### Financial Highlights

#### Income Statement Data

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<tbody>
<tr>
<td>Oil and gas</td>
<td>$188,407</td>
<td>$73,387</td>
<td>$71,413</td>
<td>$76,603</td>
<td>$57,207</td>
</tr>
<tr>
<td>production</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>revenues</td>
<td></td>
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</tr>
<tr>
<td>Gains on sales and</td>
<td>7,259</td>
<td>1,527</td>
<td>8,096</td>
<td>15,282</td>
<td>2,777</td>
</tr>
<tr>
<td>other</td>
<td></td>
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<tr>
<td>Total operating</td>
<td>$195,666</td>
<td>$74,914</td>
<td>$79,509</td>
<td>$91,885</td>
<td>$59,984</td>
</tr>
<tr>
<td>revenues</td>
<td></td>
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<tr>
<td>Net income (loss)</td>
<td>$55,620</td>
<td>$82</td>
<td>$(8,797)</td>
<td>$23,109</td>
<td>$10,326</td>
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<tr>
<td>Basic earnings (loss)per share</td>
<td>$2.00</td>
<td>$0.00</td>
<td>$(0.40)</td>
<td>$1.09</td>
<td>$0.59</td>
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<tr>
<td>Cash dividends per</td>
<td>$0.10</td>
<td>$0.10</td>
<td>$0.10</td>
<td>$0.10</td>
<td>$0.08</td>
</tr>
<tr>
<td>share</td>
<td></td>
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<tr>
<td>Basic weighted</td>
<td>27,781</td>
<td>22,198</td>
<td>21,874</td>
<td>21,240</td>
<td>17,518</td>
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<tr>
<td>average common</td>
<td></td>
<td></td>
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<tr>
<td>shares outstanding</td>
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#### Balance Sheet Data

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<tbody>
<tr>
<td>Working capital</td>
<td>$40,639</td>
<td>$13,440</td>
<td>$9,785</td>
<td>$9,618</td>
<td>$13,926</td>
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<tr>
<td>Total assets</td>
<td>321,895</td>
<td>230,438</td>
<td>184,497</td>
<td>212,135</td>
<td>144,271</td>
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<td>Long-term debt</td>
<td>22,000</td>
<td>13,000</td>
<td>19,398</td>
<td>22,607</td>
<td>43,589</td>
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<tr>
<td>Stockholders' equity</td>
<td>250,136</td>
<td>188,772</td>
<td>134,742</td>
<td>147,932</td>
<td>75,160</td>
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#### Average Net Daily Production

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<tbody>
<tr>
<td>Oil (Barrels)</td>
<td>6,551</td>
<td>3,790</td>
<td>3,493</td>
<td>3,254</td>
<td>3,240</td>
</tr>
<tr>
<td>Gas (Mcf)</td>
<td>104,769</td>
<td>62,478</td>
<td>69,698</td>
<td>62,739</td>
<td>42,522</td>
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<tr>
<td>MCFE (6:1)</td>
<td>144,075</td>
<td>85,218</td>
<td>90,656</td>
<td>82,266</td>
<td>61,962</td>
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#### Average Sales Price

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</thead>
<tbody>
<tr>
<td>Oil (per Bbl)</td>
<td>$23.53</td>
<td>$16.56</td>
<td>$12.98</td>
<td>$18.87</td>
<td>$18.64</td>
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<tr>
<td>Gas (per Mcf)</td>
<td>$3.44</td>
<td>$2.21</td>
<td>$2.16</td>
<td>$2.33</td>
<td>$2.23</td>
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#### U.S. Reserves

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</thead>
<tbody>
<tr>
<td>Oil (Barrels)</td>
<td>20,950</td>
<td>18,900</td>
<td>8,614</td>
<td>11,493</td>
<td>10,691</td>
</tr>
<tr>
<td>Gas (Mcf)</td>
<td>225,975</td>
<td>207,642</td>
<td>132,605</td>
<td>196,230</td>
<td>127,057</td>
</tr>
<tr>
<td>MCFE (6:1)</td>
<td>351,673</td>
<td>321,042</td>
<td>184,289</td>
<td>265,188</td>
<td>191,203</td>
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TO OUR SHAREHOLDERS

Our mission has not changed. We must build value by adding value. Net income for the year 2000 was a record $55.6 million or $2.00 per share. Earnings before interest, taxes, depreciation, impairment and exploration were $138.3 million or $4.98 per share. Production increased 70% in 2000 to 52.7 BCFE. Oil and gas reserves grew by 10% to 352 BCFE and we replaced 168% of our reserves. Our capital expenditures budget has increased 24% in 2001 to $155 million. Production is forecast to grow to 56-58 BCFE.

The gas bubble has burst. Oil prices have recovered. St. Mary had record production, earnings and cash flow in 2000. This is the best of times. But markets react and adjust. Our challenge is to grow and succeed in both good times and bad. We must add value at every phase of the business through creativity, technical competence, focus and attention to detail. We also must have the vision to identify and respond appropriately to new growth opportunities.

Net income for the year 2000 was a record $55.6 million or $2.00 per share compared to $82,000 or $.00 per share for the prior year. Earnings before interest, taxes, depreciation, impairment and exploration were $138.3 million or $4.98 per share, up 309% and 228%, respectively, from 1999. These results reflect a 70% increase in production to 52.7 BCFE resulting from outstanding drilling and acquisition results in 1999 as well as a 51% increase in average price to $3.57 per MCFE.

Oil and gas reserves grew by 10% to 352 BCFE. We replaced 168% of our production in 2000. This is below our long-term goal of 200%. We faced a daunting challenge as our production was up 70%, which moved our growth target up substantially in one year. Although our production increased 818% in the Gulf Coast/Gulf of Mexico region, our reserve additions in that region were quite modest for several reasons. We spent most of the year building our technical capability as we grew our Lafayette office from three people to 18 people. In addition, in that same region we converted 8.3 BCFE of undeveloped and behind the pipe reserves to a proved producing category which did not add new reserves. However, we now have the technical capability to exploit the large acreage and seismic positions obtained in the King Ranch acquisition and the 2001 budget for this region is the largest of our core areas.

As oil and gas prices rise, we are seeing record rig utilization, cost increases and more expensive acquisition costs. Obviously,

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As oil and gas prices rise, we are seeing record rig utilization, cost increases and more expensive acquisition costs. Obviously,
this will have an impact on our business. We believe we have
a competitive advantage in securing drilling rigs in the Mid-Con-
tinent, Williston and at Judge Digby where we have continuous
drilling programs, long-term relationships and — surprisingly —
because we have always paid our bills on time. In other regions
where we cannot maintain continuous drilling programs we
must plan activities further in advance. We are running our
economics on all investments presuming a $3.25/Mcf and
$22.50/barrel NYMEX price. Virtually our entire planned
drilling program is economic at those prices. For acquisitions
we generally must use the higher NYMEX strip pricing to be
competitive. For economic decisions that require higher pricing
assumptions, we will hedge those prices as necessary to protect
our base rate of return. This is not a change in approach as
we have always added value through geologic and operational
ideas and not through price speculation. The difference is that
our “finding costs” for such acquisitions will be higher. This is
not of concern to us because we will maintain our internal rate
of return and return on investment standards.

We enter the year 2001 with one of the strongest balance
sheets in our history as well as record projected cash flow. We
have more prospects than ever before and a capital expenditure
budget of $155 million, an increase of 24%. As noted, we may
experience some delays in our activities due to a shortage of
drilling and workover rigs and crews as well as other services
and supplies. Here is our plan to build value in 2001:

• Production is forecast to grow to 56-58 BCFE, up from 52.7
BCFE in 2000. Based on a NYMEX strip price of $5.46 per
MCFE we would realize approximately $4.73 per MCFE, after
hedges. Assuming this price deck, lease operating expenses,
including taxes, are forecast at $.80 - $.85 / MCFE and G&A is
forecast at $.28 - $.30 / MCFE. Based on these assumptions
discretionary cash flow is forecast at $6.00-$6.50 / share.

• Of the $155 million budget, 39% is allocated for acquisitions,
24% for exploration and development in the Gulf Coast and
Gulf of Mexico, 17% in the Mid-Continent, 12% in the Williston
and Permian and 7% in the ArkLaTex region. The more
important planned exploitation activity includes four wells at
Northeast Mayfield in Oklahoma; ten Granite Wash wells in
Oklahoma; eight Red River/Mission Canyon wells in the
Williston Basin; 15 wells in East Texas primarily at the Box
Church and Trinidad fields; and three wells at the Constitution
field. In addition, we have 4-5 wells planned at our largest
value property, Judge Digby, which would include both
exploitation as well as exploration ideas.

• In addition to Judge Digby, we have a large potential well
planned at Matagorda 701. We are also evaluating several coal
bed methane and other unconventional gas resources.

• We will continue to control operations for approximately
two-thirds of our capital expenditures and dominate our core
areas with our technical expertise.

Our mission has not changed. We must build value by adding
value. This means we must add value at every phase of the
business from geo-science, to engineering, to administration,
to finance. We must outperform three quarters of our competi-
tion in every basin in which we operate. We have selected
those basins where we have a competitive edge through tech-
nical skills, acreage positions and our relationships with current
and prospective partners. We have outstanding people at St.
Mary — across all disciplines and deep within the organization.
We are driven to build value per share — not simply corporate
bulk — and every incentive and reward program is geared to
that end. Our financial strength and discipline combined with
our technical expertise will allow us to succeed in good times
and bad.

March 9, 2001

[Signatures]

Mark A. Hellerstein
President and Chief Executive Officer

Thomas E. Congdon
Chairman of the Board
Succeeding in finding and developing reserves.

A great geologic idea is only a success if it becomes an economic success.

The cost to find and develop reserves must provide reserves.

a positive full cycle economic return.
Operating in mature basins becomes routine and predictable once a company and its staff have spent years discovering and developing oil and gas reserves. The more mature a basin, the more information that is available to assist in finding additional reserves. Technology that is appropriate to a specific basin can be tested and perfected in order to improve economics. Land positions are built and refined over years of exploration and development. St. Mary is focused in five core areas headed by exploration professionals who have lived and worked in their respective areas for over 20 years. Year after year, St. Mary’s exploration professionals produce economic results for the Company and its shareholders.

Ronald D. Boone
Executive Vice President and
Chief Operating Officer

St. Mary focuses its exploration, development and acquisition activities in five core areas in the United States; the Mid-Continent region, onshore Gulf Coast and offshore Gulf of Mexico, the ArkLaTex region, the Williston Basin and the Permian Basin. In each of these areas St. Mary has built a balanced portfolio of proved reserves, development drilling opportunities and higher-risk higher-potential exploration projects. The Company believes that its extensive leasehold position is a strategic asset. Since 1990 St. Mary has expanded its technical and operating staff and increased its drilling, production and operating capabilities. Senior technical managers, each with over 20 years of professional experience, head up regional technical offices located near the core areas and are supported by centralized administration in the Company’s Denver office. St. Mary has knowledgeable and experienced professionals at every level of the organization. St. Mary believes that its long standing presence, its established network

<table>
<thead>
<tr>
<th>Summary of Budgeted Expenditures By Area for 2001</th>
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<tbody>
<tr>
<td>(Millions)</td>
</tr>
<tr>
<td>Mid-Continent</td>
</tr>
<tr>
<td>Gulf Coast/GOM</td>
</tr>
<tr>
<td>ArkLaTex</td>
</tr>
<tr>
<td>Williston</td>
</tr>
<tr>
<td>Permian</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Acquisitions</td>
</tr>
</tbody>
</table>

Reserve Growth (MMCFE)
of local industry relationships and its extensive acreage holdings in its core operating areas provide a significant competitive advantage.

Detailed geologic studies developed over years of operating in mature basins combined with state of the art technology produces consistent and predictable results. Past success and failures add to the knowledge necessary to reduce risk and improve economics. Use of technology can be expensive but will improve economics if the proper technology is used in the appropriate area. The cost of technology can destroy economics if it is used in an inappropriate manner. St. Mary's many years of experience and attention to detail maximizes the effectiveness of the technologies that apply to each of its core areas.

A major challenge for the industry and St. Mary is to hire, develop and retain a quality technical staff. St. Mary has quality professionals in each of the technical disciplines and has been able to grow its staff in each of its regional offices each year. St. Mary's incentive programs are structured to reward economic performance and are an integral reason for the low turnover rate St. Mary has experienced with its technical staff.

Production increased 70% in 2000 to a total of 52.7 BCFE, or an average daily production of 144,100 mcf per day. Net proved reserves at December 31, 2000 increased 10% to 352 BCFE with a reserve base of 64% natural gas and 36% oil. 40.6 BCFE were added through acquisitions and 47.9 BCFE from drilling activities. Reserve revisions from higher year end 2000 pricing were offset by negative performance. During 2000 St. Mary participated in 124 gross wells with an 82% success rate and 79 recompletions with an 80% success rate.

St. Mary is going into 2001 with the largest prospect inventory in its history. The Company's 2001 capital expenditures budget is $155 million which includes $95 million for exploration and development and $60 million for property acquisitions. The exploration and development budget is a 32% increase over the $71.7 million spent in 2000. St. Mary will operate approximately 65% of its capital expenditures budget in 2001. In addition to the overhead reimbursement, operating allows St. Mary to control geologic and operational decisions.

**MID-CONTINENT REGION**

<table>
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<tr>
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<th>PROVED RESERVES — 120.6 BCFE</th>
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<tbody>
<tr>
<td>PERCENTAGE OF TOTAL RESERVES — 34%</td>
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<tr>
<td>GAS/OIL MIX — 91% - 9%</td>
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<tr>
<td>PROVED DEVELOPED RESERVES — 84%</td>
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<tr>
<td>CAPITAL EXPENDITURES — 17%</td>
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</tbody>
</table>

St. Mary has operated in the Mid-Continent region for over 25 years. The region is operated out of the Company's Tulsa, Oklahoma office which has grown to 30 employees. Year after year the region has been able to produce consistent and predictable results. The knowledge and the geologic information gained by a staff that has spent the majority of its professional career in the region provides the foundation to generate new prospects each and every year. In addition St. Mary's experience in the area allows the Company to benefit from state of the art technology to drill and complete wells in the tight sand reservoirs prevalent in the Mid-Continent region. The many years in the region has allowed St. Mary to accumulate interests in more than 265,000 gross acres which is the source of continuing opportunities.

During 2000 St. Mary spent $29.2 million in the Mid-Continent region on exploration and development. The Company participated in 63 wells with a completion success rate of 79%. Two geologic plays made great progress in 2000. Northeast Mayfield and the Constitution field each had significant new discoveries. In NE Mayfield the Stone 1-19 was completed at 6,900 MCFE per day, the Benton 1X-21 was completed at 1,500 MCFE per day and the Caroline 1-25 was completed at 7,500 MCFE per day. Three Yegua sands were encountered in the Constitution field where the Apache Gas Unit #1 was completed at 3,700 MCFE per day.
On December 28, 2000 St. Mary completed a $32 million acquisition of oil and gas properties located primarily in the Anadarko Basin. The properties currently produce an estimated 8,500 MCFE per day and include additional development and exploitation opportunities.

The 2001 Mid-Continent capital program totals $27 million. 22% of the program has been allocated to 8 wells to be drilled to the higher potential deeper Morrow and Springer formations including 4 wells in NE Mayfield. Ten wells, which represent 21% of the 2001 budget, are planned to be drilled to the Granite Wash formation. Three wells are budgeted in the Constitution field (11% of the capital program) and will test multiple Yegua sand objectives.

Over 70% of the Mid-Continent capital program will be operated by St. Mary in 2001. The Company has committed to use 3-4 drilling rigs in the region continually during the year. Keeping the rigs committed to St. Mary prospects will minimize any delays or disruptions from the tight rig environment that currently exists in the region. St. Mary will also use additional rigs, as needed, to drill the 32 operated wells planned for 2001.

St. Mary was founded in the early 1900s with the purchase of 24,900 acres of fee lands in St. Mary Parish, Louisiana on the shoreline of the Gulf of Mexico. The fee lands continue to be a valuable asset with revenue from the lands totaling $7.2 million in 2000. As the Company grows, revenue from its fee lands represents a smaller portion of the Company's revenue each year. St. Mary's Gulf Coast and Gulf of Mexico region grew significantly as a result of its 1999 acquisition of King Ranch Energy. 40% of the Company's 2000 production was from its Gulf region. St. Mary's regional office in Lafayette, Louisiana grew to a staff of 18 and the region accounted for 21% of the Company's capital expenditures in 2000.

The Judge Digby field located onshore in Pointe Coupe Parish, Louisiana is St. Mary's largest value field. The Company's working interest in the field ranges from 11.5% to 20% depending on the formation being drilled. During 2000 the Parlange #2 was deepened to a depth of 21,350 feet and was completed at a rate of 10,000 MCF per day. The Parlange #11 drilled to a depth of 23,480 feet produced at a rate of 92,000 MCF per day which is the highest rate ever recorded for onshore Louisiana. At year end 2000 the Parlange #11 was producing at a rate of 55,000 MCF per day. During late 2000 the J. Wuerelle #1 was drilled to a total depth of 22,200 feet and was completed in 2001 at a rate of 25,000 MCF per day. St. Mary is currently participating in the drilling of the Parlange #12 which is scheduled to be drilled to 23,100 feet and test the C-4 and C-5 sands which have never been tested at a structurally favorable position in the field. The Parlange #10 was producing 40,000 MCF per day when the well was shut down in late November to
repair a tubing leak. When the well is put back on production late in the first quarter of 2001, production from Judge Digby should approach production facility capacity of 230,000 – 240,000 Mcf per day.

Most of St. Mary’s large exploration ideas are in the Gulf Coast and Gulf of Mexico region. The Matagorda 701 prospect is located in 110 feet of federal waters, 50 miles northeast of Corpus Christi, Texas. Two wells to be operated by St. Mary are planned to be drilled in 2001 to a total depth of 11,800 feet. The Company intends to reduce its current 80% working interest to about 50% prior to drilling the wells. St. Mary is participating in the Centennial Project, a 51 square mile 3-D seismic survey over the Spindletop field near Beaumont, Texas. St. Mary and its partners have leased over 19,000 acres and intend to exploit a variety of formations, including the Miocene, Frio, Hackberry, Discorbis, Vicksburg and Yegua sands. St. Mary has a 21.25% working interest in the Centennial project which is planned to be a multi-year exploration and development program.

The Gulf Coast and Gulf of Mexico region should experience the most growth of St. Mary’s five core areas during 2001 as its capital expenditures program is budgeted at $37.5 million, a 48% increase over the $25.3 million spent in 2000. In addition to the two wells to be drilled at Matagorda 701, six wells are planned for the Centennial program and five wells in Judge Digby. The region will continue to evaluate over 1,500 square miles of 3-D seismic data included in the King Ranch Energy acquisition along with conducting additional seismic surveys in selected areas. St. Mary continues to encourage the development of its fee lands by facilitating exploration interest in deeper, untested formations and encouraging additional 3-D seismic activity.
ArkLaTex

St. Mary’s ArkLaTex office operates in southern Arkansas, northern Louisiana and eastern Texas and in 2000, extended its operations into southern Mississippi. The region is managed by St. Mary’s 14 person office in Shreveport, Louisiana. St. Mary’s ArkLaTex professionals have spent their careers in the region. Since 1992 the strategy of leveraging St. Mary’s technical expertise in an integrated acquisition and exploitation program has had major economic success developing fields such as Bayou D’Arbonne, Box Church and Haynesville.

In its search for new opportunities and potential analog fields, the ArkLaTex office expanded its area into southern Mississippi where the objective is to leverage its technical expertise in the Mississippi salt play.

During 2000 St. Mary spent $6.9 million in the ArkLaTex region and participated in 37 wells with a 73% completion success rate. The Jones #1 and the Jones #2 wells were successful multi-lateral wells drilled in the East Bridges field, each with initial production rates exceeding 4,000 mcf per day.

The 2001 ArkLaTex capital program is $11 million which is a 59% increase over 2000 expenditures. The ArkLaTex office anticipates participating in 35 wells and will operate 77% of its 2001 capital expenditures budget.

Nance Petroleum Corporation, a wholly owned subsidiary of St. Mary, has conducted operations in the Williston Basin in eastern Montana and western North Dakota on behalf of St. Mary since 1991. The Nance office in Billings, Montana includes a 22 person staff and is directed by geoscientists who have spent over 25 years and their entire careers in the Williston Basin. Exploration and development in the Williston Basin is based on the interpretation of 3-D seismic. Nance has successfully used 3-D seismic imaging to delineate structure and porosity development in the Red River formation. Since 1991 Nance has successfully completed 24 out of 25 wells it has drilled and operated. Nance’s prospect inventory continues to grow as the results from 3-D seismic surveys lead to additional areas to conduct more 3-D seismic surveys. Six 3-D surveys are planned for 2001 which exceeds the number of surveys conducted in any prior year by Nance.

Nance spent $12.6 million on exploration and development in the Williston Basin in 2000. Its only dry hole since 1991 was drilled early in 2000 followed by 11 successful wells, 5 of which were operated by Nance. The Federal 16-28X (56.25% working interest) drilled to the Duperow formation had an initial production rate of 640 barrels of oil per day and 450 Mcf per day. In addition to its exploration and development efforts, Nance acquired $13.3 million of oil and gas properties in five niche acquisitions which added 5,475 MCFE per day of production to the Company.
Nance's 2001 Williston Basin exploration and development capital program is $12 million. Nine operated wells with working interests ranging from 70% to 100% are planned to be drilled. Rig availability is limited in the Williston Basin. Nance has minimized the impact of the tight rig situation by committing to keep one drilling rig utilized throughout the year. Nance will operate 85% of its Williston Basin capital budget in 2001.

**PERMIAN BASIN**

<table>
<thead>
<tr>
<th>PROVED RESERVES — 38.1 BCFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERCENTAGE OF TOTAL RESERVES — 11%</td>
</tr>
<tr>
<td>GAS/OIL MIX — 34% - 66%</td>
</tr>
<tr>
<td>PROVED DEVELOPED RESERVES — 84%</td>
</tr>
<tr>
<td>CAPITAL EXPENDITURES — 4%</td>
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In 1995 St. Mary began acquiring interests in the Permian Basin which is located in eastern New Mexico and western Texas. Because the Permian Basin is primarily carbonate oil reservoirs similar to the Williston Basin, Nance Petroleum began managing the Company's interests in the Permian Basin in 2000. In addition to a significant overhead savings, Nance has been able to provide the Permian Basin exploration and development team the technical discipline and attention to detail that has been the foundation of its success in the Williston Basin.

St. Mary participated in drilling 9 wells in 2000 with a 67% success rate. The $1.7 million spent on exploration and development resulted in adding reserves of 2,317 MMCFE. The East Shugart Delaware Unit waterflood project was initiated in 2000. Although an initial response from the water injection is not anticipated until late 2001, the Company is hopeful the East Shugart waterflood will be an analog to the successful Parkway Delaware Unit waterflood that increased production from 450 bopd in 1998 when the waterflood was initiated to 1,150 bopd in 2000.

The Permian Basin capital expenditures budget is $6 million. In addition to drilling four injection wells in the East Shugart Delaware waterflood, two Morrow tests are planned in the Parkway field and a Queen development well is planned at the Young North field. The HJSA tolease on 30,450 acres in Ward County, Texas became effective on August 5, 2000 and at year end was producing 3,250 mcfpe per day. 3-D seismic data over the 50 square mile lease will be reprocessed during the first quarter of 2001 with exploitation drilling, based on the results of the 3-D seismic evaluation, anticipated throughout the year. The Company anticipates significant opportunities will develop from St. Mary's 21.4% interest in this lease.
Succeeding in making economic acquisitions.

The economics of properties acquired through acquisitions are protected by hedging commodity prices.

Additional value is added through St. Mary’s technical expertise.
St. Mary’s growth strategy includes the acquisition of oil and gas properties that will add value and opportunities to the Company. Niche acquisitions in the Company’s core areas are typically based on a geologic or operational idea that St. Mary believes will provide economic exploration and development opportunities. In addition, St. Mary targets private and under-valued public companies that can be acquired for cash and/or St. Mary stock on an accretive basis. The Company’s strong financial and technical capabilities, together with a strong balance sheet and a highly regarded stock, provide flexibility in structuring transactions to meet the requirements of the company and its shareholders looking for liquidity.

Acquisitions are becoming a more significant part of St. Mary’s growth strategy. The Company completed $53.5 million of acquisitions in 2000, which added reserves of 40.6 BCFE. Over the past three years, St. Mary has been able to close over $102 million of acquisitions which have included both niche and company acquisitions. Niche acquisitions are primarily within St. Mary’s core areas. In addition to earning an acceptable return from the acquisition of producing properties, St. Mary’s objective is to add value using its proprietary geologic concepts and well completion techniques. With the market for acquisitions being increasingly competitive, value must be added through exploitation in order to meet St. Mary’s return on investment objectives.

During 1999 St. Mary acquired two private companies in exchange for St. Mary common stock. Company acquisitions have provided St. Mary with prospect inventories, geological and geophysical data including 3-D seismic surveys, technical expertise and lease inventories, in addition to the oil and gas production existing at the time a company is acquired. For a private company a merger with St. Mary can provide liquidity, management succession and access to capital markets. St. Mary believes its strong balance sheet and a common stock that consistently outperforms its peers provide a competitive

Reserves Added Through Acquisitions (MMCFE)
advantage when dealing with private companies. St. Mary will continue to evaluate acquiring private companies that fit strategically with St. Mary’s operation. In addition the Company will pursue the acquisition of under-valued public companies. St. Mary will only make company acquisitions on a basis that is accretive.

During 2000 St. Mary made niche acquisitions in each of its five core areas totaling $53.5 million. In December, 2000 the Company completed a $32.0 million acquisition of oil and gas properties in the Mid-Continent region. $13.3 million of niche acquisitions were made during 2000 in the Williston Basin in five separate transactions. The balance of $8.2 million of niche acquisitions were made in the ArkLaTex region, the Gulf Coast and Gulf of Mexico region and the Permian Basin.

St. Mary has set aside $60 million or 39% of its 2001 capital expenditures program for property acquisitions. With its unused borrowing base and cash flow, the Company has the financial capability to make acquisitions substantially greater than the planned amount. St. Mary’s policy of hedging up to 24 months of the acquired production from any acquisition allows the Company to acquire properties in the current high commodity price environment. St. Mary employs the same hedging policy in all price environments as the Company does not speculate on commodity prices when making acquisitions. Because St. Mary is willing to use aggressive prices to evaluate acquisitions and hedge those prices, the Company believes it will be competitive in 2001 in its pursuit of acquisitions.
Succeeding 

Because of its strong balance sheet, St. Mary is able to take financial advantage of opportunities. Financial resources are available strategies. to weather periods of depressed commodity prices.
All of St. Mary’s financial strategies and goals are focused on building value per share. Growth is only an objective if the growth increases per share value. To build per share value requires the Company to add value through its technical, operational and financial expertise. To build per share value in good times and in bad requires the financial discipline to maintain the financial strength necessary to benefit from both the down-cycles and the up-cycles in the volatile oil and gas industry.

St. Mary’s objective is to be ranked in the top quartile of its peer group in all areas. To be a top performer the Company must replace, on average, at least 200% of its annual production and must do so economically. Over the past five years, St. Mary has replaced 265% of its production at a finding cost of $0.93 per MCFE which ranks the Company within the top quartile of its peer group.

St. Mary measures its performance by internal rate of return, return on investment and full cycle economics calculations. The Company’s objective is to provide its shareholders with a minimum compounded 15% internal rate of return. Since St. Mary went public in December, 1992 through the end of 2000, St. Mary has provided its shareholders, with dividends and increase in per share value, an annual compounded return in excess of 25%. Full cycle economics compare current year cash margins with the average five year finding cost. St. Mary consistently ranks in the top quartile in its industry when measuring full cycle economics and in three of the last four years has been one of the top five performers in the Howard Weil surveys of approximately 60 top performing companies.

As a part of St. Mary’s financial strategy to grow per share value, the Company has adopted financial strategies that will “right” size the Company if conditions warrant. St. Mary will periodically sell non-strategic assets if they can be sold at a substantial premium over what St. Mary will pay for them. Buying oil and gas properties at wholesale and selling at retail grows per share value. St. Mary has in place a stock repurchase plan whereby the Company will purchase its common shares...
when they are selling at attractive levels. This plan grows per share value. Adhering to insider “black out” periods limits the timeframe when the share repurchase strategy can be executed.

St. Mary will evaluate opportunities in 2001 using a $3.25 per Mcf NYMEX gas price and a $22.50 per barrel NYMEX oil price. If a higher NYMEX price strip is necessary to meet the Company’s return on investment objectives, the higher prices will be hedged. Property acquisitions will be evaluated using NYMEX strip prices. St. Mary will hedge the first 24 months of production in order to protect a base return rate.

At December 31, 2000 St. Mary had $22 million of bank debt and $118 million available to borrow from its $140 million borrowing base. The Company anticipates the borrowing base will be increased when the amount is redetermined during the second quarter of 2001. St. Mary’s policy is to limit bank borrowing to no more than 50 percent of its available borrowing base and to maintain a debt to capital ratio of less than 35 percent. The conservative use of debt and a strong balance sheet allows St. Mary to react quickly to opportunities as they become available. A strong balance sheet also provides the financial resources to survive poor market conditions in a cyclical industry.

St. Mary is focused on per share growth. Company policy dictates that economics are prepared and evaluated for every opportunity. Every financial decision is based upon whether or not the opportunity will build shareholder value. Economic evaluation is engrained in every St. Mary employee. The technical, operational, administrative and financial employees work together every day to ensure the continued economic growth of St. Mary to ensure that St. Mary will always succeed in good times and in bad.

<table>
<thead>
<tr>
<th>Reserve Summary</th>
<th>OIL (MMBBLS)</th>
<th>GAS (MMCF)</th>
<th>MMCFE AMOUNT</th>
<th>PERCENT</th>
<th>PV-10 VALUE (IN THOUSANDS)</th>
<th>PERCENT</th>
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<tr>
<td>Mid-Continent Region</td>
<td>1,766</td>
<td>110,033</td>
<td>120,627</td>
<td>34.3%</td>
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<td>ArkLaTex Region</td>
<td>1,510</td>
<td>42,689</td>
<td>51,749</td>
<td>14.7%</td>
<td>$189,602</td>
<td>16.4%</td>
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<td>Gulf Coast and Gulf of Mexico</td>
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<td>46,087</td>
<td>53,094</td>
<td>15.1%</td>
<td>$248,391</td>
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<td>Williston Basin</td>
<td>12,339</td>
<td>14,105</td>
<td>88,137</td>
<td>25.1%</td>
<td>$134,520</td>
<td>11.7%</td>
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<td>Permian Basin</td>
<td>4,167</td>
<td>13,061</td>
<td>38,066</td>
<td>10.8%</td>
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<td>Total</td>
<td>20,950</td>
<td>225,975</td>
<td>351,673</td>
<td>100.0%</td>
<td>$1,153,663</td>
<td>100.0%</td>
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**BOARD OF DIRECTORS**

Larry W. Bickle  
Houston, Texas  
Managing Director  
Haddington Ventures LLC

Ronald D. Boone  
Denver, Colorado  
Executive Vice President and Chief Operating Officer  
St. Mary Land & Exploration Company

Thomas E. Congdon  
Denver, Colorado  
Chairman  
St. Mary Land & Exploration Company

David C. Dudley  
Denver, Colorado  
Operating Manager  
Dudley & Associates, LLC

William J. Gardiner  
Houston, Texas  
Chief Financial Officer  
King Ranch Inc.

Mark A. Hellerstein  
Denver, Colorado  
President and Chief Executive Officer  
St. Mary Land & Exploration Company

Jack Hunt  
Houston, Texas  
President  
King Ranch Inc.

Robert L. Nance  
Billings, Montana  
President  
Nance Petroleum Corporation

R. James Nicholson  
Washington, D.C.  
Chairman and Chief Executive Officer  
Nicholson Enterprises, Inc.

Arend J. Sandbulte  
Duluth, Minnesota  
Director and Retired Chairman  
Minnesota Power

John M. Seidl  
San Francisco, California  
Chairman  
MyHomeKey.com, Inc.

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Executive Vice President and Chief Operating Officer

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Vice President - Business Development

W. David Hart  
Vice President - Geology, ArkLaTex

George M. Hearne IV  
Vice President - General Manager, ArkLaTex

Charles M. Jones  
Vice President - General Manager, Gulf Coast

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Vice President - Finance, Treasurer and Secretary

Milam Randolph Pharo  
Vice President - Land and Legal, Assistant Secretary

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Vice President - Engineering, ArkLaTex

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Vice President - Acquisitions and Reservoir Engineering

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Vice President - Administration and Controller

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Assistant Vice President - Land and Assistant Secretary

David J. Whitcomb  
Assistant Vice President - Gas Marketing

Darla Dorgan  
Landman and Assistant Secretary

Patricia Flanigan  
Administrative Assistant and Assistant Secretary

James C. Robertson  
Administrative Assistant and Assistant Secretary