtedness." Net proceeds of the Notes Offering will be applied to repay indebtedness under the Credit Facility. See "Use of Proceeds." In addition, The Chase Manhattan Bank and NationsBank of Texas, N.A., and their affiliates, may perform financial and banking services for the Company in the ordinary course of business. Anthony Dub, a Director of the Company, is a Managing Director of Credit Suisse First Boston Corporation, one of the Underwriters.

The Notes Offering is being made pursuant to the provisions of Section 2710(c)(8) of the Conduct Rules of the National Association of Securities Dealers, Inc. Bear Stearns & Co., Inc. ("Bear Stearns") has agreed to act as Qualified Independent Underwriter for the Notes Offering, and as such has assumed the responsibilities of pricing the Notes and conducting due diligence and the public offering price of the Notes will not be higher than the price recommended by Bear Stearns.

## LEGAL MATTERS

Certain legal matters with respect to the validity of the Notes offered hereby will be passed upon for the Company by Vinson & Elkins L.L.P., 2300 First City Tower, Houston, Texas 77002-6760, and for the Underwriters by Simpson Thacher & Bartlett (a partnership which includes professional corporations), 425 Lexington Avenue, New York, New York 10017-3909.

## EXPERTS

The Consolidated Financial Statements of the Company, as of December 31, 1994 and 1995 and for the years then ended, included and incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as stated in their reports appearing herein and incorporated by reference. The Consolidated Financial Statements of the Company for the year ended December 31, 1993 included and incorporated by reference in the Prospectus have been audited by Ernst & Young LLP, independent auditors, as stated in their reports thereon appearing herein and incorporated by reference.

The financial statements of the Cometra Properties, to the extent and for the periods indicated in their report, have been audited by Coopers & Lybrand LLP, independent public accountants, and are included and incorporated herein and elsewhere in the Registration Statement in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

The financial statements of the Bannon Interests as of December 31, 1995 and for the year then ended, have been incorporated by reference herein and in the Registration Statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

Certain information with respect to the gas and oil reserves of the Company derived from the respective reports of Netherland, Sewell & Associates, Inc., Wright & Company, Inc., H. J. Gruy and Associates, Inc., Huddleston & Co., Inc. and Clay, Holt & Klammer, each of which is a firm of independent petroleum consultants, has been included and incorporated herein and elsewhere in the Registration Statement in reliance upon the authority of said firm as experts with respect to the matters contained in their respective reports.

NO DEALER, SALES PERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR ANY OFFER TO SELL, OR THE SOLICITATION OF AN OFFER TO BUY, SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER WILL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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Prospectus

\$100,000,000

LOMAK PETROLEUM, INC.

% SENIOR SUBORDINATED  
NOTES DUE 2007

LOMAK LOGO  
CHASE SECURITIES INC.  
NATIONSBANC CAPITAL MARKETS, INC.  
BEAR, STEARNS & CO. INC.  
CREDIT SUISSE FIRST BOSTON  
CORPORATION

, 1997

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The expenses of the Offerings are estimated to be as follows:

Securities and Exchange Commission registration fee.....	\$ 59,644
NASD filing fee.....	20,500
New York Stock Exchange listing fee.....	*
Legal fees and expenses.....	*
Accounting fees and expenses.....	*
Blue Sky fees and expenses (including legal fees).....	*
Printing expenses.....	*
Rating agency fees.....	*
Trustee fees and expenses.....	*
Transfer Agent fees.....	*
Engineering fees and expenses.....	*
Miscellaneous.....	*
	-----
TOTAL.....	\$ *
	=====

\* To be provided by amendment.

## ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the DGCL authorizes, inter alia, a corporation to indemnify any person ("indemnitee") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that such person is or was an officer or director of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided that he acted in good faith and in a manner he reasonably believes to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. A Delaware corporation may indemnify past or present officers and directors of such corporation or of another corporation or other enterprise at the former corporation's request, in an action by or in the right of the corporation to procure a judgment in its favor under the same conditions, except that no indemnification is permitted without judicial approval if such person is adjudged to be liable to the corporation. Where an officer or director is successful on the merits or otherwise in defense of any action referred to above, or in defense of any claim, issue or matter therein, the corporation must indemnify him against the expenses (including attorneys' fees) which he actually and reasonably incurred in connection therewith. Section 145 further provides that any indemnification shall be made by the corporation only as authorized in each specific case upon a determination by the (i) stockholders, (ii) Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (iii) independent counsel if a quorum of disinterested directors so directs. Section 145 provides that indemnification pursuant to its provision is not exclusive of other rights of indemnification to which a person may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Section 145 of the DGCL also empowers the Company to purchase and maintain insurance on behalf of any person who is or was an officer or director of the Company against liability asserted against or incurred by him in any such capacity, whether or not the Company would have the power to indemnify such officer or director against such liability under the provisions of Section 145.

Article SEVENTH, section (5) of the Company's Certificate of Incorporation provides:

Any former, present or future director, officer or employee of the Company or the legal representative of any such director, officer or employee shall be indemnified by the Company

(a) against reasonable costs, disbursements and counsel fees paid or incurred where such person has been successful on the merits or otherwise in any pending, threatened or completed civil, criminal, administrative or arbitral action, suit or proceeding, and any appeal therein and any inquiry or investigation which could lead to such action, suit or proceeding, or in defense of any claim, issue or matter therein, by reason of such person being or having been such director, officer or employee, and

(b) with respect to any such action, suit, proceeding, inquiry or investigation for which indemnification is not made under (a) above, against reasonable costs, disbursements (which shall include amounts paid in satisfaction of settlements, judgments, fines and penalties, exclusive, however, of any amount paid or payable to the Company) and counsel fees if such person also had no reasonable cause to believe the conduct was unlawful, with the determination as to whether the applicable standard of conduct was met to be made by a majority of the members of the Board of Directors (sitting as a committee of the Board) who were not parties to such inquiry, investigation, action, suit or proceeding or by any one or more disinterested counsel to whom the question may be referred to the Board of Directors; provided, however, in connection with any proceeding by or in the right of the Company, no indemnification shall be provided as to any person adjudged by any court to be liable for negligence or misconduct except as and to the extent determined by such court.

Article EIGHTH of the Company's Certificate of Incorporation provides:

No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. This paragraph shall not eliminate or limit the liability of a director for any act or omission occurring prior to the effective date of its adoption. If the General Corporation Law of the State of Delaware is hereafter amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the liability of a director to the Corporation shall be limited or eliminated to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended from time to time. No repeal or modification of this Article VIII, directly or by adoption of an inconsistent provision of this Certificate of Incorporation, by the stockholders of the Corporation shall be effective with respect to any cause of action, suit claim or other matter, but for this Article VIII, would accrue or arise prior to such repeal or modification.

Article XII of the Company's Bylaws, incorporating the above provisions, provides for an indemnification agreement to be entered into by directors' and designated officers of the Company. All directors of the Company have executed an indemnification agreement the form of which was approved by stockholders at the Company's 1994 annual stockholders meeting.

Article XII of the Company's Bylaws also allows the Company to purchase liability insurance for officers and directors. As of the date hereof, there is no such insurance in place.

Article XIII of the Company's Bylaws, with certain specified exceptions, limits the personal liability of the directors to Lomak or its stockholders for monetary damages for breach of fiduciary duty to the fullest extent permitted by Delaware law, including any changes in Delaware law adopted in the future.

The form of the Underwriting Agreements filed as Exhibit 1.1 and 1.2 to this Registration Statement contains certain provisions for indemnification of directors and officers of the Company and the Underwriters against civil liabilities under the Securities Act.

## ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

## (a) Exhibits:

- \*1.1 -- Form of Common Stock Underwriting Agreement
- \*1.2 -- Form of Notes Underwriting Agreement
- 2.1 -- Purchase and Sale Agreement between Cometra Energy, L.P. and Cometra Production Company, L.P., as seller, and Lomak Petroleum, Inc., as buyer, dated December 31, 1996, including First Amendment to Purchase and Sale Agreement, dated January 10, 1997.
- 2.2 -- Purchase and Sale Agreement between Rockland, L.P., as seller, and Lomak Petroleum, Inc., as buyer, dated December 31, 1996
- \*4.1 -- Specimen certificate for Common Stock
- \*4.2 -- Specimen certificate for Notes (included as part of Section of Exhibit 4.3)
- \*4.3 -- Form of Trust Indenture relating to the Senior Subordinated Notes due 2009 between Lomak Petroleum, Inc. and as trustee.
- \*4.4(a) -- Certificate of Incorporation of the Company dated March 24, 1980.
- \*4.4(b) -- Certificate of Amendment of Certificate of Incorporation of the Company dated July 22, 1981.
- \*4.4(c) -- Certificate of Amendment of Certificate of Incorporation of the Company dated September 8, 1982.
- \*4.4(d) -- Certificate of Amendment of Certificate of Incorporation of the Company dated December 28, 1988.
- \*4.4(e) -- Certificate of Amendment by Certificate of Incorporation of the Company dated August 31, 1989.
- \*4.4(f) -- Certificate of Amendment of Certificate of Incorporation of the Company dated May 17, 1991.
- \*4.4(g) -- Certificate of Amendment to the Certificate of Incorporation of the Company dated November 20, 1992.
- \*4.4(h) -- Certificate of Amendment to the Certificate of Incorporation of the Company dated May 24, 1996.
- \*4.5 -- By-Laws of the Company.
- \*5.1 -- Opinion of Vinson & Elkins L.L.P.
- 12.1 -- Statement re computation of ratios
- 23.1 -- Consent of Vinson & Elkins L.L.P. (contained in Exhibit 5.1 hereto)
- 23.2 -- Consent of Arthur Andersen LLP
- 23.3 -- Consent of Ernst & Young LLP
- 23.4 -- Consent of Coopers & Lybrand LLP
- 23.5 -- Consent of KPMG Peat Marwick LLP
- 23.6 -- Consent of Netherland, Sewell & Associates, Inc.
- 23.7 -- Consent of Wright & Company, Inc.
- 23.8 -- Consent of H.J. Gruy and Associates, Inc.
- 23.9 -- Consent of Huddleston & Co., Inc.
- 23.10 -- Consent of Clay, Holt & Klammer
- 24.1 -- Powers of Attorney (included on the signature page to this Registration Statement)
- \*25.1 -- Statement of eligibility of trustee

- - - - -

\* To be filed by amendment.

## ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on January 23, 1997.  
LOMAK PETROLEUM, INC.

By /s/ John H. Pinkerton  
-----  
John H. Pinkerton  
President and Chief Executive Officer

KNOW BY ALL THESE PRESENTS, that each of the undersigned directors and officers of Lomak Petroleum, Inc hereby constitutes and appoints John H. Pinkerton and Thomas W. Stoelk, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and on his behalf and in his name, place and stead in any and all capacities, to sign, execute and file with the Securities and Exchange Commission and any state securities regulatory board or commission any documents relating to the proposed issuance and registration of the securities offered pursuant to this Registration Statement on Form S-3 under the Securities Act of 1933, including any and all amendments (including post-effective amendments and amendments thereto) to this Registration Statement on Form S-3 and any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same as fully to all intents and purposes as he might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form S-3 has been signed by the following persons in the capacities indicated.

NAME ----	TITLE -----	DATE ----
/s/ Thomas J. Edelman ----- Thomas J. Edelman	Chairman and Chairman of the Board	January 23, 1997
/s/ John H. Pinkerton ----- John H. Pinkerton	President, Chief Executive Officer, and Director (Chief-Executive-Officer)	January 23, 1997
/s/ Thomas W. Stoelk ----- Thomas W. Stoelk	Chief Financial Officer and Vice President -- Finance (Principal-Financial-Officer)	January 23, 1997
/s/ John R. Frank ----- John R. Frank	Chief Accounting Officer and Controller (Principal-Accounting-Officer)	January 23, 1997
/s/ Robert E. Alkman ----- Robert E. Alkman	Director	January 23, 1997
/s/ Allen Finkelson ----- Allen Finkelson	Director	January 23, 1997
/s/ Anthony V. Dub ----- Anthony V. Dub	Director	January 23, 1997
/s/ Ben A. Guill ----- Ben A. Guill	Director	January 23, 1997
/s/ C. Rand Michaels ----- C. Rand Michaels	Director	January 23, 1997

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, each Registrant certifies that it has reasonable grounds to believe it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on January 23, 1997.

LOMAK OPERATING COMPANY  
 LOMAK ENERGY COMPANY  
 LOMAK PRODUCTION COMPANY  
 LOMAK RESOURCES COMPANY  
 LOMAK RESOURCES, L.L.C.  
 TALON TRUCKING COMPANY  
 LPI ACQUISITION, INC.  
 EASTERN PETROLEUM COMPANY  
 BUFFALO OILFIELD SERVICES, INC.  
 LOMAK ENERGY SERVICES COMPANY

By /s/ John H. Pinkerton

-----  
 John H. Pinkerton  
 President and Chief Executive Officer

KNOW BY ALL THESE PRESENTS, that each of the undersigned directors and officers of the Subsidiary Guarantors hereby constitute and appoints John H. Pinkerton and Thomas W. Stoelk, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and on his behalf and in his name, place and stead in any and all capacities, to sign, execute and file with the Securities and Exchange Commission and any state securities regulatory board or commission any documents relating to the proposed issuance and registration of the securities offered pursuant to this Registration Statement on Form S-3 under the Securities Act of 1933, including any and all amendments (including post-effective amendments and amendments thereto) to this Registration Statement on Form S-3 and any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same as fully to all intents and purposes as he might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form S-3 has been signed by the following persons in the capacities indicated.

NAME ----	TITLE -----	DATE ----
/s/ John H. Pinkerton ----- John H. Pinkerton	President, Chief Executive Officer, and Director (Chief-Executive-Officer)	January 23, 1997
/s/ Thomas W. Stoelk ----- Thomas W. Stoelk	Vice President -- Finance, Chief Financial Officer and Director (Chief-Financial- Officer)	January 23, 1997
/s/ John R. Frank ----- John R. Frank	Chief Accounting Officer and Controller (Principal-Accounting-Officer)	January 23, 1997
/s/ C. Rand Michaels ----- C. Rand Michaels	Director	January 23, 1997

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on January 23, 1997.

LOMAK PRODUCTION I, L.P.  
By: LOMAK PRODUCTION COMPANY

By /s/ John H. Pinkerton

-----  
John H. Pinkerton  
President and Chief Executive Officer

KNOW BY ALL THESE PRESENTS, that each of the undersigned directors and officers of the registrant hereby constitutes and appoints John H. Pinkerton and Thomas W. Stoelk, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and on his behalf and in his name, place and stead in any and all capacities, to sign, execute and file with the Securities and Exchange Commission and any state securities regulatory board or commission any documents relating to the proposed issuance and registration of the securities offered pursuant to this Registration Statement on Form S-3 under the Securities Act of 1933, including any and all amendments (including post-effective amendments and amendments thereto) to this Registration Statement on Form S-3 and any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same as fully to all intents and purposes as he might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form S-3 has been signed by the following persons in the capacities indicated.

NAME ----	TITLE -----	DATE ----
/s/ John H. Pinkerton ----- John H. Pinkerton	President, Chief Executive Officer, and Director (Chief-Executive-Officer)	January 23, 1997
/s/ Thomas W. Stoelk ----- Thomas W. Stoelk	Vice President -- Finance, Chief Financial Officer and Director (Principal-Financial- Officer)	January 23, 1997
/s/ John R. Frank ----- John R. Frank	Chief Accounting Officer and Controller (Principal-Accounting-Officer)	January 23, 1997
/s/ C. Rand Michaels ----- C. Rand Michaels	Director	January 23, 1997

## INDEX TO EXHIBITS

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*4.1	-- Specimen certificate for Common Stock
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*4.5	-- By-Laws of the Company.
*5.1	-- Opinion of Vinson & Elkins L.L.P.
12.1	-- Statement re computation of ratios
23.1	-- Consent of Vinson & Elkins L.L.P. (contained in Exhibit 5.1 hereto)
23.2	-- Consent of Arthur Andersen LLP
23.3	-- Consent of Ernst & Young LLP
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23.5	-- Consent of KPMG Peat Marwick LLP
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23.10	-- Consent of Clay, Holt & Klammer
24.1	-- Powers of Attorney (included on the signature page to this Registration Statement)
*25.1	-- Statement of eligibility of trustee

\* To be filed by amendment.

## PURCHASE AND SALE AGREEMENT

DATED DECEMBER 31, 1996

BETWEEN

COMETRA ENERGY, L.P.  
AND  
COMETRA PRODUCTION COMPANY, L.P.  
AS SELLER

AND

LOMAK PETROLEUM, INC.  
AS BUYER

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Exhibit "L" - Form of Conveyance

Exhibit "M" - Opinion of Seller's Counsel

Exhibit "N" - Opinion of Buyer's Counsel

## PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (the "Agreement") dated as of the 31st day of December, 1996, is between COMETRA ENERGY, L.P. ("CE"), a Texas limited partnership, the general partner of which is Aveneg, Inc., a Delaware corporation, and COMETRA PRODUCTION COMPANY, L.P. ("CPC"), a Texas limited partnership, the general partner of which is Grand Lacs, Inc., a Delaware corporation (CE and CPC are jointly referred to herein as "Seller"), and LOMAK PETROLEUM, INC. a Delaware corporation ("Buyer").

In consideration of the mutual promises contained herein, the benefits to be derived by each party hereunder and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree as follows:

## ARTICLE I

## PURCHASE AND SALE

1.01 - PURCHASE AND SALE. Subject to the terms and conditions of the Agreement, Seller agrees to sell and convey and Buyer agrees to purchase and pay for the following described assets (hereinafter referred to as the "Properties"):

(a) The interests described in Exhibit "A" hereto, in and to the oil and gas leases, and oil, gas and mineral leases described in Exhibit "A" hereto (the "Leases") insofar as they cover the land (the "Lands") also described in Exhibit "A" hereto, together with corresponding undivided interests in (i) all rights, privileges, benefits, and powers conferred upon the holder of the Leases with respect to the use and occupation of the surface of the Lands that may be necessary, convenient, or incidental to the possession and enjoyment of the Leases, (ii) all rights in respect of any pooled or unitized acreage located in whole or in part within the Lands by virtue of the Leases, including rights to production from the pool or unit allocated to any Lease being a part thereof, regardless of whether such production is from the Lands, (iii) all rights, options, titles, and interests of Seller granting Seller the right to obtain, or otherwise earn interests within the Lands no matter how earned, and (iv) all tenements, hereditaments, and appurtenances belonging to any of the foregoing;

(b) All of the right title and interest of Seller in and to the rights-of-way, easements, surface rights and similar interests described on Exhibit "B" attached hereto and made a part hereof;

(c) All of the right, title and interest of Seller under the contracts, agreements, and other instruments described on Exhibit "C" attached hereto and made a part hereof together with all of the right, title and interest of Seller under any surface leases, farmin

agreements, farmout agreements, bottom hole agreements, acreage contribution agreements, operating agreements, unit agreements, processing agreements, options, leases of equipment or facilities, and other contracts, agreements, and rights that are owned by Seller in whole or in part, which are not described on Exhibit "C" hereto, and that are appurtenant to the Properties or used or held for use in connection with the ownership or operation of the Properties or with the production, treatment, sale, or disposal of water, hydrocarbons and associated substances therefrom or thereon (in the aggregate the "Contracts");

(d) All of the right, title and interest of Seller in and to the real, personal and mixed property used in the operation of the Properties owned by Seller in whole or in part or credited to the joint account of Seller (the "Equipment") including, but not limited to (i) all wellhead equipment, fixtures (including, but not limited to, field separators and liquid extractors), pipe, casing, and tubing in, on or appurtenant to the wells ("Wells") described on Exhibit "D" attached hereto and made a part hereof; (ii) all production, gathering, treating, processing, compression, dehydration, salt water disposal, injection, gathering line and pipeline equipment and facilities; (iii) all tanks, machines, equipment, tools, dies, vessels and other facilities;

(e) Seller's seismic, geological, geochemical and geophysical data relating to any of the Properties, but only to the extent that such materials are not restricted from transfer by any legal constraints, obligations of confidence or prior agreements with third parties;

(f) Any office building, district office, or similar facility used in connection with or relating to the Properties and the entire furnishing and contents thereof (other than the Records);

(g) Any vehicles used by Seller in the operation of the Properties;

(h) All inventory items related to the operation of the Properties; and

(i) Subject to the provisions of Section 8.06 hereof, all of the files, records, documents, correspondence and data now in the possession or control of Seller that relates to the items described in sub-paragraphs (a), (b), (c), (d), (e) (f), (g) and (h) above, without limitation (the "Records").

1.02 - EXCLUDED ASSETS. Notwithstanding anything to the contrary contained herein, there is hereby excluded from this purchase and sale, and the Properties not cover or include any of the following:

(a) All accounts receivable, deposits with utilities, claims, credits and causes of action of Seller (specifically excluding Under Production, defined below, for which Seller is paid pursuant to this Agreement) arising under the Contracts, or otherwise attributable

to the Properties, which arise prior to the Effective Time and for which Seller has not otherwise received payment or an adjustment credit under the terms of this Agreement.

(b) Photocopies of any of the Records made by Seller.

1.03 - EFFECTIVE TIME. The purchase and sale of the Properties shall be effective as of 7:00 a.m. Central Standard Time on October 1, 1996, (herein called the "Effective Time").

## ARTICLE II

### PURCHASE PRICE

2.01 - PURCHASE PRICE. The purchase price payable by Buyer for the Properties shall be THREE HUNDRED FIFTY MILLION AND NO/100 DOLLARS (\$350,000,000) (the "Purchase Price"), payable as follows:

(a) Cash. \$170,000,000 of the Purchase Price shall be paid in cash at the Closing, inclusive of cash payments represented by transfer of the Earnest Money to Seller.

(b) Buyer's Stock. \$30,000,000 of the Purchase Price shall be payable to Seller in newly issued shares of common stock of Buyer (par value \$0.01 per share) (the "Buyer's Stock") valued at the Index Price (as defined below). For the purpose of this Agreement, the term "Index Price" means the average closing sale price of the Buyer's Stock for the five (5) trading days immediately preceding February 14, 1997 as reported in the Wall Street Journal. All shares of the Buyer's Stock issued to Seller hereunder shall be rounded to the nearest whole share.

(c) Balance of Purchase Price. The balance of the Purchase Price shall be payable as follows:

(i) Promissory Note. If the Securities and Exchange Commission (the "SEC") gives notice to Buyer of its intention to review Buyer's proposed public offering of Buyer's common stock pursuant to a registration statement to be filed by Buyer with the SEC on or about January 15, 1997 (the "Public Offering"), the balance of the Purchase Price after giving effect to all Purchase Price adjustments to be made at the Closing according to Section 2.02 hereof (such amount is herein called the "Payment Amount") shall be evidenced by a promissory note (the "Note") dated the Closing Date and (i) executed by Buyer and made payable to the order of Seller in the original principal amount of Payment Amount, (ii) shall not bear interest unless not paid at its maturity date, (iii) having a final maturity date of March 31, 1997, and (iv) being in the form of Exhibit "E" attached hereto with blanks appropriately completed in conformity herewith. The Note shall be secured by an irrevocable standby letter of credit in form and substance satisfactory to Seller (including bankruptcy preference provisions) and drawn on a financial institution acceptable to Seller (the "Letter of Credit"). The Letter of Credit shall expire on the earlier of April 30, 1997 or the date on which the Note has been paid in full. The aggregate face amount of the Letter of Credit shall be equal to the original face amount of the Note; or

(ii) Cash. If the SEC gives notice to Buyer of its intention not to review Buyer's Public Offering, the balance of the Purchase Price after giving effect to all Purchase Price adjustments to be made at Closing according to Section 2.02 hereof, shall be paid in cash at Closing.

2.02 - ADJUSTMENTS TO PURCHASE PRICE. The Purchase Price shall be adjusted as follows:

(a) The Purchase Price shall be adjusted upward by the following:

(1) the value of all merchantable, allowable oil in storage at the Effective Time, above the pipeline connection, which is sold and which is credited to the Properties and paid to Buyer, such value to be the actual price received less taxes deducted by the purchaser;

(2) the amount of all verifiable expenditures (including, without limitation, expenses under applicable operating agreements or other similar arrangements or agreements and, in the absence of such agreements, such expenses of the sort customarily billed thereunder, but specifically excluding any amounts attributable to Seller's overhead) paid by Seller in connection with the operation of the Properties in accordance with this Agreement for work actually performed subsequent to the Effective Time and prior to the Closing Date;

(3) an amount equal to all prepaid ad valorem, property, production, severance and similar taxes (but not including income taxes) based upon or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom;

(4) an amount equal to the value (based on the price which could be received by Seller on the date(s) that such under production occurred) of the volume of gas less than its ownership percentage which Seller has produced from any of the Wells ("Under Production");

(5) as to those Properties that are operated by Seller, an aggregate amount equal to \$87,500 per month (pro rated for partial months) for the period between the Effective Time and the Closing Date as reimbursement to Seller for overhead costs incurred in operating and managing the Properties for the period after the Effective Time to the Closing; and

(6) any other amount agreed upon by Seller and Buyer.

(b) The Purchase Price shall be adjusted downward by the following:

(1) proceeds and revenues received by Seller attributable to the Properties and which accrued after the Effective Time;

(2) an amount equal to all unpaid ad valorem, property, production, severance and similar taxes and assessments (but not including income taxes) based upon or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom accruing to the Properties prior to the Effective Time, which amount shall be computed based upon such taxes assessed against the applicable portion of the Properties for the preceding calendar year or, if such taxes are assessed on other than a calendar year basis, for the tax related year last ended;

(3) the aggregate amount of the Defect Value (defined below) of the Defective Interests (defined below) less Upward Adjustments (as defined in Section 5.07 hereof), to the extent that such difference exceeds one half of one percent (1/2%) of the Purchase Price (without giving effect to this Section 2.02 (b)(3));

(4) an amount equal to the value of that portion of the Properties with respect to which (i) Seller is obligated by virtue of any prepayment arrangements under any contract for the sale of hydrocarbons and containing a "take or pay" or similar provision or a production payment or any other arrangement to deliver hydrocarbons produced from the Properties at some future time without then or thereafter receiving full payment therefor ("Take-or-Pay Liability"), and/or (ii) Seller has produced a share of gas in excess of its ownership percentage and Seller is obligated to reduce its share of production under a gas balancing agreement or similar arrangement to allow under-produced parties to come back into balance ("Over Production") (the value of such Take-or-Pay Liability and Over Production to be based on the price which could have been received by Seller on the date(s) that such Take-or-Pay Liability accrued or the date(s) that such Over Production occurred; and

(5) any other amount agreed upon by Seller and Buyer, including without limitation the amounts provided in Section 5.04(c) hereof.

2.03 - ALLOCATION OF PURCHASE PRICE. Seller and Buyer agree that the Purchase Price will be allocated among the Properties as set forth on Exhibit "F" attached hereto and made a part hereof.

#### ARTICLE III

## REPRESENTATIONS AND WARRANTIES

## 3.01 - REPRESENTATIONS AND WARRANTIES OF SELLER. Each

Seller separately represents and warrants the following:

(a) Each Seller is a duly organized, validly existing limited partnership organized and in good standing under the laws of its state of formation and is qualified to do business in the State of Texas.

(b) Each Seller has all requisite power and authority, partnership, corporate and otherwise, to carry on its business as presently conducted, to enter into the Agreement, to sell and convey, free and clear of all adverse claims, the Properties on the terms described in the Agreement and to perform its other obligations under the Agreement.

(c) The execution and delivery of this Agreement has been, and the execution and delivery of all certificates, documents and instruments required to be executed and delivered by Seller at the Closing, and the consummation of the transactions contemplated hereby as of the Effective Time shall have been duly authorized by all necessary partnership and corporate action on the part of the Seller, and, assuming expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"), no further authorization is required by any law, statute, regulation, court order or judgment applicable to Seller. This Agreement constitutes a legal, valid and binding obligation of Seller enforceable in accordance with its terms, subject however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) The execution and delivery of the Agreement and the consummation of the transactions contemplated hereby will not (i) violate, or be in conflict with, any provisions of Seller's agreement of limited partnership or other governing documents, (ii) constitute a material breach of, or any event of default under, any contract or agreement to which Seller is a party or by which it or its assets are bound, or constitute the happening of an event or condition upon which any other party to such a contract or agreement may exercise any right or option which will materially adversely affect any of the Properties (except any provision as to (A) required consents to transfer and related provisions, (B) maintenance of uniform interests provisions and (C) any other third-party approvals contemplated herein), (iii) assuming expiration or termination of the applicable waiting period under the HSR Act, violate any judgment, decree, order, statute, rule or regulation applicable to Seller, or (iv) result in any material liability to Buyer under the terms of any contracts or agreements, except those obligations related to the Properties after the Effective Time and assumed by Buyer pursuant to the terms of the Agreement.

(e) Except as shown on Exhibit "G" attached hereto and made a part hereof, no suit, action or other proceeding is pending before any court or governmental agency as of the date of this Agreement to which Seller is a party and which might result in substantial impairment or loss of Seller's title to any material part of the Properties or that might materially hinder or impede the operation of the Leases or the ability of Seller to perform its obligations hereunder.

(f) During the period the Seller has owned the Properties (the "Ownership Period") to the knowledge of Seller all material royalties (other than royalties held in suspense), rentals and other payments due under the Leases have been properly and timely paid.

(g) During the Ownership Period all ad valorem, property, production, severance and similar taxes and assessments based on or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom on the Properties have been properly paid.

(h) Seller has incurred no liability, contingent or otherwise, for brokers' or finders' fees relating to the transactions contemplated by this Agreement for which Buyer shall have any responsibility whatsoever.

(i) The only material surface leases, farmin agreements, farmout agreements, bottom hole agreements, acreage contribution agreements, operating agreements, unit agreements, processing agreements, options, leases of equipment or facilities, and other contracts, agreements and rights that cover or affect the Properties are those Contracts described on Exhibit "C" attached hereto and made a part hereof.

(j) Seller is not a "foreign person" within the meaning of Section 1445 of the Internal Revenue Code of 1986, as amended.

(k) The financial information furnished by Seller to Buyer in Section 2 of each of Seller's Data Package dated October 1, 1996 for the Val Verde Basin Group, the Midland Basin Group, the South Texas Group and the Offshore Group is correct in all material respects.

(l) The Authorities for Expenditures (AFE's) set forth on Exhibit "H" attached hereto constitute all of the material AFE's which have been approved by Seller or other working interest owners respecting operations to be conducted on the Properties after the Effective Time.

(m) Exhibit "I" attached hereto sets forth the amount of Take-or-Pay Liability and Over Production currently known to Seller.

3.02 - REPRESENTATIONS AND WARRANTIES OF BUYER. Buyer represents and warrants to

Seller that:

(a) Buyer is a duly organized, validly existing corporation organized and in good standing under the laws of the State of its incorporation and is qualified to do business in the State of Texas.

(b) Buyer has all requisite power and authority, corporate and otherwise, to carry on its business as presently conducted, to enter into the Agreement, and to perform its obligations under the Agreement.

(c) The execution and delivery of this Agreement has been, and the execution and delivery of all certificates, documents and instruments required to be executed and delivered by Buyer at Closing, and the consummation of the transactions contemplated hereby as of the Effective Time shall have been duly authorized by all necessary corporate action on the part of the Buyer and, assuming expiration or termination of the applicable waiting period under the HSR Act, no further authorization is required by any law, statute, regulation, court order or judgment applicable to Buyer. This Agreement constitutes a legal, valid and binding obligation of Buyer enforceable in accordance with its terms, subject however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) The execution and delivery of the Agreement and the consummation of the transactions contemplated hereby will not (i) violate, or be in conflict with, any provisions of Buyer's articles of incorporation, bylaws or governing documents, (ii) constitute a material breach of, or any event of default under, any contract or agreement to which Buyer is a party or by which it or its assets are bound, or constitute the happening of an event or condition upon which any other party to such a contract or agreement may exercise any right or option which will materially adversely affect the ability of Buyer to perform its obligations hereunder, (iii) assuming expiration or termination of the applicable waiting period under the HSR Act, violate any judgment, decree, order, statute, rule or regulation applicable to Buyer, or (iv) result in any material liability to Seller under the terms of any contracts or agreements to which Buyer is a party.

(e) No suit, action or other proceeding is pending before any court or governmental agency as of the date of this Agreement to which Buyer is a party and which might materially hinder or impede the ability of Buyer to perform its obligations hereunder. Buyer shall promptly notify Seller of any such proceeding arising prior to the Closing with respect to which Buyer receives actual notice.

(f) Buyer has incurred no liability, contingent or otherwise, for brokers' or finders' fees relating to the transactions contemplated by this Agreement for which Seller shall have any responsibility whatsoever.

(g) Buyer is a knowledgeable purchaser, owner and operator of oil and gas properties, has the ability to evaluate (and in fact has evaluated) the Properties for purchase, and is acquiring the Properties for its own account and not with the intent to make a distribution thereof within the meaning of the Securities Act of 1933 (and the rules and regulations pertaining thereto) or a distribution thereof in violation of any other applicable securities laws.

(h) In entering into this Agreement, Buyer has relied solely on the express representations and covenants of Sellers in this Agreement, its independent investigation of, and judgment with respect to, the Properties and the advice of its own legal, tax, economic, environmental, engineering, geological and geophysical advisors and not on any comments or statements of Seller or any representatives of, or consultants or advisors engaged by Seller.

(i) The Buyer's Stock to be issued by Buyer to Seller at Closing have been duly authorized for such issuance and, when issued and delivered by Buyer in accordance with the provisions of this Agreement, will be validly issued, fully paid, and nonassessable. Once registered in accordance with the provisions of Section 8.10 hereof, the Buyer's Stock shall be freely tradable by Seller or its assignees according to Section 8.10 hereof. The issuance of the Buyer's Stock under this Agreement is not subject to any preemptive or similar rights.

(j) Buyer is current in its obligations to file all periodic report and proxy statements with the Securities and Exchange Commission required to be filed under the Securities Exchange Act of 1934, as amended, and applicable rules and regulations promulgated thereunder. Buyer's Annual Report on Form-10K for the year ended December 31, 1995 (the "SEC Document") does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Since December 31, 1995, there have been no material developments, transactions or events affecting Buyer (other than developments or events affecting the oil and gas exploration and production industry generally) other than as disclosed by Buyer in the SEC Document or to Seller in writing. There are no material liabilities of Buyer (contingent or otherwise), other than as disclosed in the SEC Document and the financial statements included therein.

(k) The authorized and outstanding capital stock of Buyer as of September 30, 1996, consists solely of (a) 35,000,000 shares of Buyer's common stock, of which 14,705,293 shares are duly authorized, validly issued and outstanding, fully paid and non-assessable, and (b) 4,000,000 shares of preferred stock, par value \$1.00 per share, of which 1,150,000 shares are outstanding and are convertible into 3,026,316 shares of Buyer's common stock.

#### ARTICLE IV

## COVENANTS

4.01 - COVENANTS OF SELLER. Seller covenants and agrees with Buyer that:

(a) Prior to the Closing, Seller will make available to Buyer for examination at Seller's office in Fort Worth, Texas, all title and other information relating to the Properties insofar as the same are in Seller's possession and will cooperate with Buyer in Buyer's efforts to obtain, at Buyer's expense, such additional information relating to the Properties as Buyer may reasonably desire, to the extent in each case that Seller may do so without violating legal constraints or any obligation of confidence or other contractual commitment of Seller to a third party. Historical file information in Seller's possession regarding crude oil and produced water which may have been spilled or disposed of on-site and the locations thereof; pits and pit closures; burials; landfarming; landspreading; underground injection; and solid waste disposal sites will be made available to Buyer for inspection prior to Closing. Seller shall permit representatives of Buyer to make such environmental tests as they deem appropriate, including without limitation Phase I and Phase II testing. Seller shall permit Buyer, at Buyer's expense, to inspect and photocopy such information and records at any reasonable time during the term of this Agreement but only to the extent, in each case, that Seller may do so without violating any obligation of confidence or contractual commitment to a third party. Seller shall not be obligated to furnish any updated abstracts, title opinions or additional title information, but shall cooperate with Buyer in Buyer's efforts to obtain, at Buyer's expense, such additional title information as Buyer may reasonably deem prudent.

(b) From the date of this Agreement Seller shall furnish to Buyer and shall cause its independent auditors to furnish to Buyer all information regarding the Properties, Seller and its respective business, assets, properties, and financial condition which, in the reasonable judgment of Buyer and/or its legal counsel and independent auditors is necessary to enable Buyer to comply with filing requirements under the Securities Act of 1933 (the "Act") and the Securities and Exchange Act of 1934 ("Exchange Act") to the extent deemed necessary by the Buyer and its representatives.

(c) From the date of this Agreement until Closing, Seller (i) will cause the Properties to be operated and maintained in a good and workmanlike manner consistent with prior practices, and will pay or cause to be paid all costs and expenses in connection therewith, (ii) will not abandon any Properties, (iii) will maintain insurance now in force with respect to the Properties, (iv) will comply with all the rules, regulations and orders of the Texas Railroad Commission which are applicable to Seller and the Properties, and will timely, properly and accurately make all reports required to be filed with the Texas Railroad Commission, (v) will perform and comply with all of the material covenants and conditions contained in the agreements relating to the Properties, and (vi) will pay all taxes and assessments with respect to the Properties which become due and payable prior to the Closing Date; provided however, in the absence of Buyer's written consent, from the date of this Agreement until the Closing, Seller shall not conduct or authorize any operation on

the Properties requiring Authority for Expenditure (AFE) approval by working interest owners under applicable operating agreements, or an expenditure of \$100,000.00 or more for the entire 100% of any single project (except for emergency operations and except for any AFEs identified on Exhibit "H" hereto). With respect to the Properties that are operated by Seller, as reimbursement for Seller's operating and managing the Properties for the period from the Effective Time to the Closing Date, Seller shall retain for its own account the amounts that are paid to Seller from third party non-operators as overhead charges under the accounting procedure attached to the applicable operating agreements with respect to the period after the Effective Time.

(d) Without the prior written consent of Buyer, from the date of this Agreement until Closing, Seller shall not enter into any new agreements or commitments with respect to the Properties, will not modify or terminate any of the agreements relating to the Properties, shall not encumber, sell, transfer, assign, convey, or otherwise dispose of any of the Properties other than personal property which is replaced by equivalent property or consumed in the operation of the Properties, and will not voluntarily compromise any amounts payable to Seller due to any casualty loss or any pending or threatened taking related to the Properties.

(e) Seller shall use all reasonable efforts to maintain its partnership status and to assure that as of the Closing it shall not be under any material partnership, legal or contractual restriction that would prohibit or delay the timely consummation of this transaction. With respect to any third-party consents and notices required under preferential rights to purchase provisions, Seller shall make requests of such third parties in compliance with applicable agreements, that such consents be given or waived and that such preferential rights be waived; provided however, nothing contained in this subsection of Section 4.01 shall require Seller to pay money or undertake any additional legal obligation.

(f) From the date of this Agreement until Closing, Seller shall permit Buyer's authorized representatives to consult with Seller and/or such third-party operator's agents and employees during reasonable business hours concerning the operations on or respecting the Properties that occur after the Effective Time and to conduct, at Buyer's sole risk and expense, on-site inspections (including, without limitation, site visits to offshore facilities of Seller), environmental assessments, reasonable tests and inventories of the Properties as provided in Section 5.03 hereof.

(g) As promptly as practicable and in any event not more than ten (10) days following the date on which the parties hereto shall have executed and delivered this Agreement, Seller will file with the Federal Trade Commission and the Department of Justice the notification and report form required for the transactions contemplated hereby and will as promptly as practicable furnish any supplemental information which may be reasonably requested in connection therewith pursuant to the HSR Act. Seller shall bear one-half (1/2) of the filing fees associated with filings made under the HSR Act and paid

by Buyer or Seller.

(h) During the period from the date of this Agreement to the Closing Date, Seller shall use its best efforts to maintain its relationships with all suppliers, customers and others having business relationships with Seller with respect to the Properties so that such relationships will be preserved for Buyer on and after the Closing Date.

(i) Seller shall give Buyer notice of any litigation initiated by or against Seller, of which Seller has notice, and which relates to the Properties or the ability of Seller to proceed to Closing.

4.02 - COVENANTS OF BUYER. Buyer covenants and agrees with Seller that:

(a) Buyer shall use all reasonable efforts to maintain its corporate status and to assure that as of the Closing, it will not be under any material corporate, legal or contractual restriction that would prohibit or delay the timely consummation of this transaction.

(b) As promptly as practicable and in any event not more than ten (10) days following the date on which each of the parties hereto shall have executed and delivered this Agreement, Buyer will file with the Federal Trade Commission and the Department of Justice the notification and report form required for the transactions contemplated hereby and will as promptly as practicable furnish any supplemental information which may be reasonably requested in connection therewith pursuant to the HSR Act. Buyer shall bear one-half (1/2) of the filing fees associated with filings made under the HSR Act and paid by Buyer or Seller.

(c) Buyer shall exercise all due diligence in safeguarding and maintaining secure all engineering, geological and geophysical data, reports and maps, accounting records, and all other confidential data or information relating to the Properties in the possession of Buyer. If the transaction contemplated by this Agreement is not consummated, Buyer shall return to Seller all information which Seller has delivered to Buyer which relate to the Properties.

(d) Buyer shall give Seller notice of any litigation initiated by or against Buyer, of which Buyer has notice, and which relates to the Properties or the ability of Buyer to proceed to Closing.

#### ARTICLE V

## TITLE MATTERS AND DEFECTIVE INTERESTS

## 5.01 - DEFENSIBLE TITLE.

(a) As used herein, the term "Defensible Title" shall mean, as to the Properties, and each of them, such title, subject to the Permitted Encumbrances, which in all material respects

(1) is free and clear of liens or encumbrances, and (A) is otherwise only subject to contractually binding arrangements which are conventional and which are customarily experienced in the oil and gas industry and (B) is not subject to any matters which will result in a breach of any warranty or representation made by Seller hereunder;

(2) entitles Seller to receive not less than (A) the "Revenue Interest" set forth on Exhibit "D" hereto for each of the Wells of all oil, gas and associated liquid and gaseous hydrocarbons produced, saved and marketed from such Well, after deducting all royalty, overriding royalty and other leasehold burdens, and (B) the "Revenue Interest" set forth in Exhibit "J" attached hereto and made a part hereof for each of the separate tracts of land or proposed well locations described on Exhibit "J" hereto of all oil, gas and associated liquid and gaseous hydrocarbons produced, saved and marketed from a well which may be drilled on such separate tract of lands also, after deducting all royalty, overriding royalty and other leasehold burdens; and

(3) obligates Seller to bear costs and expenses relating to the maintenance, development and operation of each of the Wells in an amount not greater than (A) the "Working Interest" set forth on Exhibit "D" hereto with respect to each of the Wells, unless there is a corresponding and proportionately equal increase in the Revenue Interest attributable to such Well, and (B) the "Working Interest" set forth on Exhibit "J" hereto with respect to each tract of land or proposed well location separately identified on Exhibit "J" hereto, unless there is a corresponding and proportionately equal increase in the Revenue Interest attributable to such tract of land.

(b) The term "Permitted Encumbrances" as used herein shall mean the following items relating to the Properties, provided none of the following items shall operate to increase the Working Interest of Seller set forth in Exhibit "D" and Exhibit "J" hereto for any of the Properties without a corresponding increase in the applicable Revenue Interests, or decrease the Revenue Interests of Seller set forth on Exhibit "D" and Exhibit "J" hereto for any of the Properties:

(1) lessors' royalties, overriding royalties, net profits interests,

production payments, reversionary interests and similar burdens;

(2) preferential rights to purchase and required third party or governmental consents to assignments and similar agreements with respect to which prior to Closing (i) waivers or consents are obtained from the appropriate parties, (ii) the appropriate time period for asserting such rights has expired without an exercise of such rights, (iii) with respect to consent, such consent is not necessary to the validity of an assignment to Buyer and need not be obtained prior to an assignment, or (iv) arrangements can be made by Buyer or Seller to allow Buyer to receive substantially the same economic benefit as if all such waivers and consents had been obtained;

(3) liens for taxes or assessments not yet due or not yet delinquent or, if delinquent, that are being contested in good faith in the normal course of business;

(4) liens, charges, or other encumbrances in favor of operators relating to obligations not yet due or pursuant to which Seller is not in default;

(5) all rights to consent by, required notices to, filings with, or other actions by governmental entities in connection with the sale or conveyance of oil and gas leases or interests therein;

(6) the terms and conditions of division orders, sales contracts, the Leases, and the Contracts;

(7) rights of re-assignments in the event of intended release or surrender of an interest;

(8) easements, rights-of-way, servitudes, permits, surface leases and other rights in respect of surface operations, pipelines, grazing, logging, canals, ditches, reservoirs or the like; and easements for streets, alleys, highways, pipelines, telephone lines, power lines, railways and other easements and rights-of-way, on, over or in respect of any of the Properties, that are not such as to interfere materially with the operation, value or use of the Properties;

(9) rights reserved to or vested in any municipality or governmental, statutory or public authority to control or regulate any of the Properties in any manner, and all applicable laws, rules and orders of governmental authority;

(10) Those matters described on Exhibit "K" attached hereto and made a part hereof; and

(11) such Title Defects or other defects as Buyer has waived in writing

or otherwise pursuant to the terms of this Agreement.

(c) The term "Title Defect" as used herein shall mean any encumbrances, encroachment, irregularity, defect in or objection to Seller's title to the Properties (expressly excluding Permitted Encumbrances), that alone or in combination with other defects renders Seller's title to the Properties less than Defensible Title.

#### 5.02 - DEFECTIVE INTERESTS.

(a) As used herein the term "Defective Interest" shall mean

(1) That portion of the Properties affected by a Title Defect;

(2) That portion of the Properties adversely affected by Seller's material noncompliance with the laws, rules, regulations, ordinances or orders of any governmental agency or authority having jurisdiction over any portion of the Properties, including without limitation Environmental Laws (defined below) as may be reasonably determined in accordance with generally accepted industry practices and standards;

(3) That portion of the Properties adversely affected by the default of Seller, or any other party, under an obligation of the Leases or Contracts;

(4) That portion of the Properties with respect to which any preferential right to purchase is exercised unless Buyer elects to receive the consideration received from the exercise of such preferential right to purchase;

(5) That portion of the Equipment which has a material defect, (resulting from design, construction, wear or other reason) which will prevent the continued operation of that portion of the Equipment in accordance with prior practice;

(6) That portion of the Properties destroyed by fire or other casualty, or with respect to which there is a taking or threatened taking in condemnation or under the right of eminent domain, unless Buyer elects to receive the proceeds payable under any insurance policy covering such events;

(7) That portion of the Properties affected by any suit, action or other proceeding before any court or government agency that would result in a loss or impairment of Seller's title to any portion of the Properties, or a portion of the value thereof; and

(8) Any Lease or Contract which is not valid and subsisting and in full force and effect.

(b) As used herein the term "Defect Value" shall mean the lesser of:

(1) the Allocated Value of that part of the Property affected by a Defective Interest; or

(2) the reduction in value of the Properties caused by a Defective Interest.

5.03 - BUYER'S RIGHT OF INSPECTION. Seller grants Buyer and its duly authorized representatives, contractors and subcontractors (collectively "Representatives") the limited right of entry to the Properties for the purpose of, inspecting the Properties in accordance with the terms of Section 4.01(e) hereof ("Permitted Activities"), subject however, to the following conditions:

(a) Buyer shall notify Seller of its desire to enter the Properties to conduct Permitted Activities at least 48 hours prior to such entry.

(b) Upon receipt of such notice, Seller shall allow Buyer and its Representatives to enter the Properties during normal business hours to conduct Permitted Activities. The Permitted Activities of Buyer and its Representatives shall not unreasonably interfere with Seller's operations or business, and Buyer and its Representatives shall not remain on the Properties subsequent to the completion of their Permitted Activities.

(c) The Permitted Activities shall be conducted in accordance with all applicable environmental and regulatory laws, rules and regulations, and commonly accepted standards for conducting such activities. Upon completion of its activity, Buyer and its Representatives shall restore the Property to its condition existing as of Buyer's entry thereon and remove all equipment and materials that were brought onto the Properties by Buyer and its Representatives. As soon as reasonably possible, Buyer shall provide Seller with a copy of all written reports prepared for Buyer as a result of conducting Permitted Activities.

(d) Buyer will be responsible for the conduct and protection of all persons involved in the Permitted Activities. Seller shall not have any right to control and shall not exercise any responsibility with respect to the Permitted Activities conducted by Buyer on the Properties, except that Seller shall have the right (but not the obligation) to prevent any damage to its property or disruption to its business. Buyer and its Representatives will undertake all measures reasonably necessary to protect all persons conducting the Permitted Activities on the Properties and any other persons who may enter the Properties during or after completion of the Permitted Activities.

(e) Neither Buyer nor its Representatives shall contact any federal, state, or local agency with respect to environmental conditions discovered on the Properties without the prior written permission and consent of Seller, except as may be otherwise required by applicable law, rule or regulation. Any proposal of Buyer or its Representatives to contact any federal, state, or local agency shall be delivered in writing to Seller for review and approval.

(f) BUYER AGREES TO FULLY INDEMNIFY, DEFEND, AND HOLD SELLER, ITS AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND CONTRACTORS HARMLESS FROM AND AGAINST ANY ALL CLAIMS, LIABILITIES, CAUSES OF ACTIONS, JUDGMENTS OR DEFENSE EXPENSES (INCLUDING REASONABLE ATTORNEYS FEES AND EXPERT EXPENSES) OF ANY PERSON, INCLUDING BUYER, ITS AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND CONTRACTORS, FOR (I) PERSONAL INJURY OR DEATH OF ANY PERSON, (II) DAMAGE TO THE PROPERTY OF SELLER, BUYER OR ANY OTHER PERSON, OR (III) ALL OTHER DAMAGES OR ECONOMIC LOSSES (INCLUDING ANY DAMAGES CAUSED BY THE NEGLIGENCE OF SELLER), ATTRIBUTABLE TO OR ARISING FROM THE PERMITTED ACTIVITIES, EXCEPT THERE SHALL BE NO LIABILITY OF BUYER TO THE EXTENT ANY SUCH INJURY, DAMAGE, OR LOSS IS CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SELLER.

#### 5.04 - NOTICE OF DEFECTIVE INTERESTS.

(a) Buyer shall give Seller notice of Defective Interests not later than twenty-one (21) days from the date of this Agreement. Such notice shall be in writing and shall include (i) a description of the Defective Interest (ii) the reason Buyer believes such Properties to be a Defective Interest, and (iii) the Defect Value asserted by Buyer with respect to the asserted Defective Interest. Buyer's notice(s) of Defective Interests shall not be effective unless and until the total of the asserted Defect Values for the asserted Defective Interests exceeds one-half of one percent (1/2%) of the Purchase Price. Buyer shall be deemed to have waived all Defective Interests of which Seller has not been given such notice within the time period prescribed in this Section 5.04(a).

(b) Upon being notified by Buyer pursuant to Section 5.04(a) of any asserted Defective Interest the Seller shall give written counter-notice to Buyer within five (5) days (i) that it either (A) will attempt to correct the asserted Defective Interest, or (B) does not intend to attempt to correct the Defective Interest; and (ii) whether it agrees or disagrees that the asserted Defective Interest exist, and (iii) whether it agrees or disagrees with the Defect Value asserted by the Buyer.

(c) If Seller gives counter-notice of intent to attempt to correct any asserted

Defective Interest, it shall have a period of thirty (30) days from the receipt of the Buyer's notice (the "Cure Period") to attempt to correct such asserted Defective Interest at its own expense. The Closing shall not be extended, but to the extent that the Defect Value allocated to the Defective Interest when combined with the Defect Value of all other asserted Defective Interests exceeds one-half of one percent (1/2%) of the Purchase Price, a downward adjustment of the Purchase Price shall be made in such amount according to Section 2.02(b)(5). If Seller shall subsequently cure such Defective Interest within the Cure Period, such Defect Value as to which curative has been effected shall be a credit to Seller in the determination of the Final Settlement according to Section 8.01 hereof. If Seller is unable to cure such Defective Interest, Seller shall still have the right to assert the provisions of Sections 5.04 (d) and (e) below after Closing, in which case Buyer shall deposit the amount of the disputed Defect Value with the Escrow Agent according to Section 5.06 (b) below.

(d) If Seller gives counter-notice (or notice after the Cure Period according to Section 5.04 (c)) that it disagrees there is a Defective Interest, then the existence (and if it exists, the Defect Value), will be determined by arbitration pursuant to Section 5.05 hereof.

(e) If Seller gives counter-notice (or notice after the Cure Period according to Section 5.04 (c)) that it disagrees with the Defect Value asserted by Buyer in connection with a Defective Interest, then the amount of the Defect Value will be determined by arbitration pursuant to Section 5.05 hereof.

(f) The failure of Seller to deliver written counter-notice shall be deemed to be notice that Seller (i) will not attempt to correct that asserted Defective Interest, (ii) agrees that there is a Defective Interest and (iii) agrees with the Defect Value asserted by the Buyer.

(g) In determining which portions of the Properties are Defective Interests, it is the intent of the parties to include, when possible, only that portion of the Properties affected by the defect.

5.05 - ARBITRATION PROCEDURES. If any matter is required by this Article to be arbitrated, such arbitration shall be conducted as set forth in this Section 5.05.

(a) The parties shall jointly select an acceptable person to serve as the sole arbitrator under this Agreement. If the parties are unable to agree upon the designation of a person as arbitrator under this Section 5.05, then either Seller or Buyer, or both such parties, may in writing request the American Arbitration Association to appoint a qualified arbitrator.

(b) Any arbitration hearing shall be held at a place in Fort Worth, Texas

acceptable to the arbitrator.

(c) The arbitrator shall settle disputes regarding the existence of Defective Interests and/or the Defect Value thereof and Seller's attempts to correct any Title Defects in accordance with the Texas General Arbitration Act. Such arbitrator shall hear all arbitration matters arising under this Article V. The decision of the arbitrator shall be binding upon the parties, and may be enforced in any court of competent jurisdiction. Seller and Buyer, respectively, shall bear their own legal fees and other costs incurred in presenting their respective cases. The charges and expenses of the arbitrator shall be shared equally by Seller and Buyer.

(d) The arbitration shall commence within ten days after the arbitrator is selected as set forth in Section 5.05(a) above. In fulfilling his duties hereunder, the arbitrator shall be bound by the terms of this Agreement. In fulfilling any of his arbitration duties, the arbitrator may consider such other matters as in the opinion of the arbitrator are necessary or helpful to make a proper evaluation. Additionally, the arbitrator may consult with and engage disinterested third parties, including, without limitation, petroleum engineers, attorneys and consultants, to advise the arbitrator.

(e) If any arbitrator selected hereunder should die, resign or be unable to perform his duties hereunder, the parties, or if the parties are unable to agree, the American Arbitration Association shall select a replacement arbitrator. The aforesaid procedure shall be followed from time to time as necessary.

5.06 - EFFECT OF DEFECTIVE INTERESTS ON THE CLOSING. If Buyer asserts any Defective Interests the following shall apply:

(a) The parties shall proceed to the Closing as provided in this Agreement if (i) Seller elects to cure the asserted defect according to Section 5.04(c), (ii) Buyer agrees to waive the relevant Defective Interest and purchase the Defective Interest notwithstanding the asserted Defective Interest, or (iii) Buyer and Seller agree to a Defect Value and the Purchase Price is reduced by such amount in accordance with Section 2.02(b) hereof.

(b) If any matter is referred to arbitration under Section 5.05 of this Agreement and the Defect Value or Values asserted by Buyer with respect to the matters under arbitration when combined with all other Defective Interests totals less than ten percent (10%) of the Purchase Price (including an agreement by Buyer to waive any arbitration award which when combined with all other Defective Interests would exceed ten percent (10%) of the Purchase Price), then the parties shall proceed to Closing, the asserted Defective Interests shall be conveyed to Buyer, and the Closing Amount (defined below) shall be reduced by an amount equal to the asserted Defect Values of the asserted Defective Interests (the "Withheld Payment"). The Withheld Payment shall be placed in escrow with the same entity under essentially the same terms as the Earnest Money (defined below). The Withheld Payment shall be paid as follows:

(i) If the arbitrator decides that any Defective Interest asserted by the Buyer is not a Defective Interest, then the Withheld Payment with respect to the asserted Defective Interest shall be paid to the Seller.

(ii) If the arbitrator decides that any one or more of the Defective Interests asserted by the Buyer are in fact Defective Interests, then, the Withheld Payment, to the extent it, when combined with all other Defective Interests, exceeds one-half of one percent (1/2%) of the Purchase Price up to the amount of the Defect Value, as determined by the arbitrator, shall be distributed to the Buyer, and the remainder, if any, shall be distributed to the Seller.

(c) If any matter is referred to arbitration under Section 5.05 of this Agreement and the Defect Value asserted by Buyer with respect to the matters under arbitration when combined with all other Defective Interests totals ten percent (10%) of the Purchase Price or more, then, unless the parties otherwise agree, the Buyer waives its rights to an arbitration award, which, when combined with all other Defective Interests exceeds ten percent (10%) of the Purchase Price, or this Agreement is terminated by Seller pursuant to Article IX hereof. If none of the foregoing occurs, the Closing shall be postponed until the arbitrator renders his final decision. After the arbitrator renders his final decision the parties shall proceed to the Closing, and the Purchase Price will be reduced by the Defect Value found by the arbitrator to the extent it, when combined with all other Defective Interests, exceeds one-half of one percent (1/2%) of the Purchase Price; provided however, nothing contained in this Section 5.06(c) shall be deemed to in any way modify or terminate Seller's or Buyer's conditions to Closing under Section 6.01(d) or 6.02(d).

5.07 - INCREASED INTERESTS OF SELLER.. If Seller owns a greater undivided interest in the Properties than reflected in the Exhibits hereto which results in an increase in value of a portion of the Properties, the party discovering such inaccuracy shall immediately notify the other party and Buyer and Seller shall endeavor to agree upon an amount that will be set-off against the Defect Value of the Defective Interests in accordance with Section 2.02(b)(3) (the "Upward Adjustment"). If Buyer and Seller fail to agree to the Upward Adjustment, Seller may elect to have that portion of the Properties subject to such increase in value excluded from the Properties to be purchased by Buyer.

## ARTICLE VI

### CONDITIONS TO CLOSING

6.01 - SELLER'S CONDITIONS. The obligations of Seller at the Closing are subject, at the option of Seller, to the satisfaction at or prior to the Closing of the following conditions:

(a) All representations and warranties of Buyer contained in this Agreement

shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing; and Buyer shall have performed and satisfied all material obligations in all material respects required by this Agreement to be performed and satisfied by Buyer at or prior to the Closing.

(b) No suit or other proceeding shall be pending before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the purchase and sale contemplated by this Agreement.

(c) All necessary consents, permissions, novations and approvals by third parties in connection with the sale and transfer of the Properties shall have been received prior to Closing, except those required consents, permissions, novations and approvals which are Permitted Encumbrances.

(d) Defective Interests will not reduce the Purchase Price by more than ten percent (10%).

(e) The waiting period (and any extension thereof) under the HSR Act applicable to the transactions contemplated hereby shall have expired or been terminated.

(f) All transactions contemplated by that certain Purchase and Sale Agreement (the "Plant Agreement") of even date herewith between Rockland, L.P. and Buyer shall have closed pursuant to the terms of such agreement.

6.02 - BUYER'S CONDITIONS. The obligations of Buyer at the Closing are subject, at the option of Buyer, to the satisfaction at or prior to the Closing of the following conditions:

(a) All representations and warranties of Seller contained in this Agreement ( except for the the representations and warranties set forth in Sections 3.01(i),(k), (l) and (m)) shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing; and Seller shall have performed and satisfied all material agreements in all material respects required by this Agreement to be performed and satisfied by Seller at or prior to the Closing.

(b) No suit or other proceeding shall be pending before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the purchase and sale contemplated by this Agreement.

(c) All necessary consents, permissions, novations and approvals by third parties in connection with the sale and transfer of the Properties shall have been received prior to Closing, except those required consents, permissions, novations and approvals which are Permitted Encumbrances.

(d) Defective Interests will not reduce the Purchase Price by more than ten percent (10%).

(e) The waiting period (and any extension thereof) under the HSR Act applicable to the transactions contemplated hereby shall have expired or been terminated.

(f) All transactions contemplated by the Plant Agreement shall have closed pursuant to the terms of such agreement.

#### ARTICLE VII

##### CLOSING

7.01 - DATE OF CLOSING. Unless the parties hereto mutually agree otherwise and subject to the conditions stated in this Agreement, the consummation of the transactions contemplated hereby (herein called the "Closing") shall be held at the offices of Seller in Fort Worth, Texas, on the later of:

(i) February 14, 1997;

(ii) February 21, 1997 if the SEC gives notice to Buyer that it will not review Buyer's Public Offering and as of February 14, 1997 Buyer is actively engaged in soliciting offers to purchase the securities to be offered in the Public Offering and Buyer has requested in writing on or before February 14, 1997 an extension to the Closing Date and Buyer has paid to Seller the sum of \$500,000 in cash (which shall be in addition to the Purchase Price) on or prior to February 14, 1997; notwithstanding the extension of the Closing Date under this subclause (ii) to February 21, 1997, on February 14, 1997, Buyer shall issue to Seller Buyer's Stock;

(iii) February 28, 1997 if Buyer has extended the Closing Date according to subclause (ii) above, and Buyer has requested a further extension to February 28, 1997 which Seller has, in its sole discretion, agreed to and Buyer has paid to Seller the additional sum of \$500,000 in cash (which shall be in addition to the Purchase Price) on or prior to February 21, 1997; or

(iv) Three (3) business days following the expiration or termination of the applicable waiting period (and any extension thereof) under the HSR Act.

The date on which closing occurs is referred to herein as the "Closing Date."

7.02 - CLOSING OBLIGATIONS. At the Closing, the following events shall occur, each being a condition precedent to the others and each being deemed to have occurred simultaneously with the others:

(a) Seller shall execute, acknowledge and deliver an assignment, bill of sale, and conveyance in recordable form (in sufficient counterparts to facilitate recording) sufficient to convey to Buyer the Properties with covenants of special warranty as to all Leases, such conveyance to be in the form attached hereto as Exhibit "L"; provided, however, the assets described in Sections 1.01 (f), (g) and (h) hereof shall be transferred to Buyer on a form of conveyance or bill of sale reasonably acceptable to Buyer and Seller without warranty of title, AS IS, WHERE IS, and with all faults, and disclaiming all implied warranties, and, as to state or federal leases that are included in the Properties, Seller shall execute, acknowledge and deliver an assignment (in sufficient counterparts for filing with the applicable governmental agency) sufficient to convey to Buyer such state or federal leases, such conveyances to be in the form prescribed by the applicable governmental agency.

(b) Seller shall prepare and deliver to Buyer and Seller and Buyer shall execute and deliver a settlement statement (herein called the "Preliminary Settlement Statement") that shall set forth the Closing Amount (as hereinafter defined) and each adjustment and the calculation of such adjustments used to determine such amount. The term "Closing Amount" shall mean the Purchase Price adjusted as provided in Section 2.02, using for such adjustments the best information then available. Seller shall deliver a draft of the Preliminary Settlement Statement to Buyer at least three (3) business days prior to Closing.

(c) Buyer shall pay the cash portion of the Purchase Price other than the Earnest Money (being the amounts set forth in Section 2.01(a) and, if applicable, Section 2.01(c)(ii)) to Seller by wire transfer in immediately available funds.

(d) The Escrow Agent shall deliver the Earnest Money plus interest earned thereon to Seller.

(e) Unless previously delivered to Seller under Section 7.01(ii), Buyer shall deliver to Seller a certificate or certificates in definitive form representing the Buyer's Stock to be issued to Seller pursuant to Section 2.01 hereof.

(f) If Section 2.01(c)(i) is applicable, Buyer shall execute and deliver to Seller the Note.

(g) If Section 2.01(c)(i) is applicable, Buyer shall deliver to Seller the Letter of Credit.

(h) Seller and Buyer shall execute Texas Railroad Commission Forms P-4 designating Buyer operator of the Properties previously operated by Seller, subject however to the rights of third parties under applicable operating agreements, and Seller shall file such forms with the Texas Railroad Commission.

(i) Seller shall deliver to Buyer, (1) a certificate signed by a responsible officer of the General Partner of Seller certifying that all of the representations and warranties of Seller made hereunder are true and correct at and as of Closing, as if made on the Closing Date, (2) a certified copy of the Executive Committee of the Board of Directors of the General Partner of Seller authorizing the transactions contemplated by the Agreement, such certified copy to show the dates of adoption and that on the Closing Date the resolutions have not been rescinded or modified, and (3) a Certificate of the Secretary of the General Partner of Seller showing the incumbency of the officers of the General Partner of Seller executing instruments on behalf of the General Partner of Seller.

(j) Buyer shall deliver to Seller (1) a certificate signed by a responsible officer of Buyer certifying that all of the representations and warranties of Buyer made hereunder are true and correct at and as of Closing, as if made on the Closing Date, (2) a certified copy of the Board of Directors resolution of Buyer authorizing the transaction contemplated by the Agreement, such certified copy to show the date of adoption and that on the Closing Date it has not been rescinded or modified, (3) a Certificate of the Secretary of Buyer showing the incumbency of the officers of Buyer executing instruments on behalf of Buyer, and (4) such documents as may be reasonably requested by Seller demonstrating that Buyer is a qualified operator with the Texas Railroad Commission and has posted all bonds required by it.

(k) Seller shall deliver to Buyer all funds held in suspense by Seller with respect to the Properties together with a report in reasonable detail setting forth the reasons such funds are held in suspense.

(l) Seller and Buyer shall execute, acknowledge and deliver such transfer orders or letters in lieu thereof, as may be reasonably requested and prepared by Buyer, directing all purchasers of production to make payment to Buyer of proceeds attributable to production from the Properties assigned to Buyer.

(m) Seller shall have delivered to Buyer a favorable opinion of Murphy Mahon Keffler & Farrier, L.L.P., counsel to Seller, dated the Closing Date, substantially in the form of Exhibit "M" hereof.

(n) Buyer shall have delivered to Seller a favorable opinion of Rubin Baum Levin Constant & Friedman, counsel to Buyer, dated the Closing Date, substantially in the form of Exhibit "N" hereof.

#### ARTICLE VIII

##### OBLIGATIONS AFTER CLOSING

###### 8.01 - POST-CLOSING ADJUSTMENTS.

(a) As soon as practicable after the Closing, but not later than 60 days after the Closing, Seller shall prepare and deliver to Buyer, in accordance with this Agreement and generally accepted accounting principles, a statement ("Seller's Final Settlement Statement") setting forth each adjustment to Purchase Price that was not finally determined as of the Closing and showing the calculation of such adjustments. As soon as practicable after receipt of Seller's Final Settlement Statement, and no later than 90 days after the Closing Date, Buyer shall deliver to the Seller a written report containing any changes that Buyer proposes be made to Seller's Final Settlement Statement. The parties shall undertake to agree with respect to the amounts due pursuant to such Post-Closing adjustment not later than 135 days after the Closing Date. If Buyer fails to propose any changes to the accounting set forth in the Seller's Final Settlement Statement, it shall be deemed that Buyer agrees with Seller's Final Settlement Statement. The final agreed price paid by Buyer to Seller for the Properties after all adjustments is hereinafter referred to as the "Final Purchase Price." The date upon which such agreement is reached or upon which the Final Purchase Price is established, shall be herein called the "Final Settlement Date".

(b) If Seller and Buyer are unable to agree upon the Final Sales Price within 135 days from the Closing Date, Price Waterhouse, independent public accountants, is designated to act as an arbitrator and to decide all points of disagreement with respect to the Final Sales Price, such decision to be binding upon both parties. If such firm is unwilling or unable to serve in such capacity, Seller and Buyer shall attempt to, in good faith, designate another acceptable person as the sole arbitrator under this Section . If the parties are unable to agree upon the designation of a person as substitute arbitrator, then Seller or Buyer, or both of them, may in writing request the American Arbitration Association to appoint the substitute arbitrator. The arbitration shall be conducted under the Texas General Arbitration Act and the rules of the American Arbitration Association to the extent such rules do not conflict with the terms of such Act and terms hereof. The costs and expenses of the arbitrator, whether the firm designated above, or a third party appointed pursuant to the preceding sentence shall be shared equally by Seller and Buyer. Within five (5) days after the decision of the arbitrator, the Buyer or Seller, as the case may be, shall promptly make a cash payment to the other equal to the sum as may be found to be due as the Final Sales Price. Notwithstanding the foregoing provisions of this Section 8.01(b), any questions with respect to a Defective Interest or Defect Value shall be resolved pursuant to the terms of Article V hereof.

8.02 - SALES TAXES AND RECORDING FEES. Buyer shall pay all sales taxes occasioned by the sale of the Properties and all documentary, filing and recording fees required in connection with the filing and recording of any assignments.

8.03 - FURTHER ASSURANCES. After Closing, Seller and Buyer shall execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments and take such other action including payment of monies as may be necessary or advisable to carry out their

obligations under this Agreement and under any document, certificate or other instrument delivered pursuant hereto or required by law.

#### 8.04 - BUYER'S POST-CLOSING OBLIGATIONS.

(a) If at any time subsequent to the Closing, Buyer comes into possession of money or property belonging to the Seller that was not previously accounted for by credit or adjustment according to this Agreement such money or other property shall be promptly delivered to the Seller.

(b) Buyer assumes all liabilities attributable to the Properties arising from, attributable to, or alleged to be arising from or attributable to a violation of, or the failure to perform any obligation imposed by any and all laws, statutes, ordinances, rules, regulations, orders or determinations of any governmental authority pertaining to health or environment, including Environmental Laws, in effect where the Properties are located, regardless of when such violation or failure to perform occurred or is deemed to have occurred, EXCEPT THAT Buyer does not assume, and Seller shall retain any liability attributable to compliance with, violation of, or the failure to perform any obligation with respect to the Properties imposed by any Environmental Laws (as defined below) provided that such liability, when added to any liability of Rockland, L.P. under the Plant Agreement for the violation of, or the failure to perform any obligation imposed by any Environmental Law with respect to the assets covered by the Plant Agreement, shall not exceed \$8,000,000 in the aggregate (the "Aggregate Liability Amount"), if and only if (i) such liability or obligation occurred prior to the Effective Time, and (ii) Buyer has provided written notice of such liability or obligation specifying the location and nature of the such liability within one (1) year from the Closing Date ("Environmental Liability"). Buyer does assume any liability attributable to compliance with, violation of, or the failure to perform any obligation with respect to the Properties imposed by, any Environmental Laws which occurred prior to the Effective Time and which is in excess of the Aggregate Liability Amount. In connection with this assumption of liability by Buyer, Buyer agrees that prior to Closing it will conduct such inspections of the properties as deemed necessary by it to fully evaluate the condition of the Properties. As used in this Agreement "Environmental Laws" means all laws, as they exist on the date hereof, relating to (a) the control of any pollutant or potential pollutant or protection of the air, water, land or the environment, (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation, or (c) exposure to hazardous, toxic, explosive, corrosive or other substances alleged to be harmful. "Environmental Laws" shall include, but not be limited to, the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Clean Water Act 33 U.S.C. Section 1251 et seq., the Resource Conservation Recovery Act, 42 U.S.C. Section 6901 et seq., the Superfund Amendments and Reauthorization Act, 42 U.S.C. Section 11001 et seq., the Water Pollution Control Act, 33 U.S.C. Section 1251 et seq., the Safe Drinking Water Act, 42 U.S.C. Section 300f et seq., and the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq.

(c) Except with respect to Environmental Liabilities as defined in Section 8.04(b), Buyer assumes all duties and obligations of the owner of the Properties which accrue or arise from and after the Effective Time. Without limitation of the foregoing, Buyer assumes (i) all obligations of Seller under the Contracts arising after the Effective Time, (ii) all accounts payable and contractual obligations incurred by Seller in accordance with this Agreement with respect to the Properties attributable to periods on or after the Effective Time, (iii) the obligation to make proper distribution of any suspense accounts transferred to Buyer in accordance with standard industry practice, regardless of whether the suspense funds accrued prior or subsequent to the Effective Time, (iv) all obligations to properly remove all pipe and equipment, close pits and to cleanup and restore any property included in or affected by the Properties, and (v) all liabilities and obligations resulting from injury or death to persons and damage to property which occur after the Closing Date.

(d) If, pursuant to Section 4.01(d), Seller does not provide notice to any third parties under preferential rights to purchase provisions requesting waiver of such provisions, or if such request for waiver is made by Seller prior to Closing, but the third party's waiver of or election to exercise the preferential right is not due under the applicable agreement until after Closing, the affected Property shall be conveyed to and purchased by Buyer at Closing pursuant to the terms of this Agreement subject to the terms of the applicable preferential right to purchase. After Closing, Buyer shall, if necessary, provide notice to the appropriate third parties requesting waiver of the applicable preferential rights to purchase and/or comply with the terms of the preferential rights to purchase that are properly exercised after Closing, with Buyer receiving all consideration payable upon the exercise of such preferential rights to purchase.

(e) For a period of one (1) year after the Closing Date, Buyer, or its successor who expressly assumes its obligations and liabilities hereunder, shall maintain its corporate or other legal status and shall at all times own assets having a value net of liabilities of not less than \$50,000,000.

(f) BUYER AGREES TO INDEMNIFY, RELEASE, DEFEND AND HOLD HARMLESS SELLER, ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, AFFILIATES, SUBSIDIARIES, SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY CLAIMS, LIABILITIES, LOSSES, DAMAGES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION, DAMAGE TO PROPERTY, OR INJURY OR DEATH OF PERSONS, COURT COSTS, REASONABLE ATTORNEY'S FEES AND EXPENSES OF EXPERTS) CAUSED BY, ARISING FROM OR ATTRIBUTABLE TO THE BREACH BY BUYER OF ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT OR THE OWNERSHIP OR OPERATION OF THE PROPERTIES AFTER THE EFFECTIVE DATE, REGARDLESS OF WHETHER SUCH CLAIMS, LIABILITIES, LOSSES, DAMAGES, COSTS OR EXPENSES ARE DUE IN WHOLE OR IN PART TO THE NEGLIGENCE OF SELLER.

## 8.05 - SELLER'S POST-CLOSING OBLIGATIONS.

(a) If at any time subsequent to the Closing, Seller comes into possession of money or property belonging to the Buyer that was not previously accounted for by credit or adjustment according to this Agreement such money or other property shall be promptly delivered to the Buyer.

(b) Except for the obligations assumed by Buyer pursuant to Section 8.04 hereof, Seller shall be responsible for and discharge (i) Environmental Liabilities as defined in Section 8.04(b) hereof, and in connection therewith, Buyer shall allow Seller reasonable access to the Properties affected by the Environmental Liabilities to conduct clean-up and remedial operations, and (ii) all other claims, costs, expenses and liabilities with respect to the Properties which accrue or relate to the times prior to the Effective Time, including claims and liabilities for unpaid royalties that are not included in the suspense funds transferred to Buyer.

(c) For a period of one (1) year after the Closing Date, Seller Rockland, L.P., or any of their respective successors who expressly assumes its obligations and liabilities hereunder, shall maintain its partnership or other legal status and shall at all times own assets having a value net of liabilities of not less than \$50,000,000.

(d) If Seller is unable to transfer to Buyer any seismic, geological, geochemical or geophysical data (the "Seismic Data") concerning or relating to the Properties because of legal constraints, obligations of confidence or prior agreements with third parties, Seller shall, upon request by Buyer, make such Seismic Data available for review by Seller to the extent that such review is also not prohibited by such restrictions.

(e) SELLER AGREES TO INDEMNIFY, RELEASE, DEFEND AND HOLD HARMLESS BUYER, ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, AFFILIATES, SUBSIDIARIES, SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY CLAIMS, LIABILITIES, LOSSES, DAMAGES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION, DAMAGE TO PROPERTY, OR INJURY OR DEATH OF PERSONS, COURT COSTS, REASONABLE ATTORNEY'S FEES AND EXPENSES OF EXPERTS) CAUSED BY, ARISING FROM OR ATTRIBUTABLE TO THE BREACH BY SELLER OF ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT, THE ENVIRONMENTAL LIABILITIES AS DEFINED IN SECTION 8.04(b), OR THE OWNERSHIP OR OPERATION OF THE PROPERTIES PRIOR TO THE EFFECTIVE TIME (EXCEPT WITH RESPECT TO LIABILITIES EXPRESSLY ASSUMED BY BUYER UNDER THIS AGREEMENT).

8.06 - FILES AND RECORDS. As soon as practicable after Closing, Buyer and Seller shall arrange for the delivery of the Records to Buyer. For a period of two years after the Closing Date Buyer shall allow Seller access to the Records during Buyer's normal business hours after Closing for the purpose of filing or amending a tax return or for any other legitimate business purpose; provided that any copies of Records made by Seller shall be at the sole expense of Seller.

8.07 - DISCLAIMERS OF REPRESENTATIONS AND WARRANTIES. The express representation and warranties of Seller contained in this Agreement are exclusive and are in lieu of all other representations and warranties, express, implied or statutory. BUYER ACKNOWLEDGES THAT, EXCEPT FOR SELLER'S EXPRESS REPRESENTATIONS, WARRANTIES AND AGREEMENTS CONTAINED HEREIN, SELLER HAS NOT MADE, AND SELLER HEREBY EXPRESSLY DISCLAIMS AND NEGATES, AND BUYER HEREBY EXPRESSLY WAIVES ANY REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, AT COMMON LAW, BY STATUTE OR OTHERWISE RELATING TO (I) THE ENVIRONMENTAL CONDITION OF THE ASSETS, (II) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, (III) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, (IV) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS, (V) ANY RIGHTS OF PURCHASERS UNDER APPROPRIATE STATUTES TO CLAIM DIMINUTION OF CONSIDERATION, (VI) ANY AND ALL IMPLIED WARRANTIES EXISTING UNDER APPLICABLE LAW AND (VII) THE QUALITY, QUANTITY OR VOLUME OF ANY OIL, AND GAS RESERVES; IT BEING THE EXPRESS INTENTION OF BOTH BUYER AND SELLER THAT THE PERSONAL PROPERTY, EQUIPMENT AND FIXTURES INCLUDED WITHIN THE ASSETS ARE TO BE CONVEYED TO BUYER IN THEIR PRESENT CONDITION AND STATE OF REPAIR, "AS IS" AND "WHERE IS" WITH ALL FAULTS, AND THAT BUYER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS BUYER DEEMS APPROPRIATE. SELLER AND BUYER AGREE THAT, TO THE EXTENT REQUIRED BY APPLICABLE LAW TO BE EFFECTIVE, THE DISCLAIMERS OF CERTAIN WARRANTIES CONTAINED IN THIS SECTION ARE "CONSPICUOUS" DISCLAIMERS FOR THE PURPOSES OF ANY APPLICABLE LAW, RULE OR ORDER.

8.08 - WAIVER OF DTPA. It is the intent of the parties that Buyer's rights and remedies with respect to this transaction and with respect to all acts or practices of Seller, past, present or future, in connection with this transaction shall be governed by legal principles other than the Texas Deceptive Trade Practices - Consumer Protection Act, Tex. Bus. & Ann. Section 17.41 et seq. (Vernon 1987 and Supp. 1994) (the "DTPA") or any similar statute of any jurisdiction that may be applicable to the transactions contemplated hereby. As such, Buyer hereby waives the applicability of the DTPA or any similar statute to this transaction and any and all duties, rights or remedies that might be imposed by the DTPA or any similar statute; provided, however, Buyer does not waive Section 17.555 of the DTPA. Buyer acknowledges, represents and warrants that it is purchasing the assets covered by this Agreement for commercial or business matters; that it is

able to evaluate the merits and risks of a transaction such as this; and that it is not in a significantly disparate bargaining position with Seller. Buyer expressly recognizes that the price for which Seller has agreed to sell the assets and perform its obligations under this Agreement has been predicated upon the inapplicability of the DTPA or any similar statute and this waiver of the DTPA and any similar statute. Buyer further recognizes that Seller, in determining to proceed with the entering into of this Agreement has expressly relied on the provisions of this Section 8.08.

8.09 - RESIGNATION OF OPERATOR. On the Closing Date, Seller shall resign as operator of all of the Properties it operates, as provided in any applicable operating agreement, and shall use reasonable efforts to secure the consents necessary for Buyer to become operator of the Properties previously operated by Seller. With respect to those Properties as to which Buyer becomes operator, Seller shall relinquish operations to Buyer on the Closing Date. At the time Seller relinquishes operations to Buyer, Seller shall deliver to Buyer all amounts payable to third parties out of production attributable to the Properties and held in suspense by Seller.

8.10 - REGISTRATION OBLIGATIONS OF BUYER.

(a) Shelf Registration. Within thirty (30) days from the Closing Date, Buyer shall prepare and file with the Securities and Exchange Commission, or any successor body thereto (the "Commission"), a shelf registration statement on Form S-3 or other appropriate form (the "Registration Statement") pursuant to Rule 415 under the Securities Act of 1933, as amended, and all rules and regulations under such Act (the "Securities Act") covering the Buyer's Stock.

(b) Registration Procedures. In connection with the Registration Statement, Buyer shall use its best efforts to effect the registration of the Buyer's Stock, and pursuant thereto, Buyer shall as expeditiously as possible:

(i) prepare and file with the Commission the Registration Statement on the appropriate form with respect to such Buyer's Stock and use all reasonable efforts to cause the Registration Statement to become effective as soon as legally practicable following its filing (provided that before filing a Registration Statement or prospectus or any amendments or supplements thereto, Buyer will furnish to the counsel selected by Seller copies of all such documents proposed to be filed, which documents will be subject to the review of such counsel);

(ii) prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection therewith as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the Registration Statement in accordance with the intended methods of disposition by Sellers set forth in the Registration Statement;

(iii) furnish to Seller such number of copies of the Registration Statement, each amendment and supplement thereto, the prospectus included in the Registration Statement (including each preliminary prospectus) and such other documents as Seller may reasonably request in order to facilitate the disposition of the Buyer's Stock;

(iv) use its reasonable efforts to register or qualify the Buyer's Stock under such other securities or blue sky laws of such jurisdictions within the United States as Seller reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable Seller to consummate the disposition in such jurisdictions of the Buyer's Stock (provided that Buyer will not be required to qualify generally to do business or file any general consent to service of process in any jurisdiction where it would not otherwise be required to qualify or file but for this subparagraph);

(v) notify Seller, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in the Registration Statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and, at the request of Seller, Buyer will prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of the Buyer's Stock, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(vi) use its reasonable efforts to cause all of the Buyer's Stock to be listed on each securities exchange on which similar securities issued by Buyer are then listed;

(vii) provide a transfer agent and registrar (which may be Buyer) for all of the Buyer's Stock not later than the effective date of the Registration Statement;

(viii) enter into such customary agreements (including underwriting agreements in customary form) and take all such other actions as Seller reasonably requests in order to expedite or facilitate the disposition of the Buyer's Stock (including, without limitation, effecting a stock split or a combination of shares);

(ix) make available for inspection by Seller, any underwriter participating in any disposition pursuant to the Registration Statement and any attorney, accountant or other agent retained by Seller or underwriter, all financial and other records (as may be reasonably requested), pertinent corporate documents and properties of Buyer as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause Buyer's officers, directors,, employees and independent accountants to supply all information reasonably requested by Seller, underwriter, attorney, accountant or agent in connection with the Registration Statement; provided, however, Seller agrees that information obtained by it as a result of such inspections which is deemed confidential shall not be used by it as the basis for any market transaction in securities of the company unless and until such information is made

generally available to the public and Seller shall cause any attorney, accountant or agent retained by Seller to keep confidential any information so deemed;

(x) otherwise use reasonable efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least 12 months beginning with the first day of Buyer's first full calendar quarter after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(ix) in the event of the issuance of any stop order suspending the effectiveness of the Registration Statement, or of any order suspending or preventing the use of any related prospectus or suspending the qualification of any common stock included in the Registration Statement for sale in any jurisdiction, Buyer will use reasonable efforts promptly to obtain the withdrawal of such order;

(xii) use reasonable efforts to cause the Buyer's Stock covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable Seller to consummate the disposition of the Buyer's Stock;

(c) Registration Expenses. Buyer shall bear and pay all expenses in connection with the registration effected pursuant to this Section 8.10, including, without limitation, (i) all expenses incident to Buyer's performance of or compliance with the registration rights granted hereunder, including (without limitation) all registration and filing fees, fees and expenses of compliance with securities and blue sky laws, printing and engraving expenses, messenger, telephone and delivery expenses, and fees and disbursements of counsel for Buyer, all independent certified public accountants and underwriters (excluding discounts and commissions, which shall be the obligation of Seller), (ii) the expense of any annual audit and the fees and expenses incurred in connection with the listing of the securities to be registered on each of the securities exchange on which similar securities issued by Buyer are then listed, and (iii) in connection with the registration hereunder, the reasonable fees and disbursements of counsel chosen by Seller.

(d) Restriction on Sales of Buyer's Stock.. If, in the written opinion of Buyer's managing underwriter for the Public Offering, the sale by Seller of any of Buyer's Stock during the offering period for the Public Offering could have a material adverse affect on the Public Offering, then Seller shall not sell or cause to be sold any of the Buyer's Stock for such period that is recommended in the written opinion of Buyer's managing underwriter, provided that such period shall not exceed 45 days after the effective date of the registration statement for the Public Offering.

(e) INDEMNIFICATION. BUYER SHALL INDEMNIFY AND HOLD HARMLESS, WITH RESPECT TO THE REGISTRATION STATEMENT FILED BY IT, TO THE FULL EXTENT PERMITTED BY LAW, SELLER AND EACH OTHER

PERSON OR ENTITY, IF ANY, WHO CONTROLS SELLERS WITH IN THE MEANING OF SECTION 15 OF THE SECURITIES ACT (COLLECTIVELY, "HOLDER INDEMNIFIED PARTIES") AGAINST ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES AND EXPENSES, JOINT OR SEVERAL, TO WHICH ANY SUCH HOLDER INDEMNIFIED PARTY MAY BECOME SUBJECT UNDER THE SECURITIES ACT, THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED, AND ALL RULES AND REGULATIONS UNDER SUCH ACT, AT COMMON LAW OR OTHERWISE, INsofar AS SUCH LOSSES, CLAIMS, DAMAGES, LIABILITIES OR EXPENSES (OR ACTIONS OR PROCEEDINGS, WHETHER COMMENCED OR THREATENED, IN RESPECT THEREOF) ARISE OUT OF OR ARE BASED UPON (I) ANY UNTRUE STATEMENT OR ALLEGED UNTRUE STATEMENT OF A MATERIAL FACT CONTAINED IN THE REGISTRATION STATEMENT AS CONTEMPLATED HEREBY OR ANY OMISSION OR ALLEGED OMISSION TO STATE THEREIN A MATERIAL FACT REQUIRED TO BE STATED THEREIN OR NECESSARY TO MAKE THE STATEMENTS THEREIN NOT MISLEADING, (II) ANY UNTRUE STATEMENT OR ALLEGED UNTRUE STATEMENT OF A MATERIAL FACT CONTAINED IN ANY PRELIMINARY, FINAL OR SUMMARY PROSPECTUS, TOGETHER WITH THE DOCUMENTS INCORPORATED BY REFERENCE THEREIN (AS AMENDED OR SUPPLEMENTED IF BUYER SHALL HAVE FILED WITH THE COMMISSION ANY AMENDMENT THEREOF OR SUPPLEMENT THERETO), OR ANY OMISSION OR ALLEGED OMISSION TO STATE THEREIN A MATERIAL FACT REQUIRED TO BE STATED THEREIN OR NECESSARY IN ORDER TO MAKE THE STATEMENTS THEREIN, IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY WERE MADE, NOT MISLEADING, OR (III) ANY VIOLATION BY BUYER OF ANY FEDERAL, STATE OR COMMON LAW RULE OR REGULATION APPLICABLE TO BUYER AND RELATING TO ACTION OF OR INACTION BY BUYER IN CONNECTION WITH ANY SUCH REGISTRATION; AND IN EACH SUCH CASE, BUYER SHALL REIMBURSE EACH SUCH HOLDER INDEMNIFIED PARTY FOR ANY REASONABLE LEGAL OR OTHER EXPENSES INCURRED BY ANY OF THEM IN CONNECTION WITH INVESTIGATING OR DEFENDING ANY SUCH LOSS, CLAIM, DAMAGE, LIABILITY, EXPENSE, ACTION OR PROCEEDING; PROVIDED, HOWEVER, THAT BUYER SHALL NOT BE LIABLE TO ANY SUCH HOLDER INDEMNIFIED PARTY IN ANY SUCH CASE TO THE EXTENT, THAT ANY SUCH LOSS, CLAIM, DAMAGE, LIABILITY OR EXPENSE (OR ACTION OR PROCEEDING, WHETHER COMMENCED OR THREATENED, IN RESPECT THEREOF) ARISES OUT OF OR IS BASED UPON ANY UNTRUE STATEMENT OR ALLEGED UNTRUE STATEMENT OR OMISSION OR ALLEGED OMISSION MADE IN THE REGISTRATION STATEMENT OR AMENDMENT THEREOF OR SUPPLEMENT THERETO OR IN ANY SUCH PRELIMINARY, FINAL OR SUMMARY PROSPECTUS IN RELIANCE UPON AND IN CONFORMITY WITH WRITTEN INFORMATION FURNISHED TO BUYER BY OR ON BEHALF OF ANY SUCH HOLDER INDEMNIFIED PARTY FOR USE IN THE PREPARATION THEREOF. SUCH INDEMNITY AND REIMBURSEMENT OF EXPENSES AND

OTHER OBLIGATIONS SHALL REMAIN IN FULL FORCE AND EFFECT REGARDLESS OF ANY INVESTIGATION MADE BY OR ON BEHALF OF THE HOLDER INDEMNIFIED PARTIES AND SHALL SURVIVE THE TRANSFER OF SUCH SECURITIES BY SUCH HOLDER INDEMNIFIED PARTIES.

8.11 - SURVIVAL. The representations, warranties, covenants, agreements and indemnities included or provided in Article III, in Article IV, in Section 5.03(f), this Article VIII, in Article X, in Article XI, in Article XII, and in the assignments and agreements to be delivered at the Closing shall survive the Closing for a period of one (1) year after the Closing Date. All other representations, warranties, covenants, certificates, instruments and agreements contained in or referred to in this Agreement shall terminate at Closing.

#### ARTICLE IX

##### TERMINATION OF AGREEMENT

9.01 - TERMINATION. This Agreement and the transactions contemplated hereby may be terminated in the following instances:

(a) by Seller if the conditions set forth in Section 6.01 are not satisfied in all material respects or waived prior to the Closing Date;

(b) by Buyer if the conditions set forth in Section 6.02 are not satisfied in all material respects or waived prior to the Closing Date;

(c) By Seller if pursuant to Section 5.04 hereof Buyer gives Seller notice of Defective Interests having a Defect Value equal to or greater than ten percent (10%) of the Purchase Price and Buyer asserts a reduction in the Purchase Price according to Section 2.02(b)(3) hereof that is in excess of ten percent (10%) of the Purchase Price;

(d) by Seller if Buyer does not deposit all of the Earnest Money with the Escrow Agent before 2:00 p.m. on January 2, 1997;

(e) By Seller if Buyer does not provide to Seller by 5:00 p.m. on January 2, 1997, a letter from a reputable financial institution that such financial institution is highly confident that Buyer can obtain financing for the cash portion of the Purchase Price at or prior to the Closing; or

(f) at any time by the mutual written agreement of Buyer and Seller.

9.02 - LIABILITIES. Nothing contained in this Agreement shall limit Seller's or Buyer's legal or equitable remedies including, without limitation, damages for the breach or failure of any representation, warranty, covenant or agreement contained herein and the right to enforce specific

performance of this Agreement; provided however, (i) neither party hereto shall be liable to the other for consequential damages; (ii) if all conditions precedent to the obligation of Buyer to close have been satisfied, but Buyer refuses to close, Seller shall have the option to either pursue specific performance, receive the Earnest Money and retain Buyer's Stock issued under Section 7.01(ii) as liquidated damages and terminate this Agreement or pursue its actual damages, and if Seller receives the Earnest Money and retains Buyer's Stock issued under Section 7.01(ii) as liquidated damages pursuant to Article X hereof, then Seller shall have no further recourse against Buyer; (iii) if all conditions precedent to the obligation of Seller to close have been satisfied, but Seller refuses to close, Buyer shall have the option to either pursue specific performance, receive the Earnest Money and Buyer's Stock issued under Section 7.01(ii) as liquidated damages and terminate this Agreement or pursue its actual damages, and if Buyer receives the Earnest Money and Buyer's Stock issued under Section 7.01(ii) as liquidated damages pursuant to Article X hereof, then Buyer shall have no further recourse against Seller; and (iv) Seller shall have no liability to Buyer if Buyer terminates this Agreement because any representation or warranty made by Seller herein is incorrect.

#### ARTICLE X

##### EARNEST MONEY

Upon the execution of this Agreement, Buyer has deposited into escrow with Bank One, Texas, N.A., in Fort Worth, Texas (the "Escrow Agent"), the sum of money equal to Thirty Five Million and No/100 Dollars (\$35,000,000) as earnest money (the "Earnest Money"). At Closing, the Earnest Money, less any costs or fees incurred, plus any interest earned thereon shall be applied against the Purchase Price. If this transaction fails to close due to any breach by Buyer of the terms, conditions, representations and warranties found in this Agreement, then at the election of Seller, the Earnest Money and all interest earned thereon may be delivered to Seller as liquidated damages. If this transaction fails to close, due to any breach by Seller of the terms, conditions, representations and warranties found in this Agreement, then the Earnest Money and all interest earned thereon shall be delivered to Buyer. If this transaction fails to close for any other reason whatsoever, then the Earnest Money and all interest earned thereon shall be delivered to Buyer. Seller and Buyer agree to give the Escrow Agent joint instructions for the delivery of the Earnest Money, together with any interest earned thereon, in accordance with the terms of this Agreement

#### ARTICLE XI

##### INDEMNIFICATION

###### 11.01 - RIGHT TO EMPLOY COUNSEL.

(a) When any claim, action, or suit shall be filed or asserted in writing against any party which is indemnifiable under the terms of this Agreement, the indemnified party shall promptly notify the indemnifying party of the same in writing, specifying in detail the

basis of such claim and the facts pertaining thereto, and the indemnifying party shall, at its option, have the right to assume the defense thereof or participate in the defense thereof and to employ its own legal counsel in connection with such defense. Failure of the indemnified party to notify the indemnifying party of such claim, action, or suit within twenty (20) calendar days after notice to the indemnified party of such claim, action, or suit shall constitute a waiver of its rights under this Article, unless such failure to notify within such time period shall not prejudice the rights of the indemnifying party in respect of such claim, action or suit, in which case prompt notification as provided above shall be sufficient.

(b) The indemnified party shall have the right to employ counsel separate from counsel employed by the indemnifying party in any such action and to participate in the defense thereof, but the fees and expenses of such counsel employed by the indemnified party shall be at the sole expense of the indemnified party unless (i) the indemnifying party shall have elected not or shall have failed to assume or participate in the defense thereof, (ii) the employment thereof has been specifically authorized by the indemnifying party in writing, or (iii) the parties to any such action (including any impleaded parties) include both the indemnifying and indemnified party, and the indemnified party shall have been advised by its counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party (in any which case (i), (ii) or (iii) above the indemnifying party shall not have the right to assume the defense of such action on behalf of the indemnified party and the fees and expenses of such counsel employed by the indemnified party shall be at the sole expense of the indemnifying party).

(c) Prior to effectuating any settlement of any such action or proceeding, the indemnified party shall furnish the indemnifying party with written notice of any proposed settlement in sufficient time to allow the indemnifying party to act thereon. The indemnifying party shall not be liable for any settlement of any such action or proceeding effected without the written consent of the indemnifying party. The indemnifying party shall not effect a settlement of any claim without the written consent of the indemnified party unless the indemnifying party secures the complete release of the indemnified party as a part of such settlement.

#### 11.02 - CLAIM REIMBURSEMENT AND REDUCTION.

(a) Should the indemnified party realize any benefit, including any tax benefit, resulting from any loss, liability, cost or damage for which such indemnified party has been indemnified under this Article, such indemnified party shall reimburse the indemnifying party, at the time such benefit is realized, an amount equal to the dollar amount of such benefit so realized.

(b) Any claim shall be reduced to the extent of any third party insurance or condemnation payment actually received by the indemnified party or, alternatively, at the

option of the indemnified party, the rights of the indemnified party against any insurer or governmental unit with respect to such claim shall be assigned to the indemnifying party.

## ARTICLE XII

### GENERAL

12.01 - EXHIBITS. All Exhibits are hereby incorporated in this Agreement by reference and constitute a part of this Agreement. Each party to this Agreement and its counsel has received a complete set of Exhibits prior to and as of the execution of this Agreement.

12.02 - EXPENSES. All fees, costs and expenses incurred by Buyer or Seller in negotiating this Agreement or in consummating the transactions contemplated by this Agreement shall be paid by the party incurring the same including, without limitation, legal and accounting fees, costs and expenses.

12.03 - NOTICES. All notices or communications required or permitted under this Agreement shall be in writing, and any notices or communications hereunder shall be deemed to have been duly made if delivered by (i) hand, (ii) overnight delivery service, (iii) telecopy, or (iv) three days after being placed in first class certified mail, postage prepaid, with return receipt requested to the following addresses:

All notices to Seller shall be delivered to:

Cometra Energy, L.P.  
500 Throckmorton, Suite 2500  
Fort Worth, Texas 76102  
Telecopy: 817/877-4464

All notices to Buyer shall be delivered to:

Lomak Petroleum, Inc.  
500 Throckmorton, Suite 2100  
Fort Worth, Texas 76102  
Telecopy: 817/870-2316

The address at which any party hereto is to receive notice may be changed from time to time by such party by giving notice of the new address to all other parties hereto. Any notice or communication given by telecopy shall be promptly confirmed by delivery of a copy of such notice or communication by hand or overnight delivery service.

12.04 - AMENDMENTS. This Agreement may not be amended nor any rights hereunder waived except by an instrument in writing signed by the party to be charged with such amendment or waiver and delivered by such party to the party claiming the benefit of such amendment or waiver.

12.05 - HEADINGS. The headings of the articles and sections of this Agreement are for guidance and convenience of reference only and shall not limit or otherwise affect any of the terms or provisions of this Agreement.

12.06 - COUNTERPARTS. This Agreement may be executed by Buyer and Seller in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute but one and the same instrument.

12.07 - REFERENCES. References made in this Agreement, including use of a pronoun, shall be deemed to include where applicable, masculine, feminine, singular or plural, individuals, partnerships or corporations. As used in this Agreement, "person" shall mean any natural person, corporation, partnership, trust, estate or other entity.

12.08 - GOVERNING LAW. This Agreement and the transactions contemplated hereby shall be construed in accordance with, and governed by, the laws of the State of Texas.

12.09 - ENTIRE AGREEMENT. This Agreement (including the Exhibits hereto) constitutes the entire understanding among the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and prior agreements and understandings relating to such subject matter.

12.10 - PARTIES IN INTEREST. This Agreement shall be binding upon and shall inure to the benefit of, the parties hereto and, except as otherwise prohibited, their respective successors and assigns; and except as otherwise stated herein, nothing contained in this Agreement, or implied herefrom, is intended to confer upon any other person or entity any benefits, rights or remedies.

12.11 - ASSIGNMENTS. Neither Buyer nor Seller may assign all or any portion of their respective rights or delegate any portion of their duties hereunder without the prior written consent of the other, which consent shall not be unreasonably withheld. Provided, however, that Buyer may assign this Agreement and its rights and duties hereunder to a wholly owned limited partnership, limited liability company or corporation, in which case, Buyer's Stock shall remain common stock to be issued by Lomak Petroleum, Inc.

12.12 - PUBLIC ANNOUNCEMENTS. The parties hereto agree that prior to making any public announcement or statement with respect to the transactions contemplated by this Agreement, the party desiring to make such public announcement or statement shall consult with the other party hereto and exercise their best efforts to agree upon the text of a joint public announcement or statement to be made solely by Seller or Buyer, as the case may be; provided, however, if Seller or Buyer is required by law to make such public announcement or statement, then the same may be made without the approval of the other party. The opinion of counsel of either party shall be conclusive evidence of such requirement by law.

12.13 - NOTICES AFTER CLOSING. Buyer and Seller hereby agree that each party shall notify the other of its receipt, after the Closing Date, of any instrument, notification or other document affecting the Properties while owned by such other party.

12.14 - SEVERABILITY. If a court of competent jurisdiction determines that any clause or provision of this agreement is void, illegal or unenforceable, the other clauses and provisions of the Agreement shall remain in full force and effect and the clauses and provisions that are determined to be void, illegal or unenforceable shall be limited so that they shall remain in effect to the extent permissible by law.

12.15 - TIME IS OF THE ESSENCE. It is understood and agreed that time is of the essence in this Agreement.

IN WITNESS WHEREOF, the parties have executed or caused the Agreement to be executed as of the day and year first above written.

COMETRA ENERGY, L.P.  
a Texas limited partnership

By: AVENEG, INC., a Delaware corporation,  
its General Partner

By: \_\_\_\_\_  
Mark W. Young, President

COMETRA PRODUCTION COMPANY, L.P.,  
a Texas limited partnership

By: GRAND LACS, INC., a Delaware  
corporation, its General Partner

By: \_\_\_\_\_  
Mark W. Young, President

SELLER

LOMAK PETROLEUM, INC.,  
a Delaware corporation

By: \_\_\_\_\_  
John Pinkerton, President

BUYER

FIRST AMENDMENT TO PURCHASE  
AND SALE AGREEMENT

This FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT (the "Amendment") is made and entered into as of the 10th day of January, 1997, by and among COMETRA ENERGY, L.P. ("CE"), a Texas limited partnership, COMETRA PRODUCTION COMPANY, L.P. ("CPC"), a Texas limited partnership (CE and CPC are jointly referred to herein as "Seller") and LOMAK PETROLEUM, INC., a Delaware corporation ("Buyer").

## RECITALS

A. Seller and Buyer have entered into that certain Purchase and Sale Agreement dated December 31, 1996 (the "Agreement").

B. Seller and Buyer desire to amend the Agreement as set forth herein in order to, among other things, extend the date that the Buyer's Stock will be issued to Seller if the issuance of the Buyer's Stock will require filings to be made under the HSR Act.

C. Capitalized terms used in this Amendment are defined in the Agreement, as amended hereby, unless otherwise stated in this Amendment.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

ARTICLE I  
Amendments

1.01. Amendment to Section 4.01(g). Effective as of the date hereof, Section 4.01(g) of the Agreement is hereby deleted in its entirety and the following shall be substituted therefor:

"(g) If on February 14, 1997 it is determined that the shares of stock comprising the Buyer's Stock represent more than ten percent (10%) of the outstanding voting securities of Buyer, then as soon as practicable, but before February 19, 1997, Seller will file with the Federal Trade Commission and the Department of Justice the notification and report form required for the issuance of the Buyer's Stock and will as promptly as possible furnish any supplemental information which may be reasonably requested in connection therewith pursuant to the HSR Act. Seller shall bear one-half (1/2) of the filing fees associated with filings made under the HSR Act and paid by Buyer or Seller."

1.02. Amendment to Section 4.02(b). Effective as of the date hereof, Section 4.02(b) of the Agreement is hereby deleted in its entirety and the following shall be substituted therefor:

"(b) If on February 14, 1997 it is determined that the shares of stock comprising the Buyer's Stock represent more than ten percent (10%) of the outstanding voting securities of Buyer, then as soon as practicable, but before February 19, 1997, Buyer will file with the Federal Trade Commission and the Department of Justice the notification and report form required for the issuance of the Buyer's Stock and will as promptly as possible furnish any supplemental information which may be reasonably requested in connection therewith pursuant to the HSR Act. Buyer shall bear one-half (1/2) of the filing fees associated with filings made under the HSR Act and paid by Buyer or Seller."

1.03. Deletion of Section 6.01(e). Effective as of the date hereof, Section 6.01(e) of the Agreement is hereby deleted in its entirety.

1.04. Deletion of Section 6.02(e). Effective as of the date hereof, Section 6.02(e) of the Agreement is hereby deleted in its entirety.

1.05. Amendment to Subclause (ii) of Section 7.01. Effective as of the date hereof, subclause (ii) of Section 7.01 of the Agreement is hereby deleted in its entirety and the following shall be substituted therefor:

"(ii) February 21, 1997 if the SEC gives notice to Buyer that it will not review Buyer's Public Offering and as of February 14, 1997 Buyer is actively engaged in soliciting offers to purchase the securities to be offered in the Public Offering and Buyer has requested in writing on or before February 14, 1997 an extension to the Closing Date and Buyer has paid to Seller the sum of \$500,000 in cash (which shall be in addition to the Purchase Price) on or prior to February 14, 1997; notwithstanding the extension of the Closing Date under this subclause (ii) to February 21, 1997, on February 14, 1997, Buyer shall issue to Seller the Buyer's Stock if the shares comprising Buyer's Stock represent less than ten percent (10%) of the outstanding voting securities of Buyer as of February 14, 1997; provided, however, if the shares comprising the Buyer's Stock represent ten percent (10%) or more of the outstanding voting securities of Buyer as of February 14, 1997, the Buyer's Stock shall be issued to Seller (whether before or after the Closing Date) on the earlier to occur of (a) one (1) business day following the expiration or termination of the applicable waiting period (and any extensions thereof) under the HSR Act that is specifically applicable to the issuance of the Buyer's Stock to Seller or (b) one (1) business day after the date that the securities are issued under Buyer's Public Offering if, as of such date, the shares comprising the Buyer's Stock represent less than ten percent (10%) of the outstanding voting securities of Buyer, inclusive of the securities issued under Buyer's Public Offering."

1.06. Deletion of Subclause (iv) of Section 7.01. Effective as of the date hereof, subclause (iv) of Section 7.01 of the Agreement is hereby deleted in its entirety.

1.07. Amendment to Section 7.02(e). Effective as of the date hereof, Section 7.02(e) of the Agreement is hereby deleted in its entirety and the following shall be substituted therefor:

"(e) Unless previously delivered to Seller under Section 7.01(ii) or unless Section 8.04(g) shall apply after Closing, Buyer shall deliver to Seller a certificate or certificates in definitive form representing the Buyer's Stock to be issued pursuant to Section 2.01 hereof."

1.08. Inclusion of Section 8.04(g). Effective as of the date hereof, the following is hereby added as Section 8.04(g) of the Agreement:

"(g) If the Buyer's Stock is not issued to Seller prior to Closing according to Section 7.01(ii) or at Closing according to Section 7.02(e), then after Closing (or if Closing does not occur and this Agreement is terminated, then according to subclause (ii) of Section 9.02, if applicable), Buyer shall deliver to Seller a certificate or certificates in definitive form representing the Buyer's Stock on the earlier to occur of (a) one (1) business day following the expiration or termination of the applicable waiting period (and any extension thereof) under the HSR Act that is specifically applicable to the issuance of the Buyer's Stock to Seller or (b) one (1) business day after the date the securities are issued under Buyer's Public Offering if as of such date the shares comprising the Buyer's Stock represent less than ten percent (10%) of the outstanding voting securities of Buyer, inclusive of the securities issued under Buyer's Public Offering."

1.09. Amendment to Subclauses (ii) and (iii) of Section 9.02. Effective as of the date hereof, subclauses (ii) and (iii) of Section 9.02 of the Agreement are hereby deleted in their entirety and the following shall be substituted therefor:

"(ii) if all conditions precedent to the obligation of Buyer to close have been satisfied, but Buyer refuses to close, Seller shall have the option to either pursue specific performance, receive the Earnest Money and retain Buyer's Stock previously issued under Section 7.01(ii) or to be issued under Section 8.04(g) as liquidated damages and terminate this Agreement or pursue its actual damages, and if Seller receives the Earnest Money and retains Buyer's Stock previously issued under Section 7.01(ii) or to be issued under Section 8.04(g) as liquidated damages pursuant to Article X hereof, then Seller shall have no further recourse against Buyer; (iii) if all conditions precedent to the obligation of Seller to close have been satisfied, but Seller refuses to close, Buyer shall have the option to either pursue specific performance, receive the Earnest Money and Buyer's Stock previously issued under Section 7.01(ii) or to be issued under Section 8.04(g) as liquidated damages and terminate this Agreement or pursue its actual damages, and if Buyer receives the Earnest Money and Buyer's Stock previously issued under Section

7.01(ii) or to be issued under Section 8.04(g) as liquidated damages pursuant to Article X hereof, then Buyer shall have no further recourse against Seller."

ARTICLE II  
Ratifications

2.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement are ratified and confirmed and shall continue in full force and effect. Buyer and Seller agree that the Agreement, as amended hereby, shall continue to be legal, valid, binding and enforceable in accordance with its terms.

ARTICLE III  
Miscellaneous Provisions

3.01. Reference to Agreement. The Agreement and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms of the Agreement, as amended hereby, are hereby amended so that any reference in the Agreement and such other documents to the Agreement shall mean a reference to the Agreement as amended hereby.

3.02. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

3.03. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

3.04. Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

3.05 Applicable Law. THIS AMENDMENT SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

IN WITNESS WHEREOF, the parties have executed or caused this Amendment to be executed as of the day and year first above written.

COMETRA ENERGY, L.P.,  
a Texas limited partnership

By: AVENEG, INC., a Delaware corporation,  
its General Partner

By: \_\_\_\_\_  
Mark W. Young, President

COMETRA PRODUCTION COMPANY, L.P.,  
a Texas limited partnership

By: GRAND LACS, INC., a Delaware  
corporation, its General Partner

By: \_\_\_\_\_  
Mark W. Young, President

SELLER

LOMAK PETROLEUM, INC.,  
a Delaware corporation

By: \_\_\_\_\_  
John Pinkerton, President

BUYER

PURCHASE AND SALE AGREEMENT

DATED DECEMBER 31, 1996

BETWEEN

ROCKLAND, L.P.  
AS SELLER

AND

LOMAK PETROLEUM, INC.  
AS BUYER

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## PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (this "Agreement") dated as of the 31st day of December, 1996 is executed by ROCKLAND, L.P., a Texas limited partnership, the general partner of which is Esperanza Pipeline, Inc. a Delaware corporation ("Seller") and LOMAK PETROLEUM, INC., a Delaware corporation ("Buyer").

In consideration of the mutual promises contained herein, the benefits to be derived by each party hereunder and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree as follows:

## ARTICLE I

## PURCHASE AND SALE

1.01 - PURCHASE AND SALE. Subject to the terms and conditions of this Agreement, Seller agrees to sell and convey to Buyer, and Buyer agrees to purchase and pay for the following described assets (hereinafter referred to as the "Properties"):

(a) All of the rights-of-way, easements, surface use agreements and other agreements described on Exhibit "A" attached hereto and made a part hereof together with any other easement, surface use agreement or other similar agreement relating to the Facilities (defined below) held by Seller and not described on Exhibit "A" hereto (in the aggregate the "Easements").

(b) All of those certain plants, pipelines and related separating equipment and meter stations, compressors and compressor stations, valves, pumps, and other equipment, personal property and fixtures described on Exhibit "B" attached hereto and made a part hereof (collectively the "Facilities").

(c) All of the Contract Rights (defined below) under those certain contracts described on Exhibit "C" attached hereto and made a part hereof together with all other gas purchase agreements, transportation agreements, gathering agreements, marketing agreements and other similar agreements relating to gas moved through the Facilities and not described on Exhibit "C" attached hereto (in the aggregate the "System Contracts").

(d) All of Seller's right, title and interest in and to all of the environmental and other governmental (whether federal, state or local) permits, licenses, orders, authorizations, franchises and related instruments or rights relating to the ownership, operation or use of the Facilities (the "Permits"), including without limitation those described on Exhibit "C" attached hereto and made a part hereof.

(e) Any office building, district office, or similar facility used in connection

with or relating to the Properties and the entire furnishing and contents thereof (other than the Records).

(f) Any vehicles used by Seller in the operation of the Properties.

(g) All inventory items related to the operation of the Properties.

(h) All of Seller's right, title and interest in and to all books, files, records, correspondence, studies, surveys, reports and other data in the actual possession or control of Seller relating to the operation of the Facilities, including without limitation all title records, customer lists, supplier lists, sales materials, promotional materials, operational records, technical records, production and processing records, division order and lease right-of-way files, accounting files and contract files (the "Records").

As used herein, the term "Contract Rights" shall mean all rights, titles, interests, benefits and remedies in, to and under a contract, which under the terms of such contract inure to the benefit of Seller, together with all other rights titles, interests, benefits, obligations and remedies of Seller in, to and under the contract.

1.02 - EXCLUDED ASSETS. Notwithstanding anything to the contrary contained herein, there is hereby excluded from this purchase and sale, and the Properties not cover or include any of the following:

(a) All accounts receivable related to the period prior to the Effective Time and all deposits with utilities made prior to the Effective Time and all claims, credits and causes of action of Seller arising under the System Contracts or otherwise attributable to the Properties which arise prior to the Effective Time and for which Seller has not otherwise received payment or an adjustment credit under the terms of this Agreement..

(b) Photocopies of any Records made by Seller.

1.03 - EFFECTIVE TIME. The purchase and sale of the Properties shall be effective as of 7:00 a.m. on October 1, 1996, local time at the location of the Properties (herein called the "Effective Time").

## ARTICLE II

### PURCHASE PRICE

2.01 - PURCHASE PRICE. The purchase price payable by Buyer for the Properties shall be FIFTY MILLION AND NO/100DOLLARS (\$50,000,000) (the "Purchase Price"), payable in cash at the Closing, inclusive of the cash payments represented by transfer of the Earnest Money to Seller.

2.02 - ADJUSTMENTS TO PURCHASE PRICE. The Purchase Price shall be subject to adjustment as follows:

(a) The Purchase Price shall be adjusted upward as follows:

- (i) The value of all merchantable, allowable condensate in storage at the Effective Time, which is sold and which is credited to the Properties and paid to Buyer, such value to be the actual price received less taxes and deductions by the purchaser;
- (ii) The amount of all verifiable expenditures paid by Seller or any affiliate of Seller in connection with the operation of the Properties in accordance with this Agreement for work actually performed subsequent to the Effective Time, but specifically excluding any amounts attributable to Seller's overhead;
- (iii) An amount equal to all prepaid ad valorem, property, production, severance and similar taxes (but not including income taxes) based upon or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom;
- (iv) an aggregate amount equal to \$12,500.00 per month (pro rated for partial months) for the period between the Effective Time and the Closing Date as reimbursement to Seller for costs incurred in operating and managing the Properties after the Effective Time;
- (v) Any other amount agreed upon by Seller and Buyer.

(b) The Purchase Price shall be adjusted downward as follows:

- (i) Proceeds and revenues received by Seller from the Properties which are attributable to the period after the Effective Time;
- (ii) An amount equal to all unpaid ad valorem, property, production, severance and similar taxes and assessments (but not including income taxes) based upon or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom accruing to the Properties prior to the Effective Time;
- (iii) The amount of all verifiable expenditures paid by Buyer for work actually done and performed in connection with the Properties prior

to the Effective Time;

- (iv) The aggregate amount of the Defect Value (defined below) of any Defective Interest (defined below) determined to exist in accordance with Article V hereof, to the extent the Defect Value of all such Defective Interests exceeds one half of one percent (1/2%) of the Purchase Price (without giving effect to this Section 2.02(b)(iv)); and
- (v) Any other amount agreed upon by Seller and Buyer, including without limitation the amounts provided in Section 5.04(c).

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

3.01 - REPRESENTATIONS AND WARRANTIES OF SELLER. Except as provided below, Seller represents and warrants to Buyer as follows:

(a) Seller is a duly organized, validly existing limited partnership organized and in good standing under the laws of its state of formation and is qualified to do business in the State of Texas.

(b) Seller has all requisite power and authority, partnership, corporate and otherwise, to carry on its business as presently conducted, to enter into the Agreement, to sell and convey, free and clear of all adverse claims, the Properties on the terms described in the Agreement and to perform its other obligations under the Agreement.

(c) The execution and delivery of this Agreement has been, and the execution and delivery of all certificates, documents and instruments required to be executed and delivered by Seller at the Closing, and the consummation of the transactions contemplated hereby as of the Effective Time shall have been duly authorized by all necessary partnership and corporate action on the part of the Seller, and, assuming expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"), no further authorization is required by any law, statute, regulation, court order or judgment applicable to Seller. This Agreement constitutes a legal, valid and binding obligation of Seller enforceable in accordance with its terms, subject however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) The execution and delivery of the Agreement and the consummation of the transactions contemplated hereby will not (i) violate, or be in conflict with, any provisions of Seller's agreement of limited partnership or governing documents, (ii) constitute a

material breach of, or any event of default under, any contract or agreement to which Seller is a party or by which it or its assets are bound, or constitute the happening of an event or condition upon which any other party to such a contract or agreement may exercise any right or option which will materially adversely affect any of the Properties (except any provision as to (A) required consents to transfer and related provisions, (B) maintenance of uniform interests provisions and (C) any other third-party approvals contemplated herein), (iii) assuming expiration or termination of the applicable waiting period under the HSR Act, violate any judgment, decree, order, statute, rule or regulation applicable to Seller, or (iv) result in any material liability to Buyer under the terms of any contracts or agreements, except those obligations related to the Properties after the Effective Time and assumed by Buyer pursuant to the terms of the Agreement.

(e) Except as shown on Exhibit "D" attached hereto and made a part hereof, no suit, action or other proceeding is pending before any court or governmental agency as of the date of this Agreement to which Seller is a party and which might result in substantial impairment or loss of Seller's title to any material part of the Properties or that might materially hinder or impede the operation of the Leases or the ability of Seller to perform its obligations hereunder.

(f) Seller holds such permits, governmental licenses, approvals, authorizations and exemptions, including environmental permits, that are necessary to carry on its business as presently conducted and all of same are transferable to Buyer. The Facilities, as currently operated by Seller, do not require certificate authority from the Federal Energy Regulatory Commission. Seller has complied with all of the laws, regulations and orders of the Texas Railroad Commission and the United States Department of Transportation affecting the Properties. While Seller has owned the Properties (the "Ownership Period"), all necessary reports required by any governmental agency with respect to the Properties have been timely, properly and accurately made.

(g) During the Ownership Period, all ad valorem, property, production, severance and similar taxes and assessments based on or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom on the Properties have been properly paid.

(h) Seller has incurred no liability, contingent or otherwise, for brokers' or finders' fees relating to the transactions contemplated by this Agreement for which Buyer shall have any responsibility whatsoever.

(i) The contracts described on Exhibit "C" hereto are the only material agreements which provide for the purchase, sale, gathering, delivery, compressing, transporting, processing, marketing or any other disposition of the gas through the Facilities, and the contracts described on Exhibit "C" hereto and the easements described on Exhibit "A" hereto are the only agreements relating to the Facilities which might require a consent to assign or contain a preferential right to purchase or similar provision.

(j) Seller is not a "foreign person" within the meaning of Section 1445 of the Internal Revenue Code of 1986, as amended.

(k) The Properties comprise all assets, equipment and agreements that are necessary to operate the Properties in the ordinary course of business as such business was conducted as of the Effective Time.

(l) Seller is not in material default under any of the System Contracts.

(m) Seller has complied with all terms of the Surface Lease ("Plant Lease") dated December 17, 1993 by and between Michael L. Foster, Pat A. Foster and Gary D. Foster (collectively "Grantor") and Seller.

3.02 - REPRESENTATIONS AND WARRANTIES OF BUYER. Buyer represents and warrants to the Seller that:

(a) Buyer is a duly organized, validly existing corporation organized and in good standing under the laws of the State of its incorporation and is qualified to do business in the State of Texas.

(b) Buyer has all requisite power and authority, corporate and otherwise, to carry on its business as presently conducted, to enter into the Agreement, and to perform its obligations under the Agreement.

(c) The execution and delivery of this Agreement has been, and the execution and delivery of all certificates, documents and instruments required to be executed and delivered by Buyer at Closing, and the consummation of the transactions contemplated hereby as of the Effective Time shall have been duly authorized by all necessary corporate action on the part of the Buyer and, assuming expiration or termination of the applicable waiting period under the HSR Act, no further authorization is required by any law, statute, regulation, court order or judgment applicable to Buyer. This Agreement constitutes a legal, valid and binding obligation of Buyer enforceable in accordance with its terms, subject however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) The execution and delivery of the Agreement and the consummation of the transactions contemplated hereby will not (i) violate, or be in conflict with, any provisions of Buyer's articles of incorporation, bylaws or governing documents, (ii) constitute a material breach of, or any event of default under, any contract or agreement to which Buyer is a party or by which it or its assets are bound, or constitute the happening of an event or condition upon which any other party to such a contract or agreement may

exercise any right or option which will materially adversely affect the ability of Buyer to perform its obligations hereunder, (iii) assuming expiration or termination of the applicable waiting period under the HSR Act, violate any judgment, decree, order, statute, rule or regulation applicable to Buyer, or (iv) result in any material liability to Seller under the terms of any contracts or agreements to which Buyer is a party.

(e) No suit, action or other proceeding is pending before any court or governmental agency as of the date of this Agreement to which Buyer is a party and which might materially hinder or impede the ability of Buyer to perform its obligations hereunder. Buyer shall promptly notify Seller of any such proceeding arising prior to the Closing with respect to which Buyer receives actual notice.

(f) Buyer has incurred no liability, contingent or otherwise, for brokers' or finders' fees relating to the transactions contemplated by this Agreement for which Seller shall have any responsibility whatsoever.

(g) Buyer is a knowledgeable purchaser, owner and operator of oil and gas properties, has the ability to evaluate (and in fact has evaluated) the Properties for purchase, and is acquiring the Properties for its own account and not with the intent to make a distribution thereof within the meaning of the Securities Act of 1933 (and the rules and regulations pertaining thereto) or a distribution thereof in violation of any other applicable securities laws.

(h) In entering into this Agreement, Buyer has relied solely on the express representations and covenants of Sellers in this Agreement, its independent investigation of, and judgment with respect to, the Properties and the advice of its own legal, tax, economic, environmental, engineering, geological and geophysical advisors and not on any comments or statements of Seller or any representatives of, or consultants or advisors engaged by Seller.

#### ARTICLE IV

##### COVENANTS

4.01 - COVENANTS OF SELLER. Seller agrees with Buyer that:

(a) Prior to the Closing, Seller will make available to Buyer for examination at a Seller's offices in Fort Worth, Texas, all title and other information relating to the Properties insofar as the same are in Seller's possession and will cooperate with Buyer in Buyer's efforts to obtain, at Buyer's expense, such additional information relating to the Properties as Buyer may reasonably desire, to the extent in each case that Seller may do so without violating legal constraints or any obligation of confidence or other contractual commitment of Seller to a third party. Historical file information in Seller's possession regarding condensate which may have been spilled or disposed of on-site and the locations

thereof; pits and pit closures; burials; landfarming; landspreading; underground injection; and solid waste disposal sites will be made available to Buyer for inspection prior to Closing. Seller shall permit representatives of Buyer to make such environmental tests as they deem appropriate, including without limitation Phase I and Phase II testing. Seller shall permit Buyer, at Buyer's expense, to inspect and photocopy such information and records at any reasonable time during the term of this Agreement but only to the extent, in each case, that Seller may do so without violating any obligation of confidence or contractual commitment to a third party. Seller shall not be obligated to furnish any updated abstracts, title opinions or additional title information, but shall cooperate with Buyer in Buyer's efforts to obtain, at Buyer's expense, such additional title information as Buyer may reasonably deem prudent.

(b) From the date of this Agreement, Seller shall furnish to Buyer and shall cause its independent auditors to furnish to Buyer all information regarding the Properties, Seller and its respective business, assets, properties, and financial condition which, in the reasonable judgment of Buyer and/or its legal counsel and independent auditors, is necessary to enable Buyer to comply with filing requirements under the Securities Act of 1933 (the "Act") and the Securities and Exchange Act of 1934 ("Exchange Act") to the extent deemed necessary by the Buyer and its representatives.

(c) From the date of this Agreement until Closing, Seller (i) will cause the Properties to be operated and maintained in a good and workmanlike manner consistent with prior practices, and will pay or cause to be paid all costs and expenses in connection therewith, (ii) will not abandon any of the Properties, (iii) will maintain insurance now in force with respect to the Properties, (iv) will comply with all the rules, regulations and orders of the Texas Railroad Commission and the United States Department of Transportation which are applicable to Seller and the Properties, and will timely, properly and accurately make all reports required to be filed with the Texas Railroad Commission and the United States Department of Transportation (v) will perform and comply with all the covenants and conditions contained in the System Contracts, and (vi) will pay all taxes and assessments with respect to the Properties which come due and payable prior to the Closing Date; provided, however, in the absence of Buyer's written consent, from the date of this Agreement until the Closing, Seller shall not conduct or authorize any operation on the Properties requiring an expenditure of \$100,000 or more for the entire 100% of any single project (except emergency operations).

(d) Without the prior written consent of Buyer from the date of this Agreement until Closing, Seller shall not enter into any new agreements or commitments with respect to the Properties, will not modify or terminate any of the agreements relating to the Properties, shall not encumber, sell, transfer, assign, convey, or otherwise dispose of any of the Properties other than personal property which is replaced by equivalent property or consumed in the operation of the Properties, and will not voluntarily compromise any amounts payable to Seller due to any casualty loss or any pending or

threatened taking related to the Properties..

(e) Seller shall use all reasonable efforts to maintain its partnership status and to assure that as of the Closing it shall not be under any material partnership, legal or contractual restriction that would prohibit or delay the timely consummation of this transaction.. With respect to any third-party consents and notices required under preferential rights to purchase provisions, Seller shall make requests of such third parties in compliance with applicable agreements, that such consents be given or waived and that such preferential rights be waived; provided however, nothing contained in this subsection of Section 4.01 shall require Seller to pay money or undertake any additional legal obligation.

(f) Seller shall permit Buyer's authorized representatives to consult with Seller and/or such third-party operator's agents and employees during reasonable business hours and to conduct, at Buyer's sole risk and expense, on-site inspections, environmental assessments, reasonable tests and inventories of the Properties as provided in Section 5.03 hereof.

(g) As promptly as practicable and in any event not more than ten (10) days following the date on which the parties hereto shall have executed and delivered this Agreement, Seller will file with the Federal Trade Commission and the Department of Justice the notification and report form required for the transactions contemplated hereby and will as promptly as practicable furnish any supplemental information which may be reasonably requested in connection therewith pursuant to the HSR Act. Seller shall bear one-half of the filing fees associated with filings made under the HSR Act and paid by Buyer or Seller.

(h) During the period from the date of this Agreement to the Closing Date, Seller shall use its best efforts to maintain its relationships with all suppliers, customers and others having business relationships with Seller with respect to the Properties so that such relationships will be preserved for Buyer on and after the Closing Date.

(i) Seller shall give Buyer notice of any litigation initiated by or against Seller, of which Seller has notice, and which relates to the Properties or the ability of Seller to proceed to Closing.

4.02 - COVENANTS OF BUYER. Buyer covenants and agrees with Seller as follows:

(a) Buyer shall use all reasonable efforts to maintain its corporate status and to assure that as of the Closing, it will not be under any material corporate, legal or contractual restriction that would prohibit or delay the timely consummation of this transaction.

(b) As promptly as practicable and in any event not more than ten days

following the date on which each of the parties hereto shall have executed and delivered this Agreement, Buyer will file with the Federal Trade Commission and the Department of Justice the notification and report form required for the transactions contemplated hereby and will as promptly as practicable furnish any supplemental information which may be reasonably requested in connection therewith pursuant to the HSR Act. Buyer shall bear one-half of the filing fees associated with filings made under the HSR Act and paid by Buyer or Seller

(c) Buyer shall exercise all due diligence in safeguarding and maintaining secure all engineering data, reports and maps, accounting records, and all other confidential data or information relating to the Properties in the possession of Buyer. If the transaction contemplated by this Agreement is not consummated, Buyer shall return to Seller all information which Seller has delivered to Buyer which relate to the Properties.

(d) Buyer shall give Seller notice of any litigation initiated by or against Buyer, of which Buyer has notice, and which relates to the Properties or the ability of Buyer to proceed to Closing.

#### ARTICLE V

##### TITLE MATTERS AND DEFECTIVE INTERESTS

###### 5.01 - DEFENSIBLE TITLE.

(a) As used herein, the term "Defensible Title" shall have the following meaning

(i) With respect to the Easements, Defensible Title means that subject to the Permitted Encumbrances (A) Seller owns all of the rights of the original grantee of the Easements free and clear of mortgages, liens, security interests, pledges, charges, encumbrances, claims, limitations, irregularities, burdens or defects, and is otherwise only subject to contractually binding arrangements which are conventional and which are customarily experienced in the oil and gas industry, (B) the Easements grant to the grantee the right to construct, maintain and operate the Facilities (C) all necessary consents, permissions, novations and approvals by third parties in connection with the sale and transfer of the Easements shall have been received, except those governmental consents customarily generated and received in the ordinary course of business at a Post-Closing date; and (D) with respect to preferential rights to purchase, waivers of such rights have been obtained, or the time period for exercising such right has expired without an exercise of such right;

(ii) With respect to the Facilities, Defensible Title means that (A) either (I) Seller constructed the particular component of the Facilities, or (II) Seller has acquired the rights of the person who originally constructed the particular component of the Facilities through a chain of one or more assignments, (B) the Facilities are located on Easements as to which Seller has Defensible Title, and (C) the rights of Seller to the Facilities are free and clear (except for Permitted Encumbrances) of mortgages, liens, security interests, pledges, charges, encumbrances, claims, limitations, irregularities, burdens or defects, and is otherwise only subject to contractually binding arrangements which are conventional and which are customarily experienced in the oil and gas industry.

(iii) With respect to the System Contracts, Defensible Title means that subject to the Permitted Encumbrances (A) either (I) Seller was an original signatory to the contract, or (II) Seller has acquired the rights of an original signatory to the contract through a chain of one or more assignments, (B) the rights of Seller under the contract are free and clear of mortgages, liens, security interests, pledges, charges, encumbrances, claims, limitations, irregularities, burdens or defects, and is otherwise only subject to contractually binding arrangements which are conventional and which are customarily experienced in the oil and gas industry; (C) all necessary consents, permissions, novations and approvals by third parties in connection with the sale and transfer of the System Contracts shall have been received; and (D) with respect to preferential rights to purchase, waivers of such rights have been obtained, or the time period for exercising such right has expired without an exercise of such right;

(b) The term "Permitted Encumbrances" as used herein shall mean:

- (i) Any (A) undetermined or inchoate liens or charges constituting or securing the payment of expenses that were incurred incidental to maintenance or operation of the Properties or for the purpose of processing oil, gas or other hydrocarbons, and (B) materialman's, mechanics', repairman's, employees', contractors', operators', or other similar liens or charges for liquidated amounts arising in the ordinary course of business (x) that Seller has agreed to assume or pay pursuant to the terms hereof, (y) for which Seller is responsible for paying or releasing at Closing, or (z) for which Buyer has agreed to assume or pay pursuant to the terms hereof;
- (ii) Preferential rights to purchase and required third party consents to assignments and similar agreements with respect to which prior to Closing (i) waivers or consent are obtained from the appropriate parties, (ii) the appropriate time period for asserting such rights has

- expired without an exercise of such rights, and (iii) with respect to consent, such consent is not necessary to the validity of an assignment to Buyer and need not be obtained prior to an assignment;
- (iii) Liens for taxes or assessments not yet due or not yet delinquent or, if delinquent, that are being contested in good faith in the normal course of business;
  - (iv) All rights to consent by, required notices to, filings with, or other actions by governmental entities if the same are customarily obtained subsequent to such sale or conveyance;
  - (v) Rights of reassignment in the event of intended release or surrender of any of the Properties;
  - (vi) Easements, rights-of-way, servitudes, permits, surface leases and other rights in respect of surface operations, pipelines, grazing, logging, canals, ditches, reservoirs or the like; and easements for streets, alleys, highways, pipelines, telephone lines, power lines, railways and other easements and rights-of-way, on, over or in respect of any of the Properties which do not materially interfere with the operation of the Properties;
  - (vii) Rights reserved to or vested in any municipality or governmental, statutory or public authority to control or regulate any of the Properties in any manner, and all applicable laws, rules and orders of any governmental authority;
  - (viii) Such Title Defects (defined below) or other defects as Buyer has waived in writing or otherwise pursuant to this Agreement, or which individually and in the aggregate do not operate to interfere materially with the operation, value or use of the Properties; and
  - (ix) Those matters described on Exhibit "E" attached hereto and made a part hereof.

(c) The term "Title Defect" as used herein shall mean any encumbrances, encroachment, irregularity, defect in or objection to Seller's title to the Properties (expressly excluding Permitted Encumbrances), that alone or in combination with other defects renders Seller's title to the Properties less than Defensible Title.

#### 5.02 - DEFECTIVE INTERESTS.

(a) As used herein the term "Defective Interest" shall mean

(1) That portion of the Properties affected by a Title Defect.;

(2) That portion of the Properties adversely affected by Seller's material noncompliance with the laws, rules, regulations, ordinances or orders of any governmental agency or authority having jurisdiction over any portion of the Properties, including without limitation Environmental Laws (defined below) as may be reasonably determined in accordance with generally accepted industry practices and standards;

(3) That portion of the Properties adversely affected by the default of Seller, or any other party, under an obligation under the Systems Contracts;

(4) That portion of the Properties with respect to which any preferential right to purchase is exercised unless Buyer elects to receive the consideration received from the exercise of such preferential right to purchase;

(5) That portion of the Facilities which have a defect (resulting from design, construction, wear or other reason) which will prevent the continued operation of the Facilities in accordance with prior practice;

(6) That portion of the Properties affected by any suit, action or other proceeding before any court or government agency that would result in loss or impairment of Seller's title to any portion of the Properties, or a portion of the value thereof;

(7) That portion of the Properties destroyed by fire or other casualty, or with respect to which there is a taking or threatened taking in condemnation or under the right of eminent domain, unless Buyer elects to receive the proceeds payable under any insurance policy covering such events; and

(8) Any Easement or Systems Contract which is not valid and subsisting and in full force and effect.

(b) As used herein the term "Defect Value" shall mean the the reduction in value of the Properties caused by a Defective Interest.

5.03 - BUYER'S RIGHT OF INSPECTION. Seller grants Buyer and its duly authorized representatives, contractors and subcontractors (collectively "Representatives") the limited right of entry to the Properties for the purpose of, inspecting the Properties in accordance with the terms of Section 4.01(e) hereof, ("Permitted Activities"), subject however, to the following conditions:

(a) Buyer shall notify Seller of its desire to enter the Properties to conduct Permitted Activities at least 48 hours prior to such entry.

(b) Upon receipt of such notice, Seller shall allow Buyer and its Representatives to enter the Properties during normal business hours to conduct Permitted Activities. The Permitted Activities of Buyer and its Representatives shall not unreasonably interfere with Seller's operations or business, and Buyer and its Representatives shall not remain on the Properties subsequent to the completion of their Permitted Activities. As soon as reasonably possible, Buyer shall provide Seller with a copy of all reports prepared for Buyer as a result of conducting Permitted Activities.

(c) The Permitted Activities shall be conducted in accordance with all applicable environmental and regulatory laws, rules and regulations, and commonly accepted standards for conducting such activities. Upon completion of its activity, Buyer and its Representatives shall restore the Property to its condition existing as of Buyer's entry thereon and remove all equipment and materials that were brought onto the Properties by Buyer and its Representatives. As soon as reasonably possible, Buyer shall provide Seller with a copy of all written reports prepared for Buyer as a result of conducting Permitted Activities.

(d) Buyer will be responsible for the conduct and protection of all persons involved in the Permitted Activities. Seller shall not have any right to control and shall not exercise any responsibility with respect to the Permitted Activities conducted by Buyer on the Properties, except that Seller shall have the right (but not the obligation) to prevent any damage to its property or disruption to its business. Buyer and its Representatives will undertake all measures reasonably necessary to protect all persons conducting the Permitted Activities on the Properties and any other persons who may enter the Properties during or after completion of the Permitted Activities.

(e) Neither Buyer nor its Representatives shall contact any federal, state, or local agency with respect to environmental conditions discovered on the Properties without the prior written permission and consent of Seller, except as may be otherwise required by applicable law, rule or regulation. Any proposal of Buyer or its Representatives to contact any federal, state, or local agency shall be delivered in writing to Seller for review and approval.

(f) BUYER AGREES TO FULLY INDEMNIFY, DEFEND, AND HOLD SELLER, ITS AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND CONTRACTORS HARMLESS FROM AND AGAINST ANY ALL CLAIMS, LIABILITIES, CAUSES OF ACTIONS, JUDGMENTS OR DEFENSE EXPENSES (INCLUDING REASONABLE ATTORNEYS FEES AND EXPERT EXPENSES) OF ANY PERSON, INCLUDING BUYER, ITS AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND CONTRACTORS, FOR

(I) PERSONAL INJURY OR DEATH OF ANY PERSON, (II) DAMAGE TO THE PROPERTY OF SELLER, BUYER OR ANY OTHER PERSON, OR (III) ALL OTHER DAMAGES OR ECONOMIC LOSSES (INCLUDING ANY DAMAGES CAUSED BY THE NEGLIGENCE OF SELLER), ATTRIBUTABLE TO OR ARISING FROM THE PERMITTED ACTIVITIES, EXCEPT THERE SHALL BE NO LIABILITY OF BUYER TO THE EXTENT ANY SUCH INJURY, DAMAGE, OR LOSS IS CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SELLER.

5.04 - NOTICE OF DEFECTIVE INTERESTS.

(a) Buyer shall give Seller notice of Defective Interests not later than twenty-one (21) days from the date of this Agreement. Such notice shall be in writing and shall include (i) a description of the Defective Interest (ii) the reason Buyer believes such Properties to be a Defective Interest, and (iii) the Defect Value asserted by Buyer with respect to the asserted Defective Interest. Buyer's notice(s) of Defective Interests shall not be effective unless and until the total of the asserted Defect Values for the asserted Defective Interests exceeds one-half of one percent (1/2%) of the Purchase Price. Buyer shall be deemed to have waived all Defective Interests of which Seller has not been given such notice within the time period prescribed in this Section 5.04(a).

(b) Upon being notified by Buyer pursuant to Section 5.04(a) of any asserted Defective Interest the Seller shall give written counter-notice to Buyer within five (5) days (i) that it either (A) will attempt to correct the asserted Defective Interest, or (B) does not intend to attempt to correct the Defective Interest; and (ii) whether it agrees or disagrees that the asserted Defective Interest exist, and (iii) whether it agrees or disagrees with the Defect Value asserted by the Buyer.

(c) If Seller gives counter-notice of intent to attempt to correct any asserted Defective Interest, it shall have a period of thirty (30) days from the receipt of the Buyer's notice (the "Cure Period") to attempt to correct such asserted Defective Interest at its own expense. The Closing shall not be extended, but to the extent that the Defect Value allocated to the Defective Interest when combined with the Defect Value of all other asserted Defective Interests exceeds one-half of one percent (1/2%) of the Purchase Price, a downward adjustment of the Purchase Price shall be made in such amount according to Section 2.02(b)(5). If Seller shall subsequently cure such Defective Interest within the Cure Period, such Defect Value as to which curative has been effected shall be a credit to Seller in the determination of the Final Settlement according to Section 8.01 hereof. If Seller is unable to cure such Defective Interest, Seller shall still have the right to assert the provisions of Sections 5.04 (d) and (e) below after Closing, in which case Buyer shall deposit the amount of the disputed Defect Value with the Escrow Agent according to Section 5.06(b) below.

(d) If Seller gives counter-notice (or notice after the Cure Period according to Section 5.04(c)) that it disagrees there is a Defective Interest, then the existence (and if it exists, the Defect Value), will be determined by arbitration pursuant to Section 5.05 hereof.

(e) If Seller gives counter-notice (or notice after the Cure Period according to Section 5.04(c)) that it disagrees with the Defect Value asserted by Buyer in connection with a Defective Interest, then the amount of the Defect Value will be determined by arbitration pursuant to Section 5.05 hereof.

(f) The failure of Seller to deliver written counter-notice shall be deemed to be notice that Seller (i) will not attempt to correct that asserted Defective Interest, (ii) agrees that there is a Defective Interest and (iii) agrees with the Defect Value asserted by the Buyer.

(g) In determining which portions of the Properties are Defective Interests, it is the intent of the parties to include, when possible, only that portion of the Properties affected by the defect.

5.05 - ARBITRATION PROCEDURES. If any matter is required by this Article to be arbitrated, such arbitration shall be conducted as set forth in this Section 5.05.

(a) The parties shall jointly select an acceptable person as the sole arbitrator under this Agreement. If the parties are unable to agree upon the designation of a person as arbitrator, then either Seller or Buyer, or both such parties, may in writing request the American Arbitration Association to appoint a qualified arbitrator.

(b) Any arbitration hearing shall be held at a place in Fort Worth, Texas acceptable to the arbitrator.

(c) The arbitrator shall settle disputes regarding the existence of Defective Interests and/or the Defect Value thereof and Seller's attempts to correct any Title Defects in accordance with the Texas General Arbitration Act. Such arbitrator shall hear all arbitration matters arising under this Article V. The decision of the arbitrator shall be binding upon the parties, and may be enforced in any court of competent jurisdiction. Seller and Buyer, respectively, shall bear their own legal fees and other costs incurred in presenting their respective cases. The charges and expenses of the arbitrator shall be shared equally by Seller and Buyer.

(d) The arbitration shall commence within ten days after the arbitrator is selected as set forth in Section 5.05(a) above. In fulfilling his duties hereunder, the arbitrator shall be bound by the terms of this Agreement. In fulfilling any of his arbitration duties, the arbitrator may consider such other matters as in the opinion of the arbitrator are necessary or helpful to make a proper evaluation. Additionally, the arbitrator may

consult with and engage disinterested third parties, including, without limitation, petroleum engineers, attorneys and consultants, to advise the arbitrator.

(e) If any arbitrator selected hereunder should die, resign or be unable to perform his duties hereunder the parties or if the parties are unable to agree, the American Arbitration Association shall select a replacement arbitrator. The aforesaid procedure shall be followed from time to time as necessary.

5.06 - EFFECT OF DEFECTIVE INTERESTS ON THE CLOSING. If Buyer asserts any Defective Interests the following shall apply:

(a) The parties shall proceed to the Closing as provided in this Agreement if (i) Seller elects to cure the asserted defect according to Section 5.04(c), (ii) Buyer agrees to waive the relevant Defective Interest and purchase the Defective Interest notwithstanding the asserted Defective Interest, or (iii) Buyer and Seller agree to a Defect Value and the Purchase Price is reduced by such amount in accordance with Section 2.02(b) hereof.

(b) If any matter is referred to arbitration under Section 5.05 of this Agreement and the Defect Value or Values asserted by Buyer with respect to the matters under arbitration when combined with all other Defective Interests totals less than ten percent (10%) of the Purchase Price (including an agreement by Buyer to waive any arbitration award which when combined with all other Defective Interests would exceed ten percent (10%) of the Purchase Price), then the parties shall proceed to Closing, the asserted Defective Interests shall be conveyed to Buyer, and the Closing Amount (defined below) shall be reduced by an amount equal to the asserted Defect Values of the asserted Defective Interests (the "Withheld Payment"). The Withheld Payment shall be placed in escrow with the same entity under essentially the same terms as the Earnest Money (defined below). The Withheld Payment shall be paid as follows:

(i) If the arbitrator decides that any Defective Interest asserted by the Buyer is not a Defective Interest, then the Withheld Payment with respect to the asserted Defective Interest shall be paid to the Seller.

(ii) If the arbitrator decides that any one or more of the Defective Interests asserted by the Buyer are in fact Defective Interests, then, the Withheld Payment, to the extent it, when combined with all other Defective Interests, exceeds one-half (1/2) of one percent (1/2%) of the Purchase Price up to the amount of the Defect Value, as determined by the arbitrator, shall be distributed to the Buyer, and the remainder, if any, shall be distributed to the Seller.

(c) If any matter is referred to arbitration under Section 5.05 of this Agreement and the Defect Value asserted by Buyer with respect to the matters under arbitration when combined with all other Defective Interests totals ten percent (10%) of the Purchase Price

or more, then, unless the parties otherwise agree, the Buyer waives its rights to an arbitration award which, when combined with all other Defective Interests exceeds ten percent (10%) of the Purchase Price, or this Agreement is terminated by Seller pursuant to Article IX hereof. If none of the foregoing occurs, the Closing shall be postponed until the arbitrator renders his final decision. After the arbitrator renders his final decision the parties shall proceed to the Closing, and the Purchase Price will be reduced by the Defect Value found by the arbitrator to the extent it, when combined with all other Defective Interests, exceeds one-half of one percent (1/2%) of the Purchase Price; provided however, nothing contained in this Section 5.06(c) shall be deemed to in any way modify or terminate Seller's or Buyer's conditions to Closing under Section 6.01(d) or 6.02(d).

## ARTICLE VI

### CONDITIONS TO CLOSING

6.01 - SELLER'S CONDITIONS. The obligations of Seller at the Closing are subject, at the option of Seller, to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived, in whole or in part, in writing by Seller:

(a) All representations and warranties of Buyer contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing; and Buyer shall have performed and satisfied all material obligations in all material respects required by this Agreement to be performed and satisfied by Buyer at or prior to the Closing.

(b) No suit or other proceeding shall be pending before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the purchase and sale contemplated by this Agreement.

(c) All necessary consents, permissions, novations and approvals by third parties in connection with the sale and transfer of the Properties shall have been received prior to Closing, except those required consents, permissions, novations and approvals which are Permitted Encumbrances.

(d) Defective Interests will not reduce the Purchase Price by more than ten percent (10%).

(e) The waiting period (and any extension thereof) under the HSR Act applicable to the transactions contemplated hereby shall have expired or been terminated.

(f) All transactions contemplated by that certain Purchase and Sale Agreement of even date herewith between Cometra Energy, L.P., Cometra Production Company, L.P.

and Buyer ( the "Producing Properties Agreement") shall have closed pursuant to the terms of the Producing Properties Agreement.

6.02 - BUYER'S CONDITIONS. The obligations of Buyer at the Closing are subject, at the option of Buyer, to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived, in whole or in part, in writing by Buyer:

(a) All representations and warranties of Seller contained in this Agreement (except for the representations and warranties set forth in Sections 3.01(k) and (l) shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing; and Seller shall have performed and satisfied all material agreements in all material respects required by this Agreement to be performed and satisfied by Seller at or prior to the Closing.

(b) No suit or other proceeding shall be pending before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the purchase and sale contemplated by this Agreement.

(c) All necessary consents, permissions, novations and approvals by third parties in connection with the sale and transfer of the Properties shall have been received prior to Closing, except those required consents, permissions, novations and approvals which are Permitted Encumbrances, but specifically including the consent to assign the Surface Lease (as defined in Section 8.05(d) below) from the Surface Owners (as defined in Section 8.05(d) below).

(d) Defective Interests will not reduce the Purchase Price by more than ten percent (10%).

(e) The waiting period (and any extension thereof) under the HSR Act relating to the transactions contemplated hereby shall have expired or been terminated.

(f) All transactions contemplated by the Producing Properties Agreement shall have closed pursuant to the terms of the Producing Properties Agreement.

#### ARTICLE VII

##### CLOSING

7.01 - CLOSING. Unless the parties hereto agree otherwise and subject to the conditions stated in this Agreement, the consummation of the transactions contemplated hereby (herein called the "Closing") shall be held at the offices of Seller in Fort Worth, Texas, on the later of:

(i) February 14, 1997;

(ii) February 21, 1997, if the period to close the Producing Properties Agreement is extended to such date according to the terms of the Producing Properties Agreement;

(iii) February 28, 1997, if the period to close the Producing Properties Agreement is extended to such date according to the terms of the Producing Properties Agreement; or

(iv) Three (3) business days following the expiration or termination of the applicable waiting period (and any extension thereof) under the HSR Act.

The date on which closing occurs is referred to herein as the "Closing Date."

7.02 - CLOSING OBLIGATIONS. At the Closing, the following events shall occur, each being a condition precedent to the others and each being deemed to have occurred simultaneously with the others:

(a) Seller shall execute, acknowledge and deliver an assignment, bill of sale, and conveyance in recordable form (in sufficient counterparts to facilitate recording) sufficient to convey to Buyer the Properties with covenants of special warranty as to all Leases, such conveyance to be in the form attached hereto as Exhibit "F", provided, however, the assets described in Sections 1.01 (e), (f) and (g) hereof shall be transferred to Buyer on a form of conveyance or bill of sale reasonably acceptable to Buyer and Seller without warranty of title, AS IS, WHERE IS, and with all faults, and disclaiming all implied warranties.

(b) Seller shall prepare and deliver to Buyer and Seller and Buyer shall execute and deliver a settlement statement (herein called the "Preliminary Settlement Statement") that shall set forth the Closing Amount (as hereinafter defined) and each adjustment and the calculation of such adjustments used to determine such amount. The term "Closing Amount" shall mean the Purchase Price adjusted as provided in Section 2.02, using for such adjustments the best information then available. Seller shall deliver a draft of the Preliminary Settlement Statement to Buyer at least three (3) days prior to Closing.

(c) Buyer shall pay the Purchase Price other than the Earnest Money to Seller by wire transfer in immediately available funds.

(d) The Escrow Agent shall deliver the Earnest Money plus interest earned thereon to Seller.

(e) Seller shall deliver to Buyer, (1) a certificate signed by a responsible officer of the General Partner of Seller certifying that all of the representations and warranties of Seller made hereunder are true and correct at and as of Closing, as if made on the Closing Date, (2) a certified copy of the Executive Committee of the Board of Directors of the General Partner of Seller authorizing the transaction contemplated by the Agreement, such

certified copy to show the dates of adoption and that on the Closing Date the resolutions have not been rescinded or modified, and (3) a Certificate of the Secretary of Seller showing the incumbency of the officers of the General Partner of Seller executing instruments on behalf of the General Partner of Seller.

(f) Buyer shall deliver to Seller (1) a certificate signed by a responsible officer of Buyer certifying that all of the representations and warranties of Buyer made hereunder are true and correct at and as of Closing, as if made on the Closing Date, (2) a certified copy of the Board of Directors resolution of Buyer authorizing the transaction contemplated by the Agreement, such certified copy to show the date of adoption and that on the Closing Date it has not been rescinded or modified, and (3) a Certificate of the Secretary of Buyer showing the incumbency of the officers of Buyer executing instruments on behalf of Buyer.

(g) Seller shall deliver to Buyer all funds held in suspense by Seller with respect to the Properties together with a report in reasonable detail setting forth the reasons such funds are held in suspense.

(h) Seller shall have delivered to Buyer a favorable opinion of Murphy Mahon Keffler & Farrier, L.L.P., counsel to Seller, dated the Closing Date, substantially in the form of Exhibit "G" hereof.

(i) Buyer shall have delivered to Seller a favorable opinion of Rubin Baum Levin Constant & Friedman, counsel to Buyer, dated the Closing Date, substantially in the form of Exhibit "H" hereof.

#### ARTICLE VIII

##### OBLIGATIONS AFTER CLOSING

###### 8.01 - POST-CLOSING ADJUSTMENTS.

(a) As soon as practicable after the Closing, but not later than 60 days after the Closing, Seller shall prepare and deliver to Buyer, in accordance with this Agreement and generally accepted accounting principles, a statement ("Seller's Final Settlement Statement" ) setting forth each adjustment to Purchase Price that was not finally determined as of the Closing and showing the calculation of such adjustments. As soon as practicable after receipt of Seller's Final Settlement Statement, and no later than 90 days after the Closing Date, Buyer shall deliver to the Seller a written report containing any changes that Buyer proposes be made to Seller's Final Settlement Statement. The parties shall undertake to agree with respect to the amounts due pursuant to such Post-Closing adjustment not later than 135 days after the Closing Date. If Buyer fails to propose any

changes to the accounting set forth in the Seller's Final Settlement Statement, it shall be deemed that Buyer agrees with Seller's Final Settlement Statement. The final agreed price paid by Buyer to Seller for the Properties after all adjustments is hereinafter referred to as the "Final Purchase Price." The date upon which such agreement is reached or upon which the Final Purchase Price is established, shall be herein called the "Final Settlement Date".

(b) If Seller and Buyer are unable to agree upon the Final Sales Price within 135 days from the Closing Date, Price Waterhouse, independent public accountants, is designated to act as an arbitrator and to decide all points of disagreement with respect to the Final Sales Price, such decision to be binding upon both parties. If such firm is unwilling or unable to serve in such capacity, Seller and Buyer shall attempt to, in good faith, designate another acceptable person as the sole arbitrator under this Section . If the parties are unable to agree upon the designation of a person as substitute arbitrator, then Seller or Buyer, or both of them, may in writing request the American Arbitration Association to appoint the substitute arbitrator. The arbitration shall be conducted under the Texas General Arbitration Act and the rules of the American Arbitration Association to the extent such rules do not conflict with the terms of such Act and terms hereof. The costs and expenses of the arbitrator, whether the firm designated above, or a third party appointed pursuant to the preceding sentence shall be shared equally by Seller and Buyer. Within five (5) days after the decision of the arbitrator, the Buyer or Seller, as the case may be, shall promptly make a cash payment to the other equal to the sum as may be found to be due as the Final Sales Price. Notwithstanding the foregoing provisions of this Section 8.01(b), any questions with respect to a Defective Interest or Defect Value shall be resolved pursuant to the terms of Article V hereof.

8.02 - SALES TAXES AND RECORDING FEES. Buyer shall pay all sales taxes occasioned by the sale of the Properties and all documentary, filing and recording fees required in connection with the filing and recording of any assignments.

8.03 - FURTHER ASSURANCES. After Closing, Seller and Buyer shall execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments and take such other action including payment of monies as may be necessary or advisable to carry out their obligations under this Agreement and under any document, certificate or other instrument delivered pursuant hereto or required by law.

8.04 - BUYER'S POST-CLOSING OBLIGATIONS.

(a) If at any time subsequent to the Closing, Buyer comes into possession of money or property belonging to the Seller that was not previously accounted for by credit or adjustment according to this Agreement such money or other property shall be promptly delivered to the Seller.

(b) Buyer assumes all liabilities attributable to the Properties arising from,

attributable to, or alleged to be arising from or attributable to a violation of, or the failure to perform any obligation imposed by any and all laws, statutes, ordinances, rules, regulations, orders or determinations of any governmental authority pertaining to health or environment in effect where the Properties are located, regardless of when such violation or failure to perform occurred or is deemed to have occurred, EXCEPT THAT Buyer does not assume, and Seller shall retain any liability attributable to compliance with, violation of, or the failure to perform any obligation with respect to the Properties imposed by any Environmental Laws (as defined below) provided that such liability, when added to any liability of Cometra Energy, L.P. and Cometra Production Company, L.P. under the Producing Properties Agreement for the violation of, or the failure to perform any obligation imposed by any Environmental Law with respect to the assets covered by the Producing Properties Agreement, shall not exceed \$8,000,000 in the aggregate (the "Aggregate Liability Amount"), if and only if (i) such liability or obligation occurred prior to the Effective Time, and (ii) Buyer has provided written notice of such liability or obligation specifying the location and nature of the such liability within 180 days from the Closing Date ("Environmental Liability"). Buyer does assume any liability attributable to compliance with, violation of, or the failure to perform any obligation with respect to the Properties imposed by, any Environmental Laws which occurred prior to the Effective Time and which is in excess of the Aggregate Liability Amount. In connection with this assumption of liability by Buyer, Buyer agrees that prior to Closing it will conduct such inspections of the properties as deemed necessary by it to fully evaluate the condition of the Properties. As used in this Agreement "Environmental Laws" means all laws, as they exist on the date hereof, relating to (a) the control of any pollutant or potential pollutant or protection of the air, water, land or the environment, (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation, or (c) exposure to hazardous, toxic, explosive, corrosive or other substances alleged to be harmful. "Environmental Laws" shall include, but not be limited to, the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Clean Water Act 33 U.S.C. Section 1251 et seq., the Resource Conservation Recovery Act, 42 U.S.C. Section 6901 et seq., the Superfund Amendments and Reauthorization Act, 42 U.S.C. Section 11001 et seq., the Water Pollution Control Act, 33 U.S.C. Section 1251 et seq., the Safe Drinking Water Act, 42 U.S.C. Section 300f et seq., and the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq.

(c) Except with respect to Environmental Liabilities defined in Section 8.04(b). Buyer assumes all duties and obligations of the owner of the Properties which accrue or arise from and after the Effective Time. Without limitation of the foregoing, Buyer assumes (i) all obligations of Seller under the Easements, System Contracts and Permits arising after the Effective Time, (ii) all accounts payable and contractual obligations incurred by Seller in accordance with this Agreement with respect to the Properties attributable to periods on or after the Effective Time, (iii) the obligation to make proper distribution of any suspense accounts transferred to Buyer in accordance with standard industry practice, regardless of whether the suspense funds accrued prior or subsequent to the Effective Time, (iv) all obligations to properly remove all pipe and equipment now located on the land subject to the Easements or hereafter placed on the Easements by

Buyer, its successors and assigns, and cleanup and restore any property included in or affected by the Properties, and (v) all liabilities and obligations resulting from injury or death to persons and damage to property which occur after the Closing Date.

(d) If, pursuant to Section 4.01(d), Seller does not provide notice to any third parties under preferential rights to purchase provisions requesting waiver of such provisions, or if such request for waiver is made by Seller prior to Closing, but the third party's waiver of or election to exercise the preferential right is not due under the applicable agreement until after Closing, the affected Property shall be conveyed to and purchased by Buyer at Closing pursuant to the terms of this Agreement subject to the terms of the applicable preferential right to purchase. After Closing, Buyer shall, if necessary, provide notice to the appropriate third parties requesting waiver of the applicable preferential rights to purchase and/or comply with the terms of the preferential rights to purchase that are properly exercised after Closing, with Buyer receiving all consideration payable upon the exercise of such preferential rights to purchase.

(e) For a period of one (1) year after the Closing Date, Buyer, or its successor who expressly assumes its obligations and liabilities hereunder, shall maintain its corporate or other legal status and shall at all times own assets having a value net of liabilities of not less than \$50,000,000.

(f) BUYER AGREES TO INDEMNIFY, RELEASE, DEFEND AND HOLD HARMLESS SELLER, ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, AFFILIATES, SUBSIDIARIES, SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY CLAIMS, LIABILITIES, LOSSES, DAMAGES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION, DAMAGE TO PROPERTY, OR INJURY OR DEATH OF PERSONS, COURT COSTS, REASONABLE ATTORNEY'S FEES AND EXPENSES OF EXPERTS) CAUSED BY, ARISING FROM OR ATTRIBUTABLE TO THE BREACH BY BUYER OF ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT OR THE OWNERSHIP OR OPERATION OF THE PROPERTIES AFTER THE EFFECTIVE TIME, REGARDLESS OF WHETHER SUCH CLAIMS, LIABILITIES, LOSSES, DAMAGES, COSTS OR EXPENSES ARE DUE IN WHOLE OR IN PART TO THE NEGLIGENCE OF SELLER.

#### 8.05 - SELLER'S POST-CLOSING OBLIGATIONS.

(a) If at any time subsequent to the Closing, Seller comes into possession of money or property belonging to the Buyer that was not previously accounted for by credit or adjustment according to this Agreement such money or other property shall be promptly delivered to the Buyer.

(b) Except for the obligations assumed by Buyer pursuant to Section 8.04 hereof, Seller shall be responsible for and discharge (i) Environmental Liabilities as defined

in Section 8.04(b) hereof, and in connection therewith, Buyer shall allow Seller reasonable access to the Properties effected by the Environmental Liabilities to conduct clean-up and remedial operations, and (ii) all other claims, costs, expenses and liabilities with respect to the Properties which accrue or relate to the times prior to the Effective Time.

(c) For a period of one (1) year after the Closing Date, Seller, Cometra Energy, L.P., and Cometra Production Company, L.P. or any of their respective successors who expressly assumes its obligations and liabilities hereunder, shall maintain their partnership or other legal status and shall at all times collectively own assets having a value net of liabilities of not less than \$50,000,000.

(d) After the Closing, Seller shall use its best efforts, but without any obligation to incur any costs or expenses by Seller, to cause the Grantors under the Plant Lease to confirm in writing that the Plant Lease is in full force and effect as of the Closing Date and that Seller is not in breach of any provision of the Plant Lease as of the Closing Date. Unless and until Seller has obtained and delivered such confirmation to Seller, SELLER AGREES TO INDEMNIFY, RELEASE, DEFEND AND HOLD HARMLESS BUYER, ITS SUCCESSORS AND ASSIGNS, FROM AND AGAINST ANY LOSSES, DAMAGES, COSTS AND EXPENSES CAUSED BY, ARISING FROM OR ATTRIBUTABLE TO SELLER'S BREACH OF THE SURFACE LEASE PRIOR TO THE EFFECTIVE TIME.

(e) SELLER AGREES TO INDEMNIFY, RELEASE, DEFEND AND HOLD HARMLESS BUYER, ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, AFFILIATES, SUBSIDIARIES, SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY CLAIMS, LIABILITIES, LOSSES, DAMAGES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION, DAMAGE TO PROPERTY, OR INJURY OR DEATH OF PERSONS, COURT COSTS, REASONABLE ATTORNEY'S FEES AND EXPENSES OF EXPERTS) CAUSED BY, ARISING FROM OR ATTRIBUTABLE TO THE ENVIRONMENTAL LIABILITIES AS DEFINED IN SECTION 8.04(B), THE BREACH BY SELLER OF ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT OR THE OWNERSHIP OR OPERATION OF THE PROPERTIES PRIOR TO THE EFFECTIVE TIME (EXCEPT WITH RESPECT TO LIABILITIES EXPRESSLY ASSUMED BY BUYER UNDER THIS AGREEMENT).

8.06 - FILES AND RECORDS. As soon as practicable after Closing, Buyer and Seller shall arrange for the delivery of the Records to Buyer. For a period of two years after the Closing Date Buyer shall allow Seller access to the Records during Buyer's normal business hours after Closing for the purpose of filing or amending a tax return or for any other legitimate business purpose; provided that any copies of Records made by Seller shall be at the sole expense of Seller.

8.07 - DISCLAIMERS OF REPRESENTATIONS AND WARRANTIES. The express representation

and warranties of Seller contained in this Agreement are exclusive and are in lieu of all other representations and warranties, express, implied or statutory. BUYER ACKNOWLEDGES THAT, EXCEPT FOR SELLER'S EXPRESS REPRESENTATIONS, WARRANTIES AND AGREEMENTS CONTAINED HEREIN, SELLER HAS NOT MADE, AND SELLER HEREBY EXPRESSLY DISCLAIMS AND NEGATES, AND BUYER HEREBY EXPRESSLY WAIVES ANY REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, AT COMMON LAW, BY STATUTE OR OTHERWISE RELATING TO (I) THE ENVIRONMENTAL CONDITION OF THE ASSETS, (II) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, (III) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, (IV) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS, (V) ANY RIGHTS OF PURCHASERS UNDER APPROPRIATE STATUTES TO CLAIM DIMINUTION OF CONSIDERATION, AND (VI) ANY AND ALL IMPLIED WARRANTIES EXISTING UNDER APPLICABLE LAW; IT BEING THE EXPRESS INTENTION OF BOTH BUYER AND SELLER THAT THE PERSONAL PROPERTY, EQUIPMENT AND FIXTURES INCLUDED WITHIN THE ASSETS ARE TO BE CONVEYED TO BUYER IN THEIR PRESENT CONDITION AND STATE OF REPAIR, "AS IS" AND "WHERE IS" WITH ALL FAULTS, AND THAT BUYER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS BUYER DEEMS APPROPRIATE. SELLER AND BUYER AGREE THAT, TO THE EXTENT REQUIRED BY APPLICABLE LAW TO BE EFFECTIVE, THE DISCLAIMERS OF CERTAIN WARRANTIES CONTAINED IN THIS SECTION ARE "CONSPICUOUS" DISCLAIMERS FOR THE PURPOSES OF ANY APPLICABLE LAW, RULE OR ORDER.

8.08 - WAIVER OF DTPA. It is the intent of the parties that Buyer's rights and remedies with respect to this transaction and with respect to all acts or practices of Seller, past, present or future, in connection with this transaction shall be governed by legal principles other than the Texas Deceptive Trade Practices - Consumer Protection Act, Tex. Bus. & Ann. Section 17.41 et seq. (Vernon 1987 and Supp. 1994) (the "DTPA") or any similar statute of any jurisdiction that may be applicable to the transactions contemplated hereby. As such, Buyer hereby waives the applicability of the DTPA or any similar statute to this transaction and any and all duties, rights or remedies that might be imposed by the DTPA or any similar statute; provided, however, Buyer does not waive Section 17.555 of the DTPA. Buyer acknowledges, represents and warrants that it is purchasing the assets covered by this Agreement for commercial or business matters; that it is able to evaluate the merits and risks of a transaction such as this; and that it is not in a significantly disparate bargaining position with Seller. Buyer expressly recognizes that the price for which Seller has agreed to sell the assets and perform its obligations under this Agreement has been predicated upon the inapplicability of the DTPA or any similar statute and this waiver of the DTPA and any similar statute. Buyer further recognizes that Seller, in determining to proceed with the entering into of this Agreement has expressly relied on the provisions of this Section 8.08.

8.09 - SURVIVAL. The representations, warranties, covenants, agreements and indemnities

included or provided in Article III, in Article IV in Section 5.03(f), this Article VIII, in Article X, in Article XI, in Article XII, and in the assignments and agreements to be delivered at the Closing shall survive the Closing for a period of one (1) year after the Closing Date. All other representations, warranties, covenants, certificates, instruments and agreements contained in or referred to in this Agreement shall terminate at Closing.

## ARTICLE IX

### TERMINATION OF AGREEMENT

9.01 - TERMINATION. This Agreement and the transactions contemplated hereby may be terminated in the following instances:

(a) By Seller if the conditions set forth in Section 6.01 are not satisfied in all material respects or waived prior to the Closing Date;

(b) By Buyer if the conditions set forth in Section 6.02 are not satisfied in all material respects or waived prior to the Closing Date;

(c) By Seller if pursuant to Section 5.04 hereof Buyer gives Seller notice of Defective Interests having a Defect Value equal to or greater than ten percent (10%) of the Purchase Price and Buyer asserts a reduction to the Purchase Price according to Section 2.02(b)(iv) hereof that is in excess of ten percent (10%) of the Purchase Price;

(d) By Seller if Buyer does not deposit all of the Earnest Money with the Escrow Agent before 2:00 p.m. on January 2, 1997;

(e) By Seller if Buyer does not provide to Seller by 5:00 p.m. on January 2, 1997, a letter from a reputable financial institution that such financial institution is highly confident that Buyer can obtain financing for the Purchase Price at or prior to the Closing; or

(f) At any time by the mutual written agreement of Buyer and Seller.

9.02 - LIABILITIES. Nothing contained in this Agreement shall limit Seller's or Buyer's legal or equitable remedies including, without limitation, damages for the breach or failure of any representation, warranty, covenant or agreement contained herein and the right to enforce specific performance of this Agreement; provided however, (i) neither party hereto shall be liable to the other for consequential damages; (ii) if all conditions precedent to the obligation of Buyer to close have been satisfied, but Buyer refuses to close, Seller shall have the option to either pursue specific performance, receive the Earnest Money as liquidated damages and terminate this Agreement or pursue its actual damages, and if Seller receives the Earnest Money as liquidated

damages pursuant to Article X hereof, then Seller shall have no further recourse against Buyer; (iii) if all conditions precedent to the obligation of Seller to close have been satisfied, but Seller refuses to close, Buyer shall have the option to either pursue specific performance, receive the Earnest Money as liquidated damages and terminate this Agreement or pursue its actual damages, and if Buyer receives the Earnest Money as liquidated damages pursuant to Article X hereof, then Buyer shall have no further recourse against Seller and (iv) Seller shall have no liability to Buyer if Buyer terminates this Agreement because any representation or warranty made by Seller herein is incorrect.

#### ARTICLE X

##### EARNEST MONEY

Upon the execution of this Agreement, Buyer has deposited into escrow with Bank One, Texas, N.A. in Fort Worth, Texas (the "Escrow Agent"), the sum of money equal to Five Million and No/100 Dollars (\$5,000,000) (the "Earnest Money"). At Closing, the Earnest Money, less any costs or fees incurred, plus any interest earned thereon shall be applied against the Purchase Price. If this transaction fails to close due to any breach by Buyer of the terms, conditions, representations and warranties found in this Agreement, then at the election of Seller, the Earnest Money and all interest earned thereon may be delivered to Seller as liquidated damages. If this transaction fails to close, due to any breach by Seller of the terms, conditions, representations and warranties found in this Agreement, then the Earnest Money and all interest earned thereon shall be delivered to Buyer. If this transaction fails to close for any other reason whatsoever, then the Earnest Money and all interest earned thereon shall be delivered to Buyer. Seller and Buyer agree to give the Escrow Agent joint instructions for the delivery of the Earnest Money, together with any interest earned thereon, in accordance with the terms of this Agreement

#### ARTICLE XI

##### INDEMNIFICATION

###### 11.01 - RIGHT TO EMPLOY COUNSEL.

(a) When any claim, action, or suit shall be filed or asserted in writing against any party which is indemnifiable under the terms of this Agreement, the indemnified party shall promptly notify the indemnifying party of the same in writing, specifying in detail the basis of such claim and the facts pertaining thereto, and the indemnifying party shall, at its option, have the right to assume the defense thereof or participate in the defense thereof and to employ its own legal counsel in connection with such defense. Failure of the indemnified party to notify the indemnifying party of such claim, action, or suit within twenty (20) calendar days after notice to the indemnified party of such claim, action, or suit shall constitute a waiver of its rights under this Article, unless such failure to notify within such time period shall not prejudice the rights of the indemnifying party in respect of such claim, action or suit, in which case prompt notification as provided above shall be sufficient.

(b) The indemnified party shall have the right to employ counsel separate from counsel employed by the indemnifying party in any such action and to participate in the defense thereof, but the fees and expenses of such counsel employed by the indemnified party shall be at the sole expense of the indemnified party unless (i) the indemnifying party shall have elected not or shall have failed to assume or participate in the defense thereof, (ii) the employment thereof has been specifically authorized by the indemnifying party in writing, or (iii) the parties to any such action (including any impleaded parties) include both the indemnifying and indemnified party, and the indemnified party shall have been advised by its counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party (in any which case (i), (ii) or (iii) above the indemnifying party shall not have the right to assume the defense of such action on behalf of the indemnified party and the fees and expenses of such counsel employed by the indemnified party shall be at the sole expense of the indemnifying party).

(c) Prior to effectuating any settlement of any such action or proceeding, the indemnified party shall furnish the indemnifying party with written notice of any proposed settlement in sufficient time to allow the indemnifying party to act thereon. The indemnifying party shall not be liable for any settlement of any such action or proceeding effected without the written consent of the indemnifying party. The indemnifying party shall not effect a settlement of any claim without the written consent of the indemnified party unless the indemnifying party secures the complete release of the indemnified party as a part of such settlement.

#### 11.02 - CLAIM REIMBURSEMENT AND REDUCTION.

(a) Should the indemnified party realize any benefit, including any tax benefit, resulting from any loss, liability, cost or damage for which such indemnified party has been indemnified under this Article, such indemnified party shall reimburse the indemnifying party, at the time such benefit is realized, an amount equal to the dollar amount of such benefit so realized.

(b) Any claim shall be reduced to the extent of any third party insurance or condemnation payment actually received by the indemnified party or, alternatively, at the option of the indemnified party, the rights of the indemnified party against any insurer or governmental unit with respect to such claim shall be assigned to the indemnifying party.

#### ARTICLE XII

##### GENERAL

12.01 - EXHIBITS. All Exhibits are hereby incorporated in this Agreement by reference and constitute a part of this Agreement. Each party to this Agreement and its counsel has received a complete set of Exhibits prior to and as of the execution of this Agreement.

12.02 - EXPENSES. All fees, costs and expenses incurred by Buyer or Seller in negotiating this Agreement or in consummating the transactions contemplated by this Agreement shall be paid by the party incurring the same including, without limitation, legal and accounting fees, costs and expenses.

12.03 - NOTICES. All notices or communications required or permitted under this Agreement shall be in writing, and any notices or communications hereunder shall be deemed to have been duly made if delivered by (i) hand, (ii) overnight delivery service, (iii) telecopy, or (iv) three days after being placed in first class certified mail, postage prepaid, with return receipt requested to the following addresses:

All notices to Seller shall be delivered to:

Rockland, L.P.  
500 Throckmorton, Suite 2500  
Fort Worth, Texas 76102  
Telecopy: 817/877-4464

All notices to Buyer shall be delivered to:

Lomak Petroleum, Inc.  
500 Throckmorton, Suite 2100  
Fort Worth, Texas 76102  
Telecopy: 817/870-2316

The address at which any party hereto is to receive notice may be changed from time to time by such party by giving notice of the new address to all other parties hereto. Any notice or communication given by telecopy shall be promptly confirmed by delivery of a copy of such notice or communication by hand or overnight delivery service.

12.04 - AMENDMENTS. This Agreement may not be amended nor any rights hereunder waived except by an instrument in writing signed by the party to be charged with such amendment or waiver and delivered by such party to the party claiming the benefit of such amendment or waiver.

12.05 - HEADINGS. The headings of the articles and sections of this Agreement are for guidance and convenience of reference only and shall not limit or otherwise affect any of the terms or provisions of this Agreement.

12.06 - COUNTERPARTS. This Agreement may be executed by Buyer and Seller in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute but one and the same instrument.

12.07 - REFERENCES. References made in this Agreement, including use of a pronoun, shall be deemed to include where applicable, masculine, feminine, singular or plural, individuals, partnerships or corporations. As used in this Agreement, "person" shall mean any natural person, corporation, partnership, trust, estate or other entity.

12.08 - GOVERNING LAW. This Agreement and the transactions contemplated hereby shall be construed in accordance with, and governed by, the laws of the State of Texas.

12.09 - ENTIRE AGREEMENT. This Agreement (including the Exhibits hereto) constitutes the entire understanding among the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and prior agreements and understandings relating to such subject matter.

12.10 - PARTIES IN INTEREST. This Agreement shall be binding upon and shall inure to the benefit of, the parties hereto and, except as otherwise prohibited, their respective successors and assigns; and except as otherwise stated herein, nothing contained in this Agreement, or implied herefrom, is intended to confer upon any other person or entity any benefits, rights or remedies.

12.11 - ASSIGNMENTS. Neither Buyer nor Seller may assign all or any portion of their respective rights or delegate any portion of their duties hereunder without the prior written consent of the other, which consent shall not be unreasonably withheld. Provided, however, that Buyer may assign this Agreement and its rights and duties hereunder to a wholly owned limited partnership, limited liability company or corporation.

12.12 - PUBLIC ANNOUNCEMENTS. The parties hereto agree that prior to making any public announcement or statement with respect to the transactions contemplated by this Agreement, the party desiring to make such public announcement or statement shall consult with the other party hereto and exercise their best efforts to agree upon the text of a joint public announcement or statement to be made solely by Seller or Buyer, as the case may be; provided, however, if Seller or Buyer is required by law to make such public announcement or statement, then the same may be made without the approval of the other party. The opinion of counsel of either party shall be conclusive evidence of such requirement by law.

12.13 - NOTICES AFTER CLOSING. Buyer and Seller hereby agree that each party shall notify the other of its receipt, after the Closing Date, of any instrument, notification or other document affecting the Properties while owned by such other party.

12.14 - SEVERABILITY. If a court of competent jurisdiction determines that any clause or provision of this agreement is void, illegal or unenforceable, the other clauses and provisions of the Agreement shall remain in full force and effect and the clauses and provisions that are determined to be void, illegal or unenforceable shall be limited so that they shall remain in effect to the extent permissible by law.

12.15 - TIME IS OF THE ESSENCE. It is understood and agreed that time is of the essence in this Agreement.

IN WITNESS WHEREOF, the parties have executed or caused the Agreement to be executed as of the day and year first above written.

ROCKLAND, L.P., a Texas limited partnership

By: ESPERANZA PIPELINE, INC., a Delaware corporation

By: -----  
Mark W. Young, President

SELLER

LOMAK PETROLEUM, INC., a Delaware corporation

By: -----  
John Pinkerton, President

BUYER

## LOMAK PETROLEUM, INC.

COMPUTATIONS OF RATIOS  
(In thousands)

	Year Ended December 31,					Pro Forma 1995	Nine Months Ended September 30,		
	1991	1992	1993	1994	1995		1995	1996	Pro Forma 1996
<b>EBITDA:</b>									
Net income.....	\$ 427	\$ 686	\$ 1,391	\$ 2,619	\$ 4,390	\$ 2,839	\$ 2,718	\$ 8,103	\$11,642
Taxes.....	125	192	(81)	139	1,782	1,149	898	4,360	6,254
Exploration expense.....	5	49	86	359	512	512	473	836	836
Interest expense.....	672	952	1,120	2,807	5,584	29,514	3,822	5,563	21,900
Depletion, depreciation and amortization.....	2,387	3,124	4,347	10,105	14,863	39,276	9,808	16,589	31,807
EBITDA.....	3,616	5,003	6,863	16,029	27,131	73,290	17,719	35,451	72,439
EBITDA to Interest Expense.....	5.4x	5.3x	6.1x	5.7x	4.9x	2.5x	4.6x	6.4x	3.3x
<b>Earnings:</b>									
Income before taxes.....	552	878	1,310	2,758	6,172	3,988	3,616	12,463	17,869
Interest expense.....	672	952	1,120	2,807	5,584	29,514	3,822	5,563	21,900
Earnings.....	1,224	1,830	2,430	5,565	11,756	33,502	7,438	18,026	39,769
<b>Fixed charges:</b>									
Interest expense.....	672	952	1,120	2,807	5,584	29,514	3,822	5,563	21,900
Earnings to fixed charges.....	1.8x	1.9x	2.2x	2.0x	2.1x	1.1x	1.9x	3.2x	1.8x
Total Debt.....	12,443	13,126	31,108	62,592	83,088	N/A	N/A	N/A	N/A
Total Debt to EBITDA.....	3.4x	2.6x	4.5x	3.9x	3.1x	N/A	N/A	N/A	N/A

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report (and to all references to our firm) included in or made a part of this Registration Statement.

ARTHUR ANDERSEN LLP

Cleveland, Ohio  
January 23, 1997

## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-3) and related Prospectus of Lomak Petroleum, Inc. for the registration of 4,600,000 shares of common stock and Senior Subordinated Notes due 2007 and to the inclusion and incorporation by reference therein of our report dated March 8, 1994, with respect to the consolidated financial statements of Lomak Petroleum, Inc. for the year ended December 31, 1993 included in its Annual Report (Form 10-K) for the year ended December 31, 1995, filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Cleveland, Ohio  
January 23, 1997

[Coopers & Lybrand Letterhead]

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this Registration Statement on Form S-3 of our report dated January 20, 1997, on our audits of the statements of revenues and direct operating expenses of the American Cometra Interests, for the years ended December 31, 1994 and 1995 and the nine months ended September 30, 1996. We also consent to the reference to our firm under the caption "Experts".

COOPERS & LYBRAND L.L.P.

Fort Worth, Texas  
January 23, 1997

## INDEPENDENT ACCOUNTANTS' CONSENT

The Board of Directors  
Lomak Petroleum, Inc.

We consent to the incorporation by reference in the registration statement (No. 333-XXXX) on Form S-3 of Lomak Petroleum, Inc. of our report dated May 23, 1996, with respect to the statement assets (other than productive oil and gas properties) and liabilities of the Bannon Interests as of December 31, 1995 and the related statement of revenues and direct operating expenses for the year then ended, which report appears in the Form 8-K/A of Lomak Petroleum, Inc. dated May 31, 1996.

KPMG Peat Marwick LLP

Houston, Texas  
January 22, 1997

[NETHERLAND, SEWELL & ASSOCIATES, INC. LETTERHEAD]

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the reference to our firm under the captions "Cometra Acquisition," "Business -- Oil and Gas Reserves" and "Experts" in this Registration Statement on Form S-3 and the related Prospectuses of Lomak Petroleum, Inc.

NETHERLAND, SEWELL & ASSOCIATES, INC.

/s/ FREDERIC D. SEWELL

-----  
Frederic D. Sewell  
President

Dallas, Texas  
January 22, 1997

## CONSENT OF INDEPENDENT PETROLEUM CONSULTANTS

Wright & Company, Inc. (Wright) consents to the reference to the firm under the captions "Business -- Oil and Gas Reserves" and "Experts" in this Registration Statement on Form S-3 and the related Prospectus.

WRIGHT & COMPANY, INC.

BY: /s/ D. RANDALL WRIGHT

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President

Brentwood, Tennessee

January 22, 1997

[H.J. GRUY AND ASSOCIATES, INC. LETTERHEAD]

CONSENT OF H.J. GRUY AND ASSOCIATES, INC.

We hereby consent to the use of the name H.J. Gruy and Associates, Inc. and of references to H.J. Gruy and Associates, Inc. under the caption "Experts" and "Business -- Oil and Gas Reserves," and of information contained in our reserve letter dated January 16, 1997, prepared for Lomak Petroleum Inc., in the Registration Statement on Form S-3 and the related Prospectus of Lomak Petroleum Inc.

H.J. GRUY AND ASSOCIATES, INC.

/s/ MARILYN WILSON

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Marilyn Wilson, P.E.  
Chief Operating Officer

Houston, Texas  
January 20, 1997

[HUDDLESTON & CO., INC. LETTERHEAD]

CONSENT OF ENGINEERS

Lomak Petroleum, Inc.  
500 Throckmorton Street, Suite 2104  
Fort Worth, Texas 76102

We consent to the reference to our firm under the captions "Business-Oil and Gas Reserves" and "Experts" in this Registration Statement on Form S-3 and the related Prospectus.

HUDDLESTON & CO., INC.

/s/ PETER D. HUDDLESTON

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Peter D. Huddleston, P.E.  
President

Houston, Texas  
January 20, 1997

## CONSENT OF ENGINEERS

We consent to the reference to our firm under the captions "Business -- Oil and Gas Reserves" and "Experts" in this Registration Statement on Form S-3 and the related Prospectus.

CLAY, HOLT & KLAMMER

/s/ T. J. HOLT

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T. J. Holt

Pittsburgh, Pennsylvania  
January 20, 1997