

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-KSB

(Mark One)

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2004
OR
 TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-19514

Gulfport Energy Corporation

(Name of Small Business Issuer in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

73-1521290

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

14313 North May Avenue, Suite 100

Oklahoma City, Oklahoma 73134

(Address of Principal Executive Offices, Zip code)

(Issuer's Telephone Number, Including Area Code) (405) 848-8807

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

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, par value \$0.01 per share

None

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Registrant's revenues for its most recent fiscal year: \$23,071,876

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of March 15, 2005 was \$53,476,621.

As of March 15, 2005, 31,483,253 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III is incorporated by reference to certain sections of the Proxy Statement for the 2004 Annual Meeting of our stockholders which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2004.

Transitional Small Business Disclosure Format (check one): Yes No



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FORWARD-LOOKING STATEMENTS

This Form 10-KSB includes “forward-looking statements” within the meaning of Section 27A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts, included in this Form 10-KSB that address activities, events or developments that Gulfport Energy Corporation (“Gulfport” or the “Company”), a Delaware corporation, expects or anticipates will or may occur in the future, including such things as estimated future net revenues from oil and gas reserves and the present value thereof, future capital expenditures (including the amount and nature thereof), business strategy and measures to implement strategy, competitive strength, goals, expansion and growth of Gulfport’s business and operations, plans, references to future success, reference to intentions as to future matters and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by Gulfport in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with Gulfport’s expectations and predictions is subject to a number of risks and uncertainties, general economic, market, or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by Gulfport; competitive actions by other oil and gas companies; changes in laws or regulations; and other factors, many of which are beyond the control of Gulfport. Consequently, all of the forward-looking statements made in this Form 10-KSB are qualified by these cautionary statements and there can be no assurances that the actual results or developments anticipated by Gulfport will be realized, or even if realized, that they will have the expected consequences to or effects on Gulfport, its business or operations. We have no intention, and disclaim any obligation, to update or revise any forward looking statements, whether as a result of new information, future results or otherwise.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Gulfport is an independent oil and gas exploration and production company with properties located along the Louisiana Gulf Coast. The Company's operations are concentrated in two fields: West Cote Blanche Bay ("WCBB") and the Hackberry Fields. The Company seeks to achieve reserve growth and increase its cash flow by undertaking various drilling programs each year. In addition, the Company intends to shoot 3-D seismic at its East Hackberry Field to allow the Company to undertake drilling at that field. As of December 31, 2004, the Company had 24.8 MMBOE of proved reserves with a present value of estimated future net revenues, discounted at 10%, of approximately \$361.5 million and associated standardized measure of discounted future net cash flows of approximately \$301.0 million. The Company was organized in July 1997.

Principal Oil and Gas Properties

Gulfport owns interests in producing oil and gas properties located along the Louisiana Gulf Coast. The following table presents certain information as of December 31, 2004 reflecting Gulfport's net interest in its producing oil and gas properties.

Field	NRI/WI	Producing Wells		Non-		Acreage (3)		Gas	Oil	Total
	(1)	(2)		Producing Wells		(3)		MBOE	MBOE	MBOE
	Percentages	Gross	Net	Gross	Net	Gross	Net			
West Cote Blanche Bay (4)(5)	79.443/100	34	34	270	269	5,668	5,668	3,162	18,128	21,290
E Hackberry	78.7/100	6	6	72	70	3,147	3,147	693	2,719	3,412
W Hackberry	87.5/100	1	1	26	26	592	592	-	45	43
Overrides/Royalty Non-operated	Various	20	1	21	3	4,956	586	5	13	18
Total		61	42	389	368	14,363	9,993	3,860	20,905	24,765

(1) Net Revenue Interest (NRI)/Working Interest (WI)

(2) Additionally, East Hackberry has five wells that produce intermittently, and WCBB has nine wells that produce intermittently.

(3) All of Gulfport's acreage is developed acreage. All of the oil and gas leases in which Gulfport owns an interest have been perpetuated by production. The operator may surrender the leases at any time by notice to the lessors, or by the cessation of production.

(4) Gulfport has a 100% working interest (79.443% average NRI) from the surface to the base of the 13,900 Sand which is located at 11,320 feet. Below the base of the 13,900 Sand, Gulfport has a 40.40% non-operated working interest (29.95% NRI).

(5) By the time the field is retired, Gulfport will be required to plug and abandon approximately 313 wellbores. In order to meet this obligation, Gulfport has plugged at least twenty wells each year at WCBB since July of 1997 and, through March 2004, invested monthly in a plugging escrow account. The Company has met its funding obligation for the West Cote Blanche Bay Escrow Account. The account has a current balance of approximately \$2,821,000.

West Cote Blanche Bay Field

Location and Land

The WCBB field lies approximately five miles off the coast of Louisiana, primarily in St. Mary Parish, in a shallow bay with water depths averaging eight to ten feet. Currently, Gulfport owns a 100% working interest (79.443% NRI in most of the lease) and is the operator in the depths above the base of the 13,900 Sand which is located at 11,320 feet. In addition, Gulfport owns a 40.40% non-operated working interest (29.95% NRI) in depths below the base of the 13,900 Sand. ChevronTexaco is the operator below the base of the 13,900 Sand. Gulfport's leasehold at WCBB covers a portion of Louisiana State Lease 340 and contains 5,668 gross acres.

Area History and Production

Texaco drilled the discovery well in this field in 1940 based on a seismic and gravitational anomaly. WCBB was subsequently developed on an even 160-acre pattern for much of the remainder of the decade. Developmental drilling continued and reached its peak in the 1970s when over 300 wells were drilled in the field. Of the 885 wells drilled to date, only 80 were dry holes. As a result, the field has a historic success rate of over 90% for all wells drilled. Past successes are not necessarily indicative of future results. The historical average cumulative gross production for a producing well in the field is 237 MBO, with over 100 of those wells (14% of total wells) producing in excess of 500 MBO. As of December 31, 2004, field cumulative gross production was 192 MMBO and 233 BCF of gas.

As of December 31, 2004, there had been 885 wells drilled in WCBB, and of these, 34 are currently producing, 270 are shut-in and five are utilized as salt water disposal wells. The other 576 wells have been plugged and abandoned. During 2004, Gulfport's net current daily production at WCBB averaged 1,342 MBO, 1,707 MCF of gas and 14,305 barrels of water.

In 1991, Texaco conducted a 70 square mile 3-D seismic survey with 1,100 shot points per mile that processed out 100 fold. In 1993, an undershoot survey around the crest and production facilities was added. Gulfport owns the rights to the seismic data. In December 1999, Gulfport completed the reprocessing of the seismic data and its technical staff developed prospects from the data. The reprocessed data has enabled Gulfport to identify prospects in areas of the field that would have otherwise remained obscure. In January 2005, Gulfport sent the seismic data to be reprocessed on order to use the most recent advances in seismic data processing. The Company hopes to have the reprocessed data completed during the second quarter of 2005.

Since Gulfport's acquisition of WCBB in 1997, Gulfport has drilled 44 new wells resulting in 38 producers and six dry holes, for an 86% success rate. In addition, Gulfport drilled two sidetrack re-entries, one of which was successful. These drilling projects have produced 2,208 gross MBOE with a total wellbore gross estimated ultimate recovery (EUR) of 6,582 MBOE. Gulfport has also re-completed 38 existing wells resulting in 19 producing wells and 19 unsuccessful wells for a 50% success rate. These re-completed wells have produced 867 gross MBOE with a gross EUR of 1,043 MBOE.

Geology

WCBB overlies one of the largest salt dome structures on the Gulf Coast. The field is characterized by a piercement salt dome, which created traps from the Pleistocene through the Miocene formation. The relative movements affected deposition and created a complex system of fault traps. The compensating fault sets generally trend northwest to southeast and are intersected by sets having a major radial component. Later-stage movement caused extension over the dome and a large graben system (a downthrown area bounded by normal faults) was formed.

There are over 100 distinct sandstone reservoirs recognized throughout most of the field, and nearly 200 major and minor discrete intervals have been tested. Within the 885 wellbores that have been drilled to date in the field, over 4,000 potential zones have been penetrated. These sands are highly porous and permeable reservoirs primarily with a strong water drive.

WCBB is a structurally and stratigraphically complex field. All of the proved undeveloped (PUD) locations at WCBB are adjacent to faults and abut at least one fault. Gulfport's PUD drilling program is designed to penetrate each PUD trap with a new wellbore in a structurally optimum position, usually very close to the fault seal. The majority of these wells have been, and new wells drilled in connection with our drilling program will be, directionally drilled using steering tools and downhole motors. The tolerance for error in getting near the fault is low, so the complex faulting does introduce the risk of crossing the fault before encountering the zone of interest, which could result in part or all of the zone being absent in the borehole. This, in turn, can result in lower than expected or zero reserves for that zone. The new wellbores eliminate the mechanical risk associated with trying to produce the zone from an old existing wellbore, while the wellbore locations are situated so as to more efficiently drain each reservoir. The vast majority of the PUD targets are up-dip offsets to wells that produced from a sub-optimum position within a particular zone. Gulfport's inventory of prospects includes 135 PUD wells. The drilling schedule used in the reserve report anticipates that all of those wells will be drilled by 2011.

Facilities

Gulfport owns and operates a production facility at WCBB. The platform for the production facility stretches over a mile and is equipped with a 50 MMCF capacity dehydrating system and three 140 horsepower triplex saltwater disposal pumps.

Recent and Future Activity

In July 2004, Gulfport commenced an eight well drilling program at WCBB with a 100% success rate. The logs of the eight wells indicate a total of 38 productive horizons with 678 feet of net pay. The total gross initial production rates for the eight wells were 784 barrels of oil per day and 2,418 MCF of gas per day. In addition, the Company also recompleted four existing wells at WCBB which had total initial gross production rates of 480 barrels of oil per day and 742 mcf of gas per day.

Gulfport is in the process of permitting 20 additional wells to be drilled at West Cote Blanche Bay, including one sidetrack, and spud the first well in the 2005 drilling program in March 2005. The Company also plans on converting a well that is currently inactive to a salt water disposal well for the field during 2005. Gulfport began a five well workover and eight well recompletion program in November of 2004. The Company also plans to workover and recomplete six to ten wells during the first quarter of 2005.

Gulfport is in the process of permitting two additional facility platforms to be located at West Cote Blanche Bay that would hold a new gas compressor and salt-water pump. Once the permits are granted Gulfport will build the platforms and install the additional equipment.

East Hackberry Field

Location and Land

The East Hackberry Field is located along the western shore of Lake Calcasieu in Cameron Parish, Louisiana approximately 80 miles west of Lafayette and 15 miles inland from the Gulf of Mexico. Gulfport owns a 100% working interest (approximately 79% average NRI) in certain producing oil and gas properties situated in the East Hackberry Field. The interest includes two separate lease blocks, the Erwin Heirs Block which is located on land and the adjacent State Lease 50 Block which is located primarily in the shallow waters of Lake Calcasieu. The two lease blocks together contain 3,147 acres.

Area History and Production

The East Hackberry field was discovered in 1926 by Gulf Oil Company (now ChevronTexaco Corporation) by a gravitational anomaly survey. The massive shallow salt stock presented an easily recognizable gravity anomaly indicating a productive field. Initial production began in 1927 and has continued to the present. The estimated cumulative oil and condensate production through 2004 was over 111 MBO with casinghead gas production being over 60 BCF of gas. There have been a total of 170 wells drilled on Gulfport's portion of the field. As of December 31, 2004, six wells had current daily production, 5 produced intermittently, 79 were shut-in and 4 had been converted to salt water disposal wells. The remaining 76 wells have been plugged and abandoned. During 2004, daily net production averaged 225 barrels of oil with a limited amount of net gas production.

Geology

The Hackberry Field is a major salt intrusive feature, elliptical in shape as opposed to a classic "dome," divided into east and west field entities by a saddle. Structurally, Gulfport's East Hackberry acreage is located on the eastern end of the Hackberry salt ridge. There are over 30 pay zones at this field. The salt intrusion formed a series of structurally complex and steeply dipping fault blocks in the Lower Miocene and Oligocene age rocks. These fault blocks serve as traps for hydrocarbon accumulation. Gulfport's wells currently produce from perforations found between 5,100 feet and 12,200 feet.

Facilities

Gulfport has land-based production and processing facilities located at the East Hackberry Field. The facilities are comprised of two dehydrating units and four disposal pumps. Gulfport also has a field office that serves both the East and West Hackberry fields.

Recent and Future Activity

The Gulfport technical staff continues its effort to identify additional drilling, workover and recompletion candidates at East Hackberry. In January 2005, Gulfport began the initial fieldwork in support of a 43 square mile 3-D seismic survey that will image the Company's current leasehold position and additional acreage it has under lease option. The Company hopes to begin data acquisition early in the second quarter of 2005. The shoot is estimated to cost \$4.5 million and will allow Gulfport to undertake drilling operations in the field. The shoot is designed to image shallow horizons at depths of approximately 5,000 feet to 7,000 feet and image steeply dipping targets as deep as 15,000 feet.

In October 2004, Gulfport temporarily shut in its oil wells in the State Lease 50 portion of the East Hackberry field, pending work on the gas line providing natural gas to the field used in lifting operations. Gulfport anticipates restoration of the gas service and oil production from these wells during second quarter of 2005.

West Hackberry Field

Location and Land

The West Hackberry Field is located on land and is five miles West of Lake Calcasieu in Cameron Parish, Louisiana, approximately 85 miles west of Lafayette and 15 miles inland from the Gulf of Mexico. Gulfport owns a 100% working interest (approximately 87.5% NRI) in 592 acres within the West Hackberry Field.

Gulfport's leases at West Hackberry are located within two miles of one of the United States Department of Energy's Strategic Petroleum Reserves. This West Hackberry storage facility occupies 525 acres and has capacity to store 222 MBO in underground salt caverns.

Area History and Production

The first discovery well at West Hackberry was drilled in 1938 and the field was developed by Superior Oil Company (now Exxon-Mobil Corporation) between 1938 and 1988. The estimated cumulative oil and condensate production through 2004 was 170 MBO and 120 BCF of gas. There have been 36 wells drilled to date on Gulfport's portion of West Hackberry. Currently, one is producing, 26 are shut-in and one has been converted to a saltwater disposal well. The remaining eight wells have been plugged and abandoned. During 2004, daily net production averaged 17 barrels of oil and a limited amount of gas. Total net production per day for both Hackberry fields was 242 barrels of oil for the year ended December 31, 2004.

Geology

Structurally, Gulfport's West Hackberry acreage is located on the western end of the Hackberry salt ridge. There are over 30 pay zones at this field. West Hackberry consists of a series of fault-bounded traps in the Oligocene-age Vincent and Keough sands associated with the Hackberry Salt Ridge. Recoveries from these thick, porous, water-drive reservoirs have resulted in per well cumulative production of almost 700 BOE.

Facilities

Gulfport has land-based production and processing facilities located at the West Hackberry field. Gulfport has two dehydrating units and one disposal pump. Gulfport maintains a field office that serves both the East and West Hackberry fields.

Additional Properties

In addition to its interests in WCBB, East Hackberry and West Hackberry, Gulfport owns working interests and overriding royalty interest in various fields as described in the following table:

<u>Field</u>	<u>Parish</u>	<u>Acreage Working Interest</u>	<u>Overriding Royalty Interests</u>	<u>Producing Wells</u>	<u>Non-Producing Wells</u>
Bayou Long	Iberia	3.125%	0%	1	0
Bayou Penchant	Terrebonne	3.125%	10.0%	8	9
Bayou Pigeon	Iberia	6.250%	0%	6	6
Deer Island	Terrebonne	6.250%	0%	3	3
Golden Meadow	Lafourche	3.125%	0%	0	1
Napoleonville	Assumption	10.000%	2.5%	3	0

Other Interests

Litigation Trust

Gulfport owns a 12% interest in the Trust (the "Litigation Trust") that was established in WRT's bankruptcy to pursue litigation connected with WRT. The Litigation Trust filed approximately 400 preference actions and several substantive actions alleging fraud, malpractice and other wrongdoings. At this time, Gulfport cannot estimate what the potential future recovery from the litigation will be. See additional discussion regarding the Litigation Trust in the footnotes to the Company's financial statements included elsewhere in this annual report on Form 10-KSB.

Oil and Gas Marketing

Gulfport sells the majority of its oil to Shell Trading Company ("Shell"). Shell takes custody of the oil at the barge inlet. Gulfport has entered into fixed price contracts for the first barrels of production in a day with the remainder being sold in accordance with posted price for West Texas/New Mexico Intermediate crude plus Platt's trade month average P+ value, plus or minus the Platt's WII/LLS differential less \$0.85 per barrel for transportation.

During 2004, Gulfport sold 99% of its oil production to Shell Trading Company and 68% and 21% of its gas production to ChevronTexaco and Apache Corporation, respectively. During 2003, approximately 74% and 16% of Gulfport's revenues from oil and gas sales were attributable to Shell and Equiva Trading Company, respectively.

Competition and Markets

Availability of Markets

The availability of a ready market for any oil and/or gas produced by Gulfport depends on numerous factors beyond the control of management, including but not limited to, the extent of domestic production and imports of oil, the proximity and capacity of gas pipelines, the availability of skilled labor, materials and equipment, the effect of state and federal regulation of oil and gas production and federal regulation of gas sold in interstate commerce. Oil and gas produced by Gulfport in Louisiana is sold to various purchasers who service the areas where Gulfport's wells are located. Gulfport's wells are not subject to any agreements that would prevent Gulfport from either selling its production on the spot market or committing such gas to a long-term contract; however, there can be no assurance that Gulfport will continue to have ready access to suitable markets for its future oil and gas production.

Impact of Energy Price Changes

Oil and gas prices can be extremely volatile and are subject to substantial seasonal, political and other fluctuations. The prices at which oil and gas produced by Gulfport may be sold is uncertain and it is possible that under some market conditions the production and sale of oil and gas from some or all of its properties may not be economical. The availability of a ready market for oil and gas and the prices obtained for such oil and gas, depend upon numerous factors beyond the control of Gulfport, including competition from other oil and gas suppliers and national and international economic and political developments. Because of all of the factors influencing the price of oil and gas, it is impossible to accurately predict future prices.

Regulation

Regulation of Gas and Oil Production

Gas and oil operations are subject to various types of regulation by state and federal agencies. Legislation affecting the gas and oil industry is under constant review for amendment or expansion. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue rules and regulations binding on the gas and oil industry and its individual members, some of which carry substantial penalties for failure to comply. The regulatory burden on the gas and oil industry increases Gulfport's cost of doing business and, consequently, affects its profitability.

Gulfport owns interests in a number of producing oil and gas properties located along the Louisiana Gulf Coast. The state of Louisiana regulates the production and sale of natural gas and crude oil, including requirements for obtaining drilling permits, the method of developing new fields, the spacing and operation of wells. In addition, regulations governing conservation matters aimed at preventing the waste of gas and oil resources could affect the rate of production and may include maximum daily production allowables for wells on a market demand or conservation basis.

Oil Price Controls

Sales of crude oil, condensate and gas liquids by Gulfport are not regulated and are made at market prices.

Environmental Regulation

Gulfport's natural gas and oil exploration, development and production operations are subject to stringent federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental agencies, such as the U.S. Environmental Protection Agency (EPA), issue regulations to implement and enforce such laws, which often require difficult and costly compliance measures that carry substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit construction or drilling activities on certain lands lying within wilderness, wetlands, ecologically sensitive and other protected areas, require remedial action to prevent pollution from former operations, such as plugging abandoned wells or closing pits, and impose substantial liabilities for pollution resulting from Gulfport's operations. The regulatory burden on the natural gas and oil industry increases the cost of doing business and consequently affects profitability. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly waste handling, storage, transport, disposal or cleanup requirements could materially adversely affect Gulfport's operations and financial position, as well as the gas and oil industry in general. Management believes that Gulfport is in substantial compliance with current applicable environmental laws and regulations and Gulfport has not experienced any material adverse effect from compliance with these environmental requirements; this trend, however, may not continue in the future.

The Comprehensive Environmental Response, Compensation and Liability Act, as amended, also known as CERCLA or Superfund, and comparable state laws impose liability without regard to fault or the legality of the original conduct on certain classes of persons who are considered to be responsible for the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances or other pollutants into the environment.

The Resource Conservation and Recovery Act (RCRA), as amended, generally does not regulate most wastes generated by the exploration and production of natural gas and oil. RCRA specifically excludes from the definition of hazardous waste "drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas or geothermal energy." However, these wastes may be regulated by the EPA or state agencies as solid waste. Moreover, ordinary industrial wastes, such as paint wastes, waste solvents, laboratory wastes and waste compressor oils, may be regulated as hazardous waste. Although the costs of managing solid and hazardous waste may be significant, Gulfport does not expect to experience more burdensome costs than similarly situated companies involved in natural gas and oil exploration and production.

Gulfport currently owns or leases, and has in the past owned or leased, numerous properties that for many years have been used for the exploration and production of gas and oil. Although Gulfport has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by Gulfport or on or under other locations where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under Gulfport's control. These properties and the wastes disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under such laws Gulfport could be required to remove or remediate previously disposed wastes or property contamination, or to perform remedial plugging or pit closure operations to prevent future contamination.

The Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous state laws impose restrictions and strict controls regarding the discharge of pollutants, including produced waters and other gas and oil wastes, into state waters or waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or the state. These proscriptions also prohibit certain activity in wetlands unless authorized by a permit issued by the U.S. Army Corps of Engineers. The EPA has also adopted regulations requiring certain gas and oil exploration and production facilities to obtain permits for storm water discharges. Costs may be associated with the treatment of wastewater or developing and implementing storm water pollution prevention plans. Gulfport's management believes that Gulfport has obtained or applied for all permits required under the Clean Water Act. Sanctions for failure to comply with Clean Water Act requirement include administrative, civil and criminal penalties, as well as injunctive relief.

The Clean Air Act (CAA), as amended, restricts the emission of air pollutants from many sources, including natural gas and oil operations. New facilities may be required to obtain permits before work can begin, and existing facilities may be required to incur capital costs in order to remain in compliance. In addition, more stringent regulations governing emissions of toxic air pollutants are being developed by the EPA, and may increase the costs of compliance for some facilities. Gulfport's management believes that the Company is in substantial compliance with all air emissions regulations and that the Company has or has applied for all necessary permits for its operations.

Operational Hazards and Insurance

Gulfport's operations are subject to all of the risks normally incident to the production of oil and gas, including blowouts, cratering, pipe failure, casing collapse, oil spills and fires, each of which could result in severe damage to or destruction of oil and gas wells, production facilities or other property, or injury to persons. The energy business is also subject to environmental hazards, such as oil spills, gas leaks, and ruptures and discharge of toxic substances or gases that could expose Gulfport to substantial liability due to pollution and other environmental damage. Although Gulfport maintains insurance coverage considered to be customary in the industry for a company its size, it is not fully insured against certain of these risks, either because such insurance is not available or because of high premium costs. The occurrence of a significant event that is not fully insured against could have a material adverse effect on Gulfport's financial position.

Headquarters and Other Facilities

During 2004, Gulfport purchased the office building in Oklahoma City, Oklahoma in which it had been leasing approximately 12,035 square feet. See "Management Discussion and Analysis of Financial Condition and Results of Operations-Capital Expenditures, Capital Resources and Liquidity" for additional information regarding the purchase.

Gulfport owns a building in Lafayette, Louisiana that is used as Gulfport's Louisiana headquarters. The 16 year-old building contains 12,480 total square feet with 6,180 square feet of finished office area and 6,300 square feet of clear span warehouse area. This building allows Gulfport to provide office space for Louisiana personnel, have access to meeting space close to the fields and maintain a corporate presence in Louisiana.

Employees

At December 31, 2004, Gulfport had 40 employees. A Louisiana well servicing company serves as contract operator of the fields and provides all necessary field personnel.

ITEM 2. DESCRIPTION OF PROPERTY

Oil & Gas Reserves

The oil and gas reserve information set forth below represents estimates as prepared by the independent engineering firm of Netherland, Sewell & Associates, Inc. Reserve engineering is a subjective process of estimating volumes of economically recoverable oil and gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation. As a result, the estimates of different engineers often vary. In addition, the results of drilling, testing and production may justify revisions of such estimates. Accordingly, reserve estimates often differ from the quantities of oil and gas that are ultimately recovered. Estimates of economically recoverable oil and gas and of future net revenues are based on a number of variables and assumptions, all of which may vary from actual results, including geologic interpretation, prices, and future production rates and costs.

The following table sets forth estimates of the proved oil and gas reserves of Gulfport at December 31, 2004, as estimated by Netherland, Sewell & Associates, an independent engineering firm.

Proved Reserves	December 31, 2004		
	Developed	Undeveloped	Total
Oil (MBBLS)	4,633	16,272	20,905
Gas (MMCF)	4,635	18,527	23,162
MBOE	5,405	19,360	24,765
Year end present value of estimated future net revenue, discounted at 10% (Pre-tax)	\$ 89,557,400	\$ 271,984,500	\$ 361,541,900

Total proved reserves increased to 24,765 MBOE at December 31, 2004 from 22,137 at January 1, 2004. This increase in reserves is mainly attributable to reserve additions and revisions as a result of the Company's 2004 drilling program which commenced in July 2004 and the extension of the economic life of the reserves due to the increase in oil and gas prices.

The estimated future net revenues set forth above were determined by using reserve quantities of proved reserves and the periods in which they are expected to be developed and produced based on economic conditions prevailing at December 31, 2004. The estimated future production is priced at December 31, 2004, without escalation using \$40.25 per BBL and \$6.18 per MCF, adjusted by lease for transportation fees and regional price differentials.

In compliance with federal law, Gulfport files annual reports with the Energy Information Agency of the U.S. Department of Energy with respect to its production of oil and gas during each calendar year and its estimated oil and gas reserves at the end of each year. The reserves reported in Gulfport's filing to the U.S. Department of Energy do not differ more than five percent from those disclosed in this annual report on Form 10-KSB.

Production, Prices, and Production Costs

The following are tables of Gulfport's average prices received and production volumes during the periods indicated:

	2004	2003	2002
Production Volumes:			
Oil (MBBLS)	584	571	464
Gas (MMCF)	284	123	103
Oil Equivalent (MBOE)	631	592	481

Average Prices:

Oil (per BBL)	\$	36.97 ⁽¹⁾	\$	27.66 ⁽¹⁾	\$	24.69 ⁽²⁾
Gas (per MCF)	\$	5.24	\$	4.04	\$	3.66
Oil Equivalents (per MBOE)	\$	36.58	\$	26.70	\$	24.59
Average Production Costs (per BOE)	\$	10.44 ⁽³⁾	\$	9.93 ⁽³⁾	\$	10.65 ⁽³⁾
Average Production Taxes (per BOE)	\$	4.17	\$	3.17	\$	2.81

(1) Includes fixed contract prices of:

January 2003	\$	28.50
February 2003	\$	28.34
March 2003	\$	27.95
April 2003	\$	27.08
May 2003	\$	26.95
June 2003	\$	24.27
July 2003	\$	24.33
August 2003	\$	24.42
September 2003	\$	24.45
October 2003	\$	24.45
November 2003	\$	24.25
December 2003	\$	24.10
January - June 2004	\$	30.00
July - December 2004	\$	33.60
January - June 2005	\$	33.10
July - December 2005	\$	39.70

Excluding the effect of the fixed price contracts, the average oil price for 2003 would have been \$32.38 per BBL and \$32.08 per BBL oil equivalent price. Excluding the effect of the fixed price contracts, the average oil price for 2004 would have been \$42.72 per BBL and \$41.88 per BBL oil equivalent price.

- (2) Includes fixed contract prices of \$26.50 for the months May through October 2002 and \$25.90 for November and December.
(3) Does not include production taxes.

Drilling and Recompletion Activities

The following table contains data with respect to certain of Gulfport's field operations during the years ended December 31, 2004, 2003 and 2002.

	2004		2003		2002	
	Gross	Net	Gross	Net	Gross	Net
Recompletions, Sidetracks and Deepenings						
Oil	13	13	8	8	4	4
Gas	0	0	0	0	0	0
Non-Productive	0	0	1	1	0	0
TOTAL	13	13	9	9	4	4
Exploratory - non-productive	0	0	0	0	1	1
Development Wells:						
Oil	8	8	7	7	8	8
Gas	0	0	0	0	0	0
Non-Productive	0	0	1	1	1	1
TOTAL	8	8	8	8	9	9

Title to Oil and Gas Properties

It is customary in the oil and gas industry to make only a cursory review of title to undeveloped oil and gas leases at the time they are acquired and to obtain more extensive title examinations when acquiring producing properties. In future acquisitions, Gulfport will conduct title examinations on material portions of such properties in a manner generally consistent with industry practice. Certain of Gulfport's oil and gas properties may be subject to title defects, encumbrances, easements, servitudes or other restrictions, none of which, in management's opinion, will in the aggregate materially restrict Gulfport's operations.

ITEM 3. LEGAL PROCEEDINGS

Gulfport has been named as a defendant in various lawsuits. The ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations for the periods presented in the financial statements.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASD OTC Bulletin Board under the symbol "GPOR.OB." The following table sets forth the high and low sales prices for our common stock in each quarter:

2005	Low	High
First Quarter through March 21, 2005	\$ 3.24	\$ 5.90

2004	Low	High
First Quarter	\$ 2.80	\$ 3.40
Second Quarter	\$ 2.15	\$ 3.50
Third Quarter	\$ 1.55	\$ 3.90
Fourth Quarter	\$ 2.75	\$ 4.00

2003	Low	High
First Quarter	\$ 2.50	\$ 3.00
Second Quarter	\$ 2.60	\$ 3.40
Third Quarter	\$ 2.69	\$ 2.80
Fourth Quarter	\$ 2.75	\$ 3.30

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

Holders of Record

At the close of business on March 15, 2005, there were 393 stockholders of record holding 31,483,253 shares of our outstanding common stock.

Dividend Policy

Gulfport has never paid dividends on its common stock. The Company currently intends to retain all earnings to fund its operations. Therefore, Gulfport does not intend to pay any cash dividends on the common stock in the foreseeable future. In addition, the terms of Gulfport's outstanding Series A preferred stock prohibit and the terms of our credit agreement with Bank of America restrict the payment of any dividends to the holders of our common stock.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company's financial condition and results of operations is based in part on the financial statements and the notes thereto included elsewhere in this annual report on Form 10-KSB and should be read in conjunction therewith.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our significant accounting policies are described in Note 1 to our financial statements included elsewhere in this annual report on Form 10-KSB. We have identified certain of these policies as being of particular importance to the portrayal of our financial position and results of operations and which require the application of significant judgment by our management. We analyze our estimates, including those related to oil and gas properties, revenues recognition, income taxes and commitments and contingencies, and base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

Oil and Gas Properties. The Company uses the full cost method of accounting for oil and gas operations. Accordingly, all costs, including nonproductive costs and certain general and administrative costs associated with acquisition, exploration and development of oil and gas properties, are capitalized. Net capitalized costs are limited to the estimated future net revenues, after income taxes, discounted at 10% per year, from proven oil and gas reserves and the cost of the properties not subject to amortization. Such capitalized costs, including the estimated future development costs and site remediation costs, if any, are depleted by an equivalent units-of-production method, converting gas to barrels at the ratio of six MCF of gas to one barrel of oil. No gain or loss is recognized upon the disposal of oil and gas properties, unless such dispositions significantly alter the relationship between capitalized costs and proven oil and gas reserves. Oil and gas properties not subject to amortization consist of the cost of undeveloped leaseholds and totaled \$1,600 at December 31, 2004 and December 31, 2003. These costs are reviewed periodically by management for impairment, with the impairment provision included in the cost of oil and gas properties subject to amortization. Factors considered by management in its impairment assessment include drilling results by Gulfport and other operators, the terms of oil and gas leases not held by production, and available funds for exploration and development.

Income Taxes. Gulfport uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (1) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (2) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income during the period the rate change is enacted. Deferred tax assets are recognized in the year in which realization becomes determinable. Periodically, management performs a forecast of its taxable income to determine whether it is more likely than not that a valuation allowance is needed, looking at both positive and negative factors. A valuation allowance for our deferred tax assets is established, if in management's opinion, it is more likely that not that some portion will not be realized. At December 31, 2004 a valuation allowance of \$41,458,000 has been provided for deferred tax assets.

Revenue Recognition. Gas revenues are recorded in the month produced using the entitlement method, whereby any production volumes received in excess of the Company's ownership percentage in the property are recorded as a liability. If less than Gulfport's entitlement is received, the underproduction is recorded as a receivable. There is no such liability or asset recorded at December 31, 2004 or December 31, 2003. Oil revenues are recognized when ownership transfers, which occurs in the month produced.

Commitments and Contingencies. Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Full Year and Fourth Quarter Highlights

- **Rights Offering** - On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10 million shares of its Common Stock at a subscription price of \$1.20 per share. Rights to purchase all 10 million shares of Common Stock were exercised in the rights offering, which expired on August 20, 2004. The Company received net cash proceeds of approximately \$11.1 million, after deducting offering expenses of approximately \$120,000. In addition, \$510,547 of the amount owed to CD Holding was applied to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering.
- **2004 Drilling Program and Recompletions** - In July 2004 Gulfport initiated an eight well drilling program at West Cote Blanche Bay. The wells ranged in depth from approximately 2,500 feet to 9,900 feet; all with multiple production horizon targets. The drilling program had a 100% success rate. The logs of the eight wells indicate a total of 38 productive horizons with 678 feet of net pay. The total gross initial production rates for the eight wells was 784 barrels of oil per day and 2,418 mcf of gas per day. In addition, the Company also recompleted four existing wells at WCBB which had total initial gross production rates of 480 barrels of oil per day and 742 mcf of gas per day.

Results of Operations

The markets for oil and gas have historically been, and will continue to be, volatile. Prices for oil and gas may fluctuate in response to relatively minor changes in supply and demand, market uncertainty and a variety of factors beyond the control of Gulfport. Set forth in the tables below are the average prices received by the Company and production volumes during the periods indicated.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Production Volumes:			
Oil (MBBLS)	584	571	464
Gas (MMCF)	284	123	103
Oil Equivalents (MBOE)	631	592	481
Average Prices:			
Oil (per BBL)	\$ 36.97 ⁽¹⁾	\$ 27.66 ⁽¹⁾	\$ 24.69 ⁽²⁾
Gas (per MCF)	\$ 5.24	\$ 4.04	\$ 3.66
Oil Equivalents (per MBOE)	\$ 36.58	\$ 26.70	\$ 24.59
Average Production Costs (per BOE)	\$ 10.44 ⁽³⁾	\$ 9.93 ⁽³⁾	\$ 10.65 ⁽³⁾
Average Production Taxes (per BOE)	\$ 4.17	\$ 3.17	\$ 2.81

(1) Includes fixed contract prices of:

January 2003	\$28.50
February 2003	\$28.34
March 2003	\$27.95
April 2003	\$27.08
May 2003	\$26.95
June 2003	\$24.27
July 2003	\$24.33
August 2003	\$24.42
September 2003	\$24.45

October 2003	\$24.45
November 2003	\$24.25
December 2003	\$24.10
January - June 2004	\$30.00
July - December 2004	\$33.60
January - June 2005	\$33.10
July - December 2005	\$39.70

Excluding the effect of the fixed price contracts, the average oil price for 2003 would have been \$32.38 per BBL and \$32.08 per BBL oil equivalent price. Excluding the effect of the fixed price contracts, the average oil price for 2004 would have been \$42.72 per BBL and \$41.88 per BBL oil equivalent price.

- (2) Includes fixed contract prices of \$26.50 for the months May through October 2002 and \$25.90 for November and December.
- (3) Does not include production taxes.

Comparison of the Years Ended December 31, 2004 and December 31, 2003

Gulfport reported net income attributable to common stock of \$4,304,000 for the year ended December 31, 2004, as compared with a net loss attributable to common stock of \$219,000 for the year ended December 31, 2003. The increase in income attributable to common stock was primarily due to increases in oil and gas prices.

Oil and Gas Revenues. For the year ended December 31, 2004, Gulfport reported oil and gas revenues of \$23,071,000, a 46% increase from revenues of \$15,809,000 during 2003. This increase in revenues is attributable to a 34% increase in the average oil price received for the year ended December 31, 2004 of \$36.97 as compared to \$27.66 for 2003. In addition, there was an increase in barrels of oil equivalents (“BOEs”) produced to 631 BOE for the year ended December 31, 2004 as compared to 592 BOE for 2003. This increase in production was due mainly to the net increase in production resulting from the Company’s 2004 drilling program commenced in July 2004.

Operating Expenses. Lease operating expenses not including production taxes increased to \$6,586,000 for the year ended December 31, 2004 as compared to \$5,886,000 for 2003. This increase was mainly attributable to non-capitalized workovers performed during 2004.

Production Taxes. Production taxes increased to \$2,629,000 for the year ended December 31, 2004 as compared to \$1,882,000 for the same period in 2003. This increase was directly related to the increases in oil and gas sale proceeds for the year ended December 31, 2004 as compared to 2003.

General and Administrative Expenses. Net general and administrative expenses increased to \$2,107,000 for the year ended December 31, 2004 from \$1,843,000 for 2003. This increase was due primarily to a \$68,000 increase in the Company’s legal expenses related to various legal matters and \$85,000 of expenses related to the office building the Company purchased during 2004.

Interest Expense. Ordinary interest expense increased to \$246,000 for the year ended December 31, 2004 from \$112,000 for 2003. This increase was due to an increase in the average debt outstanding for the year ended December 31, 2004 as compared to 2003, primarily as a result of the loan on the building the Company purchased in June 2004.

Interest Expense - Preferred Offering. In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Previously, our Series A Preferred Stock had been classified on our balance sheet between total liabilities and equity. As of December 31, 2004, the amount of the Company’s liability related to the Series A Preferred Stock was \$14,020,000. As a result of the adoption of SFAS No. 150 in May 2003, the balance of the liability related to the Series A preferred stock includes \$1,949,000 of interest expense for the year ended December 31, 2004, which the Company paid by accruing additional shares of Series A preferred stock in lieu of cash. During the first quarter of 2005, the Company anticipates redeeming all outstanding preferred stock.

Other changes in income for the year ended December 31, 2004 as compared to the year ended December 31, 2003 were attributable to the following factors:

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense increased to \$4,952,000 for the year ended December 31, 2004, consisting of \$4,688,550 in depletion on oil and gas properties and \$263,000 in depreciation of other property and equipment. This compares to total depreciation, depletion and amortization expense of \$4,637,000 for the year ended December 31, 2003. This increase is due primarily to an increase in the Company's oil and gas assets as a result of the Company's 2004 drilling program commenced in July 2004 and the resulting increase in production.

Income Taxes. As of December 31, 2004, the Company had a net operating loss carryforward of approximately \$99,000,000, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$41,000,000, which was fully reserved by a valuation allowance at that date. A current tax provision of \$2,501,000 was provided for the twelve-month period ended December 31, 2004 which was completely offset by a deferred tax benefit.

Asset Retirement Obligation (SFAS 143). For the three months ended March 31, 2003 and upon adoption of SFAS No. 143 on January 1, 2003, the Company recorded a net benefit of \$270,000 as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7.59 million and \$7.37 million, respectively, and decreased accumulated depreciation by \$0.05 million. Accretion expense increased to \$490,000 for the twelve-month period ended December 31, 2004 as compared to \$393,000 for the same period in 2003, a 25% increase due to a larger obligation at the beginning of 2004.

Liquidity and Capital Resources

Overview. Historically, our primary sources of funds have been cash flow from our producing oil and gas properties, the issuance of equity securities, borrowings under our bank and other credit facilities and, from time to time, the sale of oil and gas properties. Our ability to access any of these sources of funds can be significantly impacted by unexpected decreases in oil and natural gas prices. To mitigate the effects of dramatic commodity price fluctuations, we have entered into fixed price contracts for the WCBB production as follows:

January - June 2005	1,000 bbls @ day \$33.10
July - December 2005	1,000 bbls @day \$39.70

Net cash flow provided by operating was \$8,402,000 for the year ended December 31, 2004, as compared to net cash flow provided by operating activities of \$9,382,000 for 2003. This decrease was a result of various changes in balance sheet accounts.

Net cash used in investing activities for the year ended December 31, 2004 was \$15,133,000 as compared to \$11,127,000 used during 2003. During 2004, Gulfport spent \$11,252,000 in additions to oil and gas properties, of which \$9,054,000 was spent on the Company's 2004 drilling program initiated in July 2004 with the remainder spent on workover and recompletion activities on existing wells. Of the remaining \$3,881,000 net cash used in investing activities, \$3,700,000 was used to purchase the building the Company currently occupies. Gulfport financed its capital expenditures with cash flow provided by operations, borrowings under its credit facilities and proceeds from the rights offering.

Net cash provided by financing activities for the year ended December 31, 2004 was \$12,731,000 as compared to \$2,178,000 provided by financing activities for 2003. The \$12,731,000 provided by financing activities includes (1) net cash proceeds of approximately \$11,134,000 from the rights offering after deducting offering expenses of approximately \$120,000; (2) the issuance of notes with a combined original principal amount of \$3,389,000 to finance the purchase the office building the Company occupies and (3) borrowings of \$500,000 under our credit facility with CD Holding which was used to purchase a portion of the pipe needed for the wells to be drilled in the Company's 2004 drilling program which commenced in July 2004. Approximately \$2,200,000 was used to pay off the outstanding balance of the Company's line of credit with Bank of Oklahoma, CD Holding elected to apply the outstanding principal balance amount and accrued but unpaid interest in the aggregate amount of \$511,000 under its bridge loan to the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering.

Credit Facilities. The Company has a \$2.3 million line of credit with the Bank of Oklahoma. Amounts borrowed under the line bear interest at the prime rate charged from time to time by JPMorgan Chase plus 1%, with payments of interest on outstanding balances due monthly. Originated in June 2002, the Company subsequently extended the maturity date of this credit facility to July 1, 2005. There was no outstanding balance under this credit facility at December 31, 2004.

In connection with the rights offering, on April 30, 2004, the Company entered into a \$3.0 million revolving credit facility with CD Holding, L.L.C., a principal stockholder of the Company. Borrowings under the credit facility were due on the earlier of the closing of the rights offering or August 1, 2005 and bore interest at the rate of 10.0% per annum. The credit facility provided that if the rights offering was not completed, CD Holding had the right to convert any borrowings plus any accrued but unpaid interest under the facility into shares of our common stock at a conversion price equal to \$1.20 per share. Under the credit facility, CD Holding had the option to apply the outstanding principal amount and any accrued but unpaid interest either (1) to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering, or (2) to the purchase price for the common stock. Upon closing of the rights offering, \$500,000 had been borrowed on the facility to fund a part of the Company's 2004 drilling program. CD Holding applied all amounts due it under this credit facility to the exercise price payable upon exercise of rights it received in the rights offering.

On March 11, 2005, Gulfport entered into a three-year secured reducing credit agreement for a \$30.0 million revolving credit facility with Bank of America, N.A.. Borrowings under the revolving credit facility are subject to a borrowing base limitation which is initially set at \$18.0 million, subject to adjustment. The credit facility has a term of three years and all principal amounts of revolving loans outstanding under the credit facility, together with all accrued and unpaid interest and fees, will be due and payable on March 11, 2008. The Company's obligations under the credit facility are collateralized by a lien on substantially all of the Company's assets. The Company has not yet accessed the credit facility as of the date hereof. The proceeds of the credit extensions under the credit facility will be used for the exploration of oil and gas properties and other capital expenditures, acquisition opportunities, and for general corporate purposes and will enhance Gulfport's ability to accelerate and expand its drilling operations and more aggressively seek out other investment opportunities.

Building Loans. The Company has three loans associated with two of its buildings. One loan was for \$99,000 related to a building in Lafayette, Louisiana, purchased in 1996 to be used as the Company's Louisiana headquarters. This loan matures in February of 2008 and bears interest at the rate of 5.75%. In addition, in June 2004 the company purchased the office building it occupies for \$3,700,000. The two loans associated with this building mature in March of 2006 and June of 2011 and bear interest at the rate of 6% and 6.5%, respectively. All building loans require monthly interest and principal payments and are collateralized by the respective land and buildings.

Issuance of Equity. On July 22, 2004, the Company launched its rights offering of common stock subscription rights to purchase up to an aggregate of 10 million shares of its common stock at a subscription price of \$1.20 per share. Rights to purchase all ten million shares of common stock were exercised in the rights offering, which expired on August 20, 2004. The Company received net cash proceeds of approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$120,000. In addition, CD Holding, one of the Company's principal stockholders, elected to apply the outstanding principal balance amount and accrued but unpaid interest in the aggregate amount of \$511,000 under its revolving credit facility with the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering. CD Holding had agreed, subject to certain conditions, to back-stop the rights offering for a commitment fee of 2% of the gross proceeds from the rights offering, which was also applied to the subscription price payable upon exercise of the rights issued to it in the rights offering. The net cash proceeds from the rights offering were used to fund a portion of the Company's seismic and drilling programs at WCBB and East Hackberry Field and to repay in full the outstanding principal balance of approximately \$2.2 million on the Company's line of credit with the Bank of Oklahoma.

On February 17, 2005, the Company entered into a stock purchase agreement with certain accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. On February 22, 2005 the Company entered into another stock purchase agreement with certain other accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. The transactions closed effective as of February 18, 2005 and February 23, 2005, respectively. The Company has agreed to file, within 60 days of the closing date, a registration statement on Form S-3 (the "Shelf Registration Statement") with respect to the resale of the shares of common stock purchased by the investors in the private placements. The Company also granted certain piggy-back registration rights to the investors. No underwriting discounts or commissions were paid in conjunction with the issuances.

On February 23, 2005, the holders of warrants to purchase 7,336,687 shares of the Company's common stock exercised their warrants for an exercise price of \$1.19 per share resulting in gross proceeds to the Company of \$8.7 million. No underwriting discounts or commissions were paid in conjunction with the issuances.

On February 23, 2005, the Company used the proceeds from the exercise of the warrants, along with a portion of the proceeds from the sale of common stock, to redeem 12,502 shares of the 14,271 shares of the Company's then outstanding Series A preferred stock for an aggregate of \$12.5 million, including accrued but unpaid dividends. After the sale of the common stock, the exercise of the warrants and the redemption of the preferred stock, Gulfport received net proceeds of \$10.2 million. Gulfport intends to use these net proceeds, together with the cash-on-hand of approximately \$5.0 million, cash from operations and, as necessary, borrowings under its credit facility, to redeem, all or in part, the remaining outstanding shares of preferred stock, execute the Company's 2005 drilling program and explore and undertake acquisitions if attractive opportunities become available.

On March 25, 2005, the Company used the proceeds from the exercise of the warrants, along with a portion of the proceeds from the sale of common stock, to redeem 96.6 shares of the 1,834 shares of the Company's then outstanding Series A preferred stock for an aggregate of \$145,800, including accrued but unpaid dividends.

Capital Expenditures. The primary capital commitments faced by the Company over the past several years have been the capital requirements needed to continue developing the Company's proved reserves and obligations under our credit facilities and outstanding Series A preferred stock.

Our strategy is to continue to increase cash flows generated by our properties by undertaking new drilling, workover, sidetrack and recompletion projects to exploit our reserves and exploring other acquisition opportunities. We have upgraded our infrastructure by enhancing our existing facilities to increase operating efficiencies, increase volume capacities and lower lease operating expenses. Additionally, we completed the reprocessing of 3-D seismic data in our principal property, WCBB. The reprocessed data will continue to enable our geophysicists to generate new prospects and enhance existing prospects in the intermediate zones in the field, thus creating a portfolio of new drilling opportunities.

In our December 31, 2004 reserve report, 78% of our net reserves were categorized as proved undeveloped. Our proved reserves will generally decline as reserves are depleted, except to the extent that we conduct successful exploration or development activities or acquire properties containing proved developed reserves, or both. To realize reserves and increase production, we must continue our exploratory drilling, undertake other replacement activities or utilize third parties to accomplish those activities.

Our inventory of prospects includes 135 proved undeveloped (PUD) wells at WCBB. The drilling schedule used in the reserve report anticipates that all of those wells will be drilled by 2011. Gulfport is in the process of permitting 20 additional wells to be drilled at West Cote Blanche Bay, including one sidetrack, and spud the first well in the 2005 drilling program in March 2005. The Company also plans on converting a well that is currently inactive to a salt water disposal well for the field during 2005. Gulfport began a five well workover and eight well recompletion program in November of 2004. The Company began to workover and recomplete six to ten wells during the first quarter of 2005.

Late in 2004, Gulfport began the process of shooting 3-D seismic at East Hackberry Field at an estimated total cost of approximately \$4.5 million, most of which will be expended in 2005.

On June 28, 2004, the Company purchased the office building it occupies in Oklahoma City, Oklahoma for \$3.7 million. The building contains approximately 24,823 total rentable square feet. Immediately upon the closing, the Company gained access to an additional 3,000 square feet with the remaining space to be leased for approximately 12 months by the existing tenant/owner. At the end of the twelve-month period, the Company will either occupy or sub-lease any unused space.

We believe that our cash on hand, cash flow from operations and borrowings under our credit facility will be sufficient to fund our capital expenditures for the foreseeable future.

Commitments

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the seller's obligation to contribute approximately \$18,000 per month through March 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. ChevronTexaco retained a security interest in production from these properties until these abandonment obligations have been fulfilled. Beginning in 2007, the Company can access the trust for use in plugging and abandonment charges associated with the property. As of December 31, 2004, the plugging and abandonment trust totaled approximately \$2,814,000, including interest received during the year ended December 31, 2004 of approximately \$17,000. The Company has plugged 132 wells at WCBB since it began its plugging program in 1997. The Company has fulfilled its funding obligations and is current in its plugging obligations.

In addition, the Company has letters of credit totaling \$200,000 secured by certificates of deposit being held for plugging costs in the East Hackberry field. Once specific wells are plugged and abandoned, the \$200,000 will be returned to the Company.

Accounting and Reporting Changes

SFAS No. 143

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires the Company to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, the Company will increase the carrying amount of the related long lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. Upon settlement of the liability or sale of the well, the liability is reversed. The asset retirement obligation is based on a number of assumptions requiring significant judgment. The Company cannot predict the type of revisions to these assumptions that will be required in future periods due to the availability of additional information, including prices for oil field services, technological changes, governmental requirements and other factors. Upon adoption of SFAS No. 143, the Company recorded a net benefit of \$270,000 as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7,590,000 and \$7,370,000, respectively, and decreased accumulated depreciation by \$50,000.

The asset retirement obligation recognized by the Company at December 31, 2003, relates to the estimated costs to dismantle and abandon its investment in producing oil and gas properties and the related facilities. Of the total asset retirement liability, \$480,000 that has been classified as short-term is the estimated portion of the total liability to be settled during the next year as the Company meets its plugging and abandonment requirements as discussed in Note 8.

SFAS No. 150

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has recorded a liability related to the Series A preferred stock of \$14,020,000. Previously, the Series A preferred stock had been classified on the balance sheet between total liabilities and equity. This amount represents the 14,020 preferred shares issued and outstanding as of December 31, 2004, at the redemption and liquidation value of \$1,000 per share. In the opinion of management, the \$1,000 per share redemption and liquidation value approximates fair value. The shares are mandatorily redeemable on the fifth anniversary of the first issuance of Series A preferred stock. The Company redeemed 12,502 shares of the Series A preferred stock in February 2005 and is in the process of redeeming the remaining outstanding shares of Series A preferred stock.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123(R), "Share Based Payment", which revised SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123(R) requires entities to measure the fair value of equity share-based payments (stock compensation) at grant date, and recognize the fair value over the period during which an employee is required to provide services in exchange for the equity instrument as a component of the income statement. SFAS No. 123(R) is effective for periods beginning after December 15, 2005. We have not evaluated the impact of adoption of SFAS No. 123(R), but adoption could have a material impact on our financial position and results of operations.

ITEM 7. FINANCIAL STATEMENTS

The information required by this item appears beginning on page F-1 following the signature pages of this Report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with the Company's independent registered public accounting firms of the nature described in Item 304(b) of Regulation S-B promulgated under the Exchange Act. On February 9, 2005, the Company dismissed Hogan & Slovacek as its independent registered public accounting firm. The Company engaged Grant Thornton LLP as its new independent registered public accounting firm as of February 9, 2005. As part of its engagement, Grant Thornton will audit the balance sheet of the Company as of December 31, 2004 and the related statements of operations, stockholders' equity and cash flows for the year then ended and will perform a review of the Company's interim financials for each quarter in the fiscal year ending December 31, 2005.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Control and Procedures. Gulfport Energy Corporation, under the direction of the Chief Executive Officer and the Vice President and Chief Financial Officer, has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by Gulfport in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to Gulfport's management, including the Chief Executive Officer and the Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of December 31, 2004, an evaluation was performed under the supervision and with the participation of Gulfport management, including the Chief Executive Officer and the Vice President and Chief Financial Officer, of the effectiveness of the design and operation of Gulfport's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934. Based upon their evaluation, the Chairman and Chief Executive Officer and the Vice President and Chief Financial Officer have concluded that as of December 31, 2004, Gulfport's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting. There have not been any changes in Gulfport's internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

For information concerning Item 9—Directors and Executive Officers, Promoters and Control Persons; Compliance with Section 16(A) of the Exchange Act, see the definitive Information Statement of Gulfport Energy Corporation for the 2005 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the Company's previous fiscal year and is incorporated herein by this reference (with the exception of portions noted therein that are not incorporated by reference).

ITEM 10. EXECUTIVE COMPENSATION

For information concerning Item 10—Executive Compensation, see the definitive Information Statement of Gulfport Energy Corporation for the 2005 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the Company's previous fiscal year and is incorporated herein by this reference (with the exception of portions noted therein that are not incorporated by reference).

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

For information concerning Item 11—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, see the definitive Information Statement of Gulfport Energy Corporation for the 2005 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the Company's previous fiscal year and is incorporated herein by this reference (with the exception of portions noted therein that are not incorporated by reference).

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For information concerning Item 12—Certain Relationships and Related Transactions, see the definitive Information Statement of Gulfport Energy Corporation for the 2005 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission with 120 days after the close of the Company's previous fiscal year and is incorporated herein by this reference (with the exception of portions noted therein that are not incorporated by reference).

ITEM 13. EXHIBITS

- (a) List the following documents filed as part of this report:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 10-Q, File No. 000-19514, filed by the Company with the SEC on December 1, 1997).
3.2	Amendment to Certificate of Incorporation changing name of corporation to Gulfport Energy Corporation (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004)
3.3	Amendment to Certificate of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 to 250,000,000 (incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).
3.4	Amendment to Certificate of Incorporation to effect a 50 to 1 reverse stock split of the issued and outstanding Common Stock (incorporated by reference to Exhibit 3.5 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).
3.5	Amendment to Certificate of Incorporation to reduce the number of authorized shares of Common Stock from 250,000,000 to 15,000,000 (incorporated by reference to Exhibit 3.6 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).

Exhibit Number	Description
3.6	Amendment to Certificate of Incorporation to increase the number of shares of capital stock from 15,000,000 to 25,000,000 (incorporated by reference to Exhibit A to Information Statement filed by the Company with the SEC on February 20, 2004).
3.7	Certificate of Amendment, dated July 20, 2004, of the Restated Certificate of Incorporation to increase the number of shares of capital stock from 25,000,000 to 40,000,000 (incorporated by reference to Exhibit 3.7 of Amendment No. 1 to Form 10-QSB, File No. 000-19514, filed by the Company with the SEC on February 18, 2005).
3.8	Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Cumulative Preferred Stock Series A, dated March 28, 2002 (incorporated by reference to Exhibit 3.8 of Amendment No. 1 to Form 10-QSB, File No. 000-19514, filed by the Company with the SEC on February 18, 2005).
3.9	Certificate of Amendment, dated July 20, 2004, of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Cumulative Preferred Stock Series A. (incorporated by reference to Exhibit 3.9 of Amendment No. 1 to Form 10-QSB/A File No. 000-19514, filed by the Company with the SEC on February 18, 2005).
3.10	Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-QSB, File No. 000-19514, filed by the Company with the SEC on December 1, 1997).
4.1	Form of Common Stock certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on July 22, 2004).
10.1	Credit Agreement, dated July 1, 2004, by and between the Company and Bank of Oklahoma (incorporated by reference to Exhibit 10.2 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).
10.2	2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 333-19514, filed by the Company with the SEC on February 18, 2005).
10.3	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 8-K, File No. 333-19514, filed by the Company with the SEC on February 18, 2005).
10.4	Form of Stock Option Exercise Agreement (incorporated by reference to Exhibit 10.3 to Form 8-K, File No. 333-19514, filed by the Company with the SEC on February 18, 2005)
10.5	Form of Warrant Agreement (incorporated by reference to Exhibit 10.4 to Amendment No. 2 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on July 22, 2004).
10.6	Employment Agreement, dated June 2003, by and between the Registrant and Mike Liddell (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on June 21, 2004).
10.7*	Registration Rights Agreement, dated as of February 23, 2005, by and among the Company, Southpoint Fund LP, a Delaware limited partnership, Southpoint Qualified Fund LP, a Delaware limited partnership and Southpoint Offshore Operating Fund, LP, a Cayman Islands exempted limited partnership.
10.8*	Registration Rights Agreement, dated as of February 18, 2005, by and among the Company and Harbert Distressed Investment Master Fund, Ltd., a Cayman Islands exempt company, and Alpha US Sub Fund VI, LLC, a Delaware limited liability company.
10.9*	Credit Agreement, dated as of March 11, 2005, by and among the Company, each lender from time to time party thereto and Bank of America, N.A., as agent.
10.10*	Stock Purchase Agreement, dated as of February 17, 2005, by and among the Company, Harbert Distressed Investment Master Fund, Ltd and Alpha US Sub Fund VI, LLC.
10.11*	Stock Purchase Agreement, dated as of February 22, 2005, by and among the Company, Southpoint Fund LP, Southpoint Qualified Fund LP and Southpoint Offshore Operating Fund, LP.

Exhibit Number	Description
14.0*	Code of Ethics.
21*	Subsidiaries of the Registrant.
23.1*	Consent of Grant Thornton LLP.
23.2*	Consent of Hogan & Sloacek.
23.3*	Consent of Netherland, Sewell & Associated, Inc.
31.1*	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

*Filed herewith

(b) Reports on Form 8K

The Company has filed or furnished the following Current Reports on Form 8-K during the fourth quarter of 2004: Current report on Form 8-K furnished on November 24, 2004 regarding its results of operations for the quarter ended September 30, 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

For information concerning Item 14 - Executive Compensation see the definitive Information Statement of Gulfport Energy Corporation for the 2005 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the Company's previous fiscal year and is incorporated herein by this reference (with the exception of portions noted therein that are not incorporated by reference).

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GULFPORT ENERGY CORPORATION

Date: March 31, 2005

By: /s/ Mike Liddell

Mike Liddell
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

GULFPORT ENERGY CORPORATION

Date: March 31, 2005

By: /s/ Mike Liddell

Mike Liddell
Chief Executive Officer and Director

Date: March 31, 2005

By: /s/ Robert E. Brooks

Robert E. Brooks
Director

Date: March 31, 2005

By: /s/ David L. Houston

David L. Houston
Director

Date: March 31, 2005

By: /s/ Mickey Liddell

Mickey Liddell
Director

Date: March 31, 2005

By: /s/ Dan Noles

Dan Noles
Director

Date: March 31, 2005

By: /s/ Michael G. Moore

Michael G. Moore
Vice President and Chief Financial Officer

Item 7. Financial Statements

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Stockholders of Gulfport Energy Corporation:

We have audited the accompanying balance sheet of Gulfport Energy Corporation (a Delaware corporation) as of December 31, 2004, and the related statements of operations, stockholders' equity, and cash flows for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 referred to above present fairly, in all material respects, the financial position of Gulfport Energy Corporation as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON

Oklahoma City, Oklahoma
March 25, 2005

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Stockholders of Gulfport Energy Corporation:

We have audited the statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2003 of Gulfport Energy Corporation (a Delaware corporation). These financial statements are the responsibility of Gulfport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required 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 referred to above present fairly in all material respects, the results of operations and cash flows for the year ended December 31, 2003 of Gulfport Energy Corporation, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18 to the financial statements, Gulfport changed its method of accounting for asset retirement obligations and its redeemable 12% cumulative preferred stock as required by the provisions of Statement of Financial Accounting Standards No. 143 and 150, respectively.

/s/ Hogan & Slovacek

Oklahoma City, Oklahoma
April 14, 2004

GULFPORT ENERGY CORPORATION
BALANCE SHEET

	December 31, 2004
Assets	
Current assets:	
Cash and cash equivalents	\$ 7,542,000
Accounts receivable	3,560,000
Accounts receivable - related parties	1,023,000
Prepaid expenses and other current assets	<u>212,000</u>
Total current assets	<u>12,337,000</u>
Property and equipment:	
Oil and natural gas properties, full-cost accounting	139,366,000
Other property and equipment	5,689,000
Accumulated depletion, depreciation, amortization	<u>(82,374,000)</u>
Property and equipment, net	<u>62,681,000</u>
Other assets	<u>3,132,000</u>
Total assets	<u>\$ 78,150,000</u>
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 4,056,000
Accrued payable - royalty audit	121,000
Asset retirement obligation - current	480,000
Current maturities of long-term debt	<u>205,000</u>
Total current liabilities	<u>4,862,000</u>
Asset retirement obligation - long-term	6,972,000
Long-term debt, net of current maturities	3,199,000
Redeemable 12% cumulative preferred stock, Series A, \$.01 par value, with a redemption and liquidation value of \$1,000 per share; 30,000 authorized, 14,020 issued and outstanding at December 31, 2004	<u>14,020,000</u>
Total liabilities	<u>29,053,000</u>
Commitments and contingencies	
Preferred stock, \$.01 par value; 5,000,000 authorized at December 31, 2004, 30,000 authorized as redeemable 12% cumulative preferred stock, Series A, above	-
Stockholders' equity:	
Common stock - \$.01 par value, 35,000,000 authorized, 20,146,566 issued and outstanding at December 31, 2004	201,000
Paid-in capital	95,737,000
Accumulated deficit	<u>(46,841,000)</u>

Total stockholders' equity

49,097,000

Total liabilities and stockholders' equity

\$ 78,150,000

See accompanying notes to financial statements.

GULFPORT ENERGY CORPORATION
STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2004	2003
Revenues:		
Gas sales	\$ 1,484,000	\$ 498,000
Oil and condensate sales	21,587,000	15,311,000
Other income	<u>119,000</u>	<u>138,000</u>
	<u>23,190,000</u>	<u>15,947,000</u>
Costs and expenses:		
Operating expenses	6,586,000	5,886,000
Production taxes	2,629,000	1,882,000
Depreciation, depletion, and amortization	4,952,000	4,637,000
Accretion expense	490,000	393,000
General and administrative	<u>2,107,000</u>	<u>1,843,000</u>
	<u>16,764,000</u>	<u>14,641,000</u>
INCOME FROM OPERATIONS:	<u>6,426,000</u>	<u>1,306,000</u>
OTHER (INCOME) EXPENSE:		
Interest expense	246,000	112,000
Interest expense - preferred stock	1,949,000	875,000
Interest income	<u>(73,000)</u>	<u>(30,000)</u>
	<u>2,122,000</u>	<u>957,000</u>
INCOME BEFORE INCOME TAXES AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	4,304,000	349,000
INCOME TAX EXPENSE (BENEFIT):	<u>-</u>	<u>-</u>
NET INCOME (LOSS) BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	4,304,000	349,000
Cumulative effect of change in accounting principle	<u>-</u>	<u>270,000</u>
NET INCOME	4,304,000	619,000
Less: Preferred stock dividends	<u>-</u>	<u>(838,000)</u>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	<u>\$ 4,304,000</u>	<u>\$ (219,000)</u>
NET INCOME (LOSS) PER COMMON SHARE - BASIC:		
Per common share before effect of change in accounting principle	\$ 0.31	\$ (0.05)
Effect per common share of change in accounting principle	<u>-</u>	<u>0.03</u>
	<u>\$ 0.31</u>	<u>\$ (0.02)</u>

NET INCOME (LOSS) PER COMMON SHARE - DILUTED:

Per common share before effect of change in accounting principle	\$	0.28	\$	(0.05)
Effect per common share of change in accounting principle		<u>-</u>		<u>0.03</u>
	\$	<u>0.28</u>	\$	<u>(0.02)</u>

See accompanying notes to financial statements.

GULFPORT ENERGY CORPORATION

Statements of Stockholders' Equity

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>
Balance at December 31, 2002	10,146,566	\$ 101,000	\$ 84,192,000	\$ (50,926,000)
Net income	-	-	-	619,000
Preferred stock dividends	-	-	-	(838,000)
Balance at December 31, 2003	10,146,566	101,000	84,192,000	(51,145,000)
Net income	-	-	-	4,304,000
Issuance of Common Stock, net of issue costs of \$120,000	10,000,000	100,000	11,545,000	-
Balance at December 31, 2004	<u>20,146,566</u>	<u>\$ 201,000</u>	<u>\$ 95,737,000</u>	<u>\$ (46,841,000)</u>

See accompanying notes to financial statements.

GULFPORT ENERGY CORPORATION

Statements of Cash Flows

	Year Ended December 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 4,304,000	\$ 619,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	-	(270,000)
Accretion of discount - Asset Retirement Obligation	490,000	393,000
Interest expense - preferred stock	1,949,000	875,000
Depletion, depreciation and amortization	4,952,000	4,631,000
Amortization of debt issuance costs	-	6,000
Changes in operating assets and liabilities:		
Decrease in insurance settlement receivable	-	2,510,000
(Increase) Decrease in accounts receivable	(2,220,000)	493,000
(Increase) in accounts receivable - related party	(644,000)	(321,000)
(Increase) Decrease in prepaid expenses	(33,000)	26,000
Increase in accounts payable and accrued liabilities	570,000	420,000
Settlement of asset retirement obligation	(965,000)	-
Net cash provided by operating activities	<u>8,403,000</u>	<u>9,382,000</u>
Cash flows from investing activities:		
Additions to cash held in escrow	(72,000)	(235,000)
Additions to other property, plant and equipment	(3,777,000)	(40,000)
Additions to oil and gas properties	(11,242,000)	(10,145,000)
Expenditures related to oil and gas properties due to hurricane	(32,000)	(707,000)
Net cash used in investing activities	<u>(15,123,000)</u>	<u>(11,127,000)</u>
Cash flows from financing activities:		
Borrowings on note payable - related party	500,000	-
Borrowings on note payable	3,389,000	2,200,000
Principal payments on borrowings	(2,303,000)	(22,000)
Proceeds from issuance of common stock	11,134,000	-
Net cash provided by financing activities	<u>12,720,000</u>	<u>2,178,000</u>
Net increase in cash and cash equivalents	6,000,000	433,000
Cash and cash equivalents at beginning of period	<u>1,542,000</u>	<u>1,109,000</u>
Cash and cash equivalents at end of period	<u>\$ 7,542,000</u>	<u>\$ 1,542,000</u>
Supplemental disclosure of cash flow information:		
Interest payments	<u>\$ 246,000</u>	<u>\$ 112,000</u>
Supplemental disclosure of non-cash, investing and financing transactions:		
Payment of Series A Preferred Stock dividends through issuance of Series A Preferred Stock	\$ 1,949,000	\$ 838,000
Asset retirement obligation capitalized	92,000	73,000
Retirement of related party note and accrued interest for stock	511,000	-

See accompanying notes to financial statements.

GULFPORT ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Gulfport Energy Corporation ("Gulfport" or "Company") is a domestic independent oil and gas exploration, development and production company with its principal properties located in the Louisiana Gulf Coast.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Accounts Receivable

The Company's accounts receivable primarily are from companies in the oil and gas industry located in the southwestern part of the United States. The majority of its receivables are from two purchasers of the Company's oil and gas. Credit is extended based on evaluation of a customer's payment history and, generally, collateral is not required. Accounts receivable are due within 30 days and are stated at amounts due from customers, net of an allowance for doubtful accounts when the Company believes collection is doubtful. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, amounts which may be obtained by an offset against production proceeds due the customer and the condition of the general economy and the industry as a whole. The Company writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Oil and Gas Properties

The Company uses the full cost method of accounting for oil and gas operations. Accordingly, all costs, including nonproductive costs and certain general and administrative costs directly associated with acquisition, exploration and development of oil and gas properties, are capitalized. Net capitalized costs are limited to the estimated future net revenues, after income taxes, discounted at 10% per year, from proven oil and gas reserves and the cost of the properties not subject to amortization. Such capitalized costs, including the estimated future development costs and site remediation costs are depleted by an equivalent units-of-production method, converting gas to barrels at the ratio of six MCF of gas to one barrel of oil. No gain or loss is recognized upon the disposal of oil and gas properties, unless such dispositions significantly alter the relationship between capitalized costs and proven oil and gas reserves. Oil and gas properties not subject to amortization consist of the cost of undeveloped leaseholds and totaled \$1,600 at December 31, 2004. These costs are reviewed periodically by management for impairment, with the impairment provision included in the cost of oil and gas properties subject to amortization. Factors considered by management in its impairment assessment include drilling results by Gulfport and other operators, the terms of oil and gas leases not held by production, and available funds for exploration and development.

GULFPORT ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(CONTINUED)

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires the Company to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, the Company will increase the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. Upon settlement of the liability or the sale of the well, the liability is reversed. These liability amounts may change because of changes in asset lives, estimated costs of abandonment or legal or statutory remediation requirements.

Other Property and Equipment

Depreciation of other property and equipment is provided on a straight-line basis over estimated useful lives of the related assets, which range from 7 to 30 years.

Reclassifications

Certain reclassifications have been made to the 2003 financial statement presentation in order to conform to the 2004 financial statement presentation.

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing income or loss attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock. Diluted net loss per common share does not reflect dilution from potential common shares, because to do so would be anti-dilutive. Calculations of basic and diluted net income (loss) per common share are illustrated in Note 13.

Income Taxes

Gulfport uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (1) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (2) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income during the period the rate change is enacted. Deferred tax assets are recognized as income in the year in which realization becomes determinable. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized.

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Revenue Recognition

Gas revenues are recorded in the month produced using the entitlement method, whereby any production volumes received in excess of the Company's ownership percentage in the property are recorded as a liability. If less than Gulfport's entitlement is received, the underproduction is recorded as a receivable. There is no such liability or asset recorded at December 31, 2004. Oil revenues are recognized when ownership transfers, which occurs in the month produced.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Significant estimates with regard to these financial statements include the estimate of proved oil and gas reserve quantities and the related present value of estimated future net cash flows there from, the amount and timing of asset retirement obligations and the realization of future net operating loss carryforwards available as reductions of income tax expense.

Segment Information

The Company's only revenue generating activity is the production and sale of oil and gas from properties located on the Louisiana Gulf Coast. Therefore, no reporting of business segments has been included in these financial statements or the notes thereto.

Accounting Standards Yet to be Adopted

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123(R), "Share Based Payment", which revised SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123(R) requires entities to measure the fair value of equity share-based payments (stock compensation) at grant date, and recognize the fair value over the period during which an employee is required to provide services in exchange for the equity instrument as a component of the income statement. SFAS No. 123(R) is effective for periods beginning after December 15, 2005. We have not evaluated the impact of adoption of SFAS No. 123(R), but adoption could have a material impact on our financial position and results of operations.

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock options. Accordingly, no compensation cost has been recognized for stock options granted in the accompanying financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS No. 123") established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

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If the Company had elected the fair value provisions of SFAS No. 123 and recognized compensation expense over the vesting period based on the fair value of the stock options granted as of their grant date, the Company's 2004 and 2003 pro forma net income and pro forma net income per share would have been as follows:

	Year Ended December 31,	
	2004	2003
Net income available to common stockholders, as reported	\$ 4,304,000	\$ (219,000)
Stock-based employee compensation expense	16,000	152,000
Net income available to common stockholders, pro forma	\$ 4,288,000	\$ (371,000)
Net income per share available to common stockholders:		
As reported:		
Basic	\$ 0.31	\$ (0.02)
Diluted	\$ 0.28	\$ (0.02)
Pro forma:		
Basic	\$ 0.31	\$ (0.04)
Diluted	\$ 0.28	\$ (0.04)

The fair value of each option grant is estimated for disclosure purposes on the date of grant using the Black-Scholes option-pricing model with the expected lives equal to the vesting period. The weighted average contractual life of the options outstanding at December 31, 2004, is 4.9 years. No options were granted during the years ended December 31, 2004 or 2003.

2. INSURANCE SETTLEMENT RECEIVABLE

A major hurricane caused significant damage to the Company's production facilities and the WCBB field in 2002. The total cost to restore production to the field was estimated by the Company's personnel and insurance carrier to be \$3,510,000. As of December 31, 2004, the Company had received the \$3,510,000 in insurance settlement proceeds. Hurricane related repairs for the years ended December 31, 2004 and 2003, were \$32,000 and \$707,000 respectively.

3. ACCOUNTS RECEIVABLE - RELATED PARTY

Included in the accompanying December 31, 2004 balance sheet are amounts receivable from entities that have similar controlling interests as those controlling the Company. These receivables represent amounts billed by the Company for general and administrative functions performed by Gulfport's personnel on behalf of the related party companies. At December 31, 2004, these receivables totaled \$1,023,000.

4. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depreciation, depletion and amortization as of December 31, 2004 are as follows:

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	<u>December 31, 2004</u>
Oil and gas properties	\$ 139,366,000
Office furniture and fixtures	1,503,000
Building	3,926,000
Land	<u>260,000</u>
 Total property and equipment	 145,055,000
 Accumulated depreciation, depletion, amortization and impairment reserve	 <u>(82,374,000)</u>
 Property and equipment, net	 <u><u>\$ 62,681,000</u></u>

Included in oil and gas properties at December 31, 2004 is the cumulative capitalization of \$2,606,000 in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool represent management's estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred.

A reconciliation of the asset retirement obligation for the year ended December 31, 2004, is as follows:

	<u>December 31, 2004</u>
Asset retirement obligation as of beginning of year	\$ 7,835,000
Liabilities incurred	92,000
Liabilities settled	(965,000)
Accretion expense	<u>490,000</u>
Asset retirement obligation as of end of year	7,452,000
 Less current portion	 <u>480,000</u>
 Asset retirement obligation, long-term	 <u><u>6,972,000</u></u>

5. OTHER ASSETS

Other assets as of December 31, 2004 consist of the following:

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Plugging and abandonment escrow account		
on the WCBB properties (Note 17)	\$	2,821,000
CD's securing letter of credit		200,000
Deposits		<u>111,000</u>
	<u>\$</u>	<u>3,132,000</u>

6. ACCRUED PAYABLE - ROYALTY AUDIT

During 2002, the Company underwent a royalty audit which was conducted by the State of Louisiana. The audit covered the period from January 1, 1999 through December 31, 2001. The Company was notified during the fourth quarter of 2002 that the total amount to be paid as a result of the audit was \$492,000, including \$146,000 in penalties and interest. As a result of the Company paying the obligation in installments at December 31, 2004, the liability is \$121,000 and is classified as "Accrued payable - royalty audit" in the current liability section of the accompanying balance sheet.

7. LONG-TERM DEBT

Long-term debt as of December 31, 2004 is as follows:

		<u>December 31, 2004</u>
Building loans	\$	3,404,000
Less - current maturities of long term debt		<u>205,000</u>
Debt reflected as long term	<u>\$</u>	<u>3,199,000</u>

Maturities of long-term debt as of December 31, 2004 are as follows:

2005	\$	205,000
2006		358,000
2007		121,000
2008		99,000
2009		101,000
Thereafter		<u>2,520,000</u>
Total	<u>\$</u>	<u>3,404,000</u>

Building Loans

The building loans include \$99,000 related to a building in Lafayette, Louisiana, purchased in 1996 to be used as the Company's Louisiana headquarters. This loan matures in February of 2008 and bears interest at the rate of 5.75%. In addition, in June 2004 the Company purchased the office building it occupies for \$3,700,000. The loans associated with this building mature in March of 2006 and June of 2011 and bear interest at the rate of 6% and 6.5%, respectively. All building loans require monthly interest and principal payments and are collateralized by the respective land and buildings.

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8. REVOLVING LINE OF CREDIT

The Company maintains a line of credit with Bank of Oklahoma, under which the Company may borrow up to \$2,300,000. Amounts borrowed under the line bear interest at Chase Manhattan Prime plus 1%, with payments of interest on outstanding balances due monthly. Any principal amounts borrowed under the line will be due on July 1, 2005. Subsequent to the rights offering described in Note 9, a portion of the proceeds were used to repay in full the outstanding principal balance of approximately \$2,200,000 on the Company's line of credit with the Bank of Oklahoma. As of December 31, 2004, no amounts were outstanding under this line.

9. COMMON STOCK OPTIONS, WARRANTS AND CHANGES IN CAPITALIZATION

Options

The Company sponsors the 1999 Stock Option Plan (the "Plan"), which is administered by the Compensation Committee (the "Committee") of the Board of Directors of the Company. Under the terms of the Plan, the Committee may determine: to which eligible participants options shall be granted, the number of shares covered by such options, the purchase price or exercise price of such options, the vesting period of such options and the exercisable period of such options. Eligible participants are defined as (i) all directors of the Company; (ii) all officers of the Company; and (iii) all key employees of the Company with a customary work week of at least 40 hours in the employ of the Company. The maximum number of shares for which options may be granted under the Plan, as adjusted for changes in capitalization which have taken place since the Plan's adoption, is 883,000.

The Company applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock options. SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS No. 123") established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. Presented below is a summary of the status of stock options and related activity for the years ended December 31, 2004 and 2003:

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	Shares	Weighted Average Exercise Price per Share
Options outstanding at December 31, 2002	627,337	\$ 2.00
Granted	-	-
Exercised	-	-
Forfeited/expired	-	-
Options outstanding at December 31, 2003	627,337	\$ 2.00
Granted	-	-
Exercised	-	-
Forfeited/expired	-	-
Options outstanding at December 31, 2004	627,337	\$ 2.00

All options granted, exercised and outstanding have an exercise price of \$2.00.

Options outstanding at December 31, 2004 totaled 627,337. Of this total, 619,520 options were exercisable at December 31, 2004, with the remaining options vesting in 2005.

Warrants

In accordance with the origination of the note payable to Gulfport Funding in 2002 (and retired during 2002), the Company issued 108,625 warrants to CD Holdings, LLC. The exercise price of these warrants is \$1.19 and was based on the average closing price of the Company's common stock for the five days following the issuance of the warrants and adjusted for subsequent equity changes. The warrant agreement provided for pro rata adjustments to the number of warrants granted if the Company at any time increased the number of outstanding shares or otherwise adjusted its capitalization.

Private Placement Offering

In March 2002, the Company completed a private placement offering of 10,000 units. Each unit consisted of (i) one share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per share, of the Company. Holders of the Preferred are entitled to receive dividends at the rate of 12% of the liquidation preference per annum payable quarterly in cash or, at the option of the Company for all quarters ending on or prior to March 31, 2004, payable in whole or in part in additional shares of Preferred at the rate of 15% of the liquidation preference per annum. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Preferred may be redeemed at any time for an amount per share equal to \$1,000 and all accrued and unpaid dividends thereon, whether or not declared or payable, and must be redeemed on March 29, 2007 for \$1,000 per share and all accrued and unpaid dividends thereon, whether or not declared or payable. Accordingly, the Preferred issued in connection with this Offering is treated as redeemable stock and a liability on the Company's balance sheet. The affirmative vote of at least two thirds of the votes entitled to be cast by holders of the Preferred is necessary for any amendment to the certificate of incorporation which (1) adversely affects the rights and privileges of the Preferred or (2) creates or authorizes an increase in any shares ranking senior to the Preferred or securities convertible into the foregoing. The Preferred cannot be sold or transferred by its holders, subject to certain exceptions.

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The 2,322,962 Warrants issued have a term of ten years and an exercise price of \$1.20 per share of common stock subject to adjustment. The Company granted to holders of the Warrants certain demand and piggyback registration rights with respect to shares of common stock issuable upon exercise of the warrants. The Company considered the valuation of these warrants and did not consider them materially significant.

2004 Rights Offering

On August 2004, the Company completed a rights offering of common stock of 10,000,000 shares of its common stock at a subscription price of \$1.20 per share pursuant to a Registration Statement on Form SB-2, File No. 333-115396 and received net cash proceeds of approximately \$11.1 million from the rights offering after deducting offering expenses of approximately \$.12 million. In addition, CD Holding, one of the Company's principal stockholders, elected to apply the outstanding principal amount and accrued but unpaid interest in the amount of \$511,000 under its bridge loan to the Company to the subscription price payable by CD Holding upon exercise of the rights issued to it in the rights offering. CD Holding had agreed subject to certain conditions, to back-stop the rights offering for a commitment fee of 2% of the gross proceeds from the rights offering, which, at the option of CD Holding, was also applied to the subscription price payable upon exercise of the rights issued to it in the rights offering. The net cash proceeds from the rights offering were used to fund the Company's seismic and drilling programs at WCBB and East Hackberry Field and to repay in full the outstanding principal balance of approximately \$2,200,000 on the Company's line of credit with the Bank of Oklahoma.

Borrowings under the bridge loan from CD Holding were used to fund in part the Company's 2004 drilling program which commenced in July 2004 and were due on the earlier of the closing of the rights offering or August 1, 2005 and bore interest at the rate of 10.0% per annum. The credit facility provided that if the rights offering was not completed, CD Holding had the right to convert any borrowings plus any accrued but unpaid interest under the facility into shares of our common stock at a conversion price equal to the rights offering issue price per share. Under the credit facility, CD Holding had the option to apply the outstanding principal amount and any accrued but unpaid interest either (1) to the subscription price payable upon exercise of the rights issued to CD Holding in the rights offering, or (2) to the purchase price for the Common Stock.

10. DIVIDENDS ON SERIES A PREFERRED STOCK

As discussed in Note 9, the Company may, at its option, accrue additional shares of Preferred Stock for the payment of dividends at a rate of 15% per annum rather than accrue cash dividends at a rate of 12% per annum during the initial two years following the closing date of its Offering which expired on March 31, 2004. Effective April 1, 2004, as a result of the amendment discussed below, the Company will continue to accrue additional shares of Preferred Stock for payment of dividends. As a result, the Company has issued additional shares totaling \$1,949,000 for the year ended December 31, 2004, related to the Preferred Stock Series A shares issued and outstanding during that time period. These dividends were calculated based upon the Preferred's \$1,000 per share redemptive value and are reflected as "Series A preferred stock" in the accompanying balance sheet. As a result of the adoption of SFAS 150, the dividends issued as additional shares for the years ended December 31, 2004 and 2003, are shown as "Interest expense - preferred stock" in the accompanying statement of operations.

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In April 2004, the Board of Directors of the Company approved and the Company received the consent of holders of the requisite number of shares of capital stock to amend the Company's Certificate of Designation with respect to the Series A preferred stock to give the Company the ability to pay dividends on the Series A preferred stock with additional shares of Series A preferred stock after March 31, 2004, for so long as such shares remain outstanding and prior to the mandatory redemption date.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

All financial instruments carried as assets and liabilities on the accompanying balance sheet at December 31, 2004 are carried at cost, which approximates market value. The outstanding shares of Series A preferred stock have been stated on the accompanying balance sheet at their redemptive value of \$1,000 per share.

12. INCOME TAXES

A reconciliation of the statutory federal income tax amount to the recorded expense follows:

	<u>2004</u>	<u>2003</u>
Income before federal income taxes	\$ 4,304,000	\$ 349,000
Expected income tax at statutory rate	1,463,000	119,000
Interest expense not tax deductible	780,000	350,000
State income taxes	258,000	21,000
Changes in valuation allowance	<u>(2,501,000)</u>	<u>(490,000)</u>
Income tax expense recorded	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences and net operating loss carryforwards, which give rise to deferred tax assets at December 31, 2004 are estimated as follows:

	<u>2004</u>	<u>2003</u>
Net operating loss carryforward	\$ 39,700,000	\$ 39,349,000
Oil and gas property basis difference	<u>1,758,000</u>	<u>5,564,000</u>
Total deferred tax asset	41,458,000	44,913,000
Valuation allowance	<u>(41,458,000)</u>	<u>(44,913,000)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>

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The Company has an available tax net operating loss carry forward estimated at approximately \$99,251,000 as of December 31, 2004. This carryforward will begin to expire in the year 2013. A valuation allowance has been provided at December 31, 2004 and 2003 because it is management's belief, based upon the Company's past history of no taxable income, it is more likely than not the tax assets will not be realized.

13. NET INCOME (LOSS) PER COMMON SHARE

A reconciliation of the components of basic and diluted net income (loss) per common share is presented in the table below:

	2004			2003		
	Income	Shares	Per Share	Income	Shares	Per Share
Income before effect of change in accounting principle	\$ 4,304,000			\$ 349,000		
Less: preferred stock dividends	<u>-</u>			<u>(838,000)</u>		
	4,304,000	13,790,402	\$ 0.31	(489,000)	10,146,566	\$ (0.05)
Effect of change in accounting principle	<u>-</u>	13,790,402	<u>-</u>	<u>270,000</u>	10,146,566	<u>0.03</u>
	<u>\$ 4,304,000</u>		<u>\$ 0.31</u>	<u>\$ (219,000)</u>		<u>\$ (0.02)</u>
Effect of diluted securities						
Stock options and warrants		<u>1,619,213</u>			<u>183,699</u>	
Income before effect of change in accounting principle	\$ 4,304,000			\$ 349,000		
Less: preferred stock dividends	<u>-</u>			<u>(838,000)</u>		
	4,304,000	15,409,615	\$ 0.28	(489,000)	10,330,265	\$ (0.05)
Effect of change in accounting principle	<u>-</u>	15,409,615	<u>-</u>	<u>270,000</u>	10,330,265	<u>0.03</u>
	<u>\$ 4,304,000</u>		<u>\$ 0.28</u>	<u>\$ (219,000)</u>		<u>\$ (0.02)</u>

The Company recorded a net loss from continuing operations after preferred stock dividends for the year ended December 31, 2003. Due to this, inclusion of potentially dilutive shares in the computation of dilutive earnings per share would be anti-dilutive.

14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company conducts business activities with certain affiliates of its significant shareholder.

DLB Oil & Gas, Inc. ("DLB") and Wexford Management LLC ("Wexford") were, along with Gulfport, co-proponents in a 1997 plan of reorganization of the Company. During April of 1998, DLB distributed all of its shares in the Company to its shareholders prior to DLB's acquisition by Chesapeake Energy Corporation. As a result of this distribution, Charles Davidson, Mike Liddell and Mark Liddell collectively received 37.5% of the Company's stock. As of December 31, 2004, Wexford and its affiliates, including Charles Davidson, owned approximately 61.2% of Gulfport's issued and outstanding common stock. Mike Liddell and the Estate of Mark Liddell own collectively 10.1% of the Company's outstanding common stock as of December 31, 2004.

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Certain personnel of the Company perform management and administrative services for affiliate companies. The Company is reimbursed for the salaries and benefits of these individuals based on the estimated time spent on those affiliates compared to time spent on the Company. For the years ended December 31, 2004 and 2003, expenses reimbursed to the Company under this arrangement and reflected as a reduction to general and administrative expense were \$2,146,000 and \$765,000, respectively.

15. COMMITMENTS

Plugging and Abandonment Funds

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the obligation to contribute approximately \$18,000 per month through March, 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. ChevronTexaco retained a security interest in production from these properties until abandonment obligations to ChevronTexaco have been fulfilled. Beginning in 2007, the Company can access it for use in plugging and abandonment charges associated with the property. As of December 31, 2004, the plugging and abandonment trust totaled approximately \$2,821,000, including interest received during 2004 of approximately \$17,000. The Company has plugged 154 wells at WCBB since it began its plugging program in 1997 which management believes fulfills its minimum plugging obligation through March 31, 2005.

Texaco Global Settlement

Pursuant to the terms of a global settlement between Texaco and the State of Louisiana which includes the State Lease No. 50 portion of Gulfport's East Hackberry Field, Gulfport was obligated to commence drilling a well or other qualifying development operation on certain non-producing acreage in the field prior to March 1998. Because of prevailing market conditions during 1998, the Company believed it was commercially impractical to shoot seismic or commence drilling operations on the subject property. As a result, Gulfport has agreed to surrender approximately 440 non-producing acres in this field to the State of Louisiana. At December 31, 2004, Gulfport was in the process of releasing these properties to the State of Louisiana.

Contributions to 401(k) Plan

Gulfport sponsors a 401(k) and Profit Sharing plan under which eligible employees may contribute up to 15% of their total compensation through salary deferrals. Also under these plans, the Company will make a contribution each calendar year on behalf of each employee equal to at least 3% of his or her salary, regardless of the employee's participation in salary deferrals. During the years ended December 31, 2004 and 2003, Gulfport incurred \$90,000 and \$71,000, respectively, in contributions expense related to this plan.

Employment Agreement

At December 31, 2004, Gulfport has an employment agreement with its Chief Executive Officer. This agreement expires June 1, 2005, and calls for an annual salary of \$200,000, which may be adjusted for cost of living increases.

16. CONTINGENCIES

Litigation Matters

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The Company has been named as a defendant on various litigation matters. The ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations for the periods presented in the financial statements.

Concentration of Credit Risk

Gulfport operates in the oil and gas industry principally in the state of Louisiana with sales to refineries, re-sellers such as pipeline companies, and local distribution companies. While certain of these customers are affected by periodic downturns in the economy in general or in their specific segment of the oil and gas industry, Gulfport believes that its level of credit-related losses due to such economic fluctuations has been immaterial and will continue to be immaterial to the Company's results of operations in the long term.

The Company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2004, Gulfport held cash in excess of insured limits in these banks totaling \$7,442,000.

During the year ended December 31, 2004, approximately 99% of Gulfport's revenues from oil and gas sales were attributable to two purchasers: Shell Trading Company, Chevron Texaco and Apache Corporation. During the year ended December 31, 2003, approximately 99% of Gulfport's revenues from oil and gas sales were attributable to Shell Trading Company, Apache Corporation, and ChevronTexaco.

17. LITIGATION TRUST ENTITY

Pursuant to the Company's 1997 plan of reorganization, all of Gulfport's possible causes of action against third parties (with the exception of certain litigation related to recovery of marine and rig equipment assets and claims against Tri-Deck), existing as of the effective date of that plan, were transferred into a "Litigation Trust" controlled by an independent party for the benefit of most of the Company's existing unsecured creditors. The litigation related to recovery of marine and rig equipment and the Tri-Deck claims were subsequently transferred to the Litigation Trust as described below.

The Litigation Trust was funded by a \$3,000,000 cash payment from the Company, which was made on the effective date of reorganization. Gulfport owns a 12% interest in the Litigation Trust with the other 88% being owned by the former general unsecured creditors of Gulfport. For financial statement reporting purposes, Gulfport has not recognized the potential value of recoveries which may ultimately be obtained, if any, as a result of the actions of the Litigation Trust, treating the entire \$3,000,000 payment as a reorganization cost at the time of Gulfport's reorganization.

On January 20, 1998, Gulfport and the Litigation Trust entered into a Clarification Agreement whereby the rights to pursue various claims reserved by Gulfport under the plan of reorganization were assigned to the Litigation Trust. In connection with this agreement, the Litigation Trust agreed to reimburse the Company \$100,000 for legal fees Gulfport had incurred in connection with these claims. As additional consideration for the contribution of this claim to the Litigation Trust, Gulfport is entitled to 20% to 80% of the net proceeds from these claims.

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No proceeds were received from the Litigation Trust for the years ended December 31, 2004 and 2003.

18. RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 143

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires the Company to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, the Company will increase the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. The accretion of the asset retirement obligation resulted in an expense of \$490,000 and \$393,000 for the years ended December 31, 2004, and 2003, as shown in the accompanying statement of operations. Upon settlement of the liability or the sale of the well, the liability is reversed. The asset retirement obligation is based on a number of assumptions requiring professional judgment. The Company cannot predict the type of revisions to these assumptions that will be required in future periods due to the availability of additional information, including prices for oil field services, technological changes, governmental requirements and other factors. Upon adoption of SFAS No. 143, the Company recorded a net benefit of \$270,000 as the cumulative effect of a change in accounting principle. The non-cash transition adjustment increased oil and natural gas properties and asset retirement obligations by \$7.59 million and \$7.37 million, respectively, and decreased accumulated depreciation by \$50,000.

SFAS No. 150

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has recorded a liability related to the Series A Preferred Stock of \$14,020,000. Previously, the Series A Preferred Stock had been classified on the balance sheet between total liabilities and equity. This amount represents the 14,020 preferred shares issued and outstanding as of December 31, 2004, at the redemption and liquidation value of \$1,000 per share. In the opinion of management, the \$1,000 per share redemption and liquidation value approximates fair value. The shares are mandatorily redeemable on the fifth anniversary of the first issuance of Series A Preferred Stock.

19. SUBSEQUENT EVENTS

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- Sale of Common Stock - On February 17, 2005, the Company entered into a stock purchase agreement with certain accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. On February 22, 2005 the Company entered into another stock purchase agreement with certain other accredited investors providing for the issuance by the Company of an aggregate of 2,000,000 shares of the Company's common stock at a price of \$3.50 per share for gross proceeds to the Company of \$7,000,000. The transactions closed effective as of February 18, 2005 and February 23, 2005, respectively. The Company has agreed to file, within 60 days of the closing date, a registration statement on Form S-3 (the "Shelf Registration Statement") with respect to the resale of the shares of common stock purchased by the investors in the private placements. The Company also granted certain piggy-back registration rights to the investors. No underwriting discounts or commissions were paid in conjunction with the issuances.

- Redemption of Preferred Stock - On February 23, 2005, the holders of warrants to purchase 7,336,687 shares of the Company's common stock exercised their warrants for an exercise price of \$1.19 per share resulting in gross proceeds to the Company of \$8.7 million. No underwriting discounts or commissions were paid in conjunction with the issuances. On February 23, 2005, the Company used the proceeds from the exercise of the warrants, along with a portion of the proceeds from the sale of common stock, to redeem 12,502 shares of the 14,271 shares of the Company's outstanding Series A preferred stock for an aggregate of \$12.5 million, including accrued but unpaid dividends. After the sale of the common stock, the exercise of the warrants and the redemption of the preferred stock, Gulfport received net proceeds of \$10.2 million. Gulfport intends to use these net proceeds, together with the cash-on-hand of approximately \$5.0 million, cash from operations and, as necessary, borrowings under its credit facility, to redeem, all or in part, the remaining outstanding shares of preferred stock, execute the Company's 2005 drilling program and explore and undertake acquisitions if attractive opportunities become available.

20. SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES

The following is historical revenue and cost information relating to the Company's oil and gas operations located entirely in the southeastern United States:

GULPORT ENERGY CORPORATION
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Capitalized Costs Related to Oil and Gas Producing Activities

	2004
Proven Properties	\$ 139,366,000
Accumulated depreciation, depletion amortization and impairment reserve	(80,847,000)
Proven properties, net	\$ 58,519,000

Costs Incurred in Oil and Gas Property Acquisition and Development Activities

	2004	2003
Acquisition	\$ -	\$ -
Development of Proved Undeveloped Properties	8,994,000	6,320,000
Exploratory	-	-
Recompletions/Workovers	2,166,000	3,825,000
Capitalized Asset Retirement Obligation	92,000	
Total	\$ 11,252,000	\$ 10,145,000

Results of Operations for Producing Activities

The following schedule sets forth the revenues and expenses related to the production and sale of oil and gas. The income tax expense is calculated by applying the current statutory tax rates to the revenues after deducting costs, which include depreciation, depletion and amortization allowances, after giving effect to the permanent differences. The results of operations exclude general office overhead and interest expense attributable to oil and gas production.

	2004	2003
Revenues	\$ 23,071,000	\$ 15,809,000
Production costs	(9,215,000)	(7,768,000)
Depletion	(4,689,000)	(4,421,000)
	9,167,000	3,620,000
Income tax expense		
Current	3,667,000	1,448,000
Deferred	(3,667,000)	(1,448,000)
-		-
Results of operations from producing activities	\$ 9,167,000	\$ 3,620,000

GULFPORT ENERGY CORPORATION
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Oil and Gas Reserves (Unaudited)

The following table presents estimated volumes of proven and proven undeveloped oil and gas reserves as of December 31, 2004 and 2003 and changes in proven reserves during the last two years, assuming continuation of economic conditions prevailing at the end of each year. Volumes for oil are stated in thousands of barrels (MBbls) and volumes for gas are stated in millions of cubic feet (MMCF). The weighted average prices at December 31, 2004 used for reserve report purposes are \$40.25 and \$6.18, adjusted by lease for transportation fees and regional price differentials, fixed price contracts, and for oil and gas reserves, respectively.

Gulfport emphasizes that the volumes of reserves shown below are estimates which, by their nature, are subject to revision. The estimates are made using all available geological and reservoir data, as well as production performance data. These estimates are reviewed annually and revised, either upward or downward, as warranted by additional performance data.

	2004		2003	
	Oil	Gas	Oil	Gas
Proven Reserves				
Beginning of the period	19,883	13,525	23,005	18,510
Purchases in oil and gas reserves in place	-	-	377	555
Revisions of prior reserve estimates	1,606	9,921	(2,928)	(5,417)
Current production	<u>(584)</u>	<u>(284)</u>	<u>(571)</u>	<u>(123)</u>
End of period	<u>20,905</u>	<u>23,162</u>	<u>19,883</u>	<u>13,525</u>
Proven developed reserves	<u>4,633</u>	<u>4,635</u>	<u>1,790</u>	<u>1,258</u>

Discounted Future Net Cash Flows (Unaudited)

Estimates of future net cash flows from proven oil and gas reserves were made in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing activities." The following tables present the estimated future cash flows, and changes therein, from Gulfport's proven oil and gas reserves as of December 31, 2004 and 2003, assuming continuation of economic conditions prevailing at the end of each year.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proven Oil and Gas Reserves

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	Year ended December 31,	
	2004	2003
Future cash flows	\$ 1,042,272,000	\$ 715,751,000
Future development costs	(128,689,000)	(128,487,000)
Future production costs	(147,792,000)	(104,677,000)
Future production taxes	(134,506,000)	(81,866,000)
Future income taxes	<u>(123,511,000)</u>	<u>(40,307,000)</u>
Future net cash flows before income taxes	507,774,000	360,414,000
10% discount to reflect timing of cash flows	<u>(206,727,000)</u>	<u>(166,405,000)</u>
Standardized measure of discounted future net cash flows	<u>\$ 301,047,000</u>	<u>\$ 194,009,000</u>

In order to develop its proved undeveloped reserves according to the drilling schedule used by the engineers in Gulfport's reserve report, the Company will need to spend \$9,456,000, \$21,268,000 and \$15,687,000 during years 2005, 2006 and 2007 respectively.

Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proven Oil and Gas Reserves

	Year ended December 31,	
	2004	2003
Sales and transfers of oil and gas produced, net of production costs	\$ (13,856,000)	\$ (8,041,000)
Net changes in prices and production costs	91,119,000	6,146,000
Acquisition of oil and gas reserves in place, less related production costs	-	15,340,000
Revisions of previous quantity estimates, less related production costs	40,042,000	(36,210,000)
Accretion of discount	20,954,000	24,553,000
Net changes in income taxes	(44,965,000)	18,764,000
Other	<u>13,744,000</u>	<u>(37,581,000)</u>
Total change in standardized measure of discounted future net cash flows	<u>\$107,038,000</u>	<u>\$(17,029,000)</u>

The standardized measure includes a deduction of \$2,410,000 from the P.W. 10% value of the reserves to reflect the cumulative effect of fixed price contracts in place at year-end for future periods as calculated at the time of the reserve report using year-end SEC pricing.

Comparison of Standardized Measure of Discounted Future Net Cash Flows to the Net Carrying Value of Proven Oil and Gas Properties at December 31, 2004 is as follows:

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	<u>2004</u>	<u>2003</u>
Standardized measure of discounted future and net cash flows	<u>\$ 301,047,000</u>	<u>\$ 194,009,000</u>
Proven oil and gas properties	139,366,000	127,991,000
Less accumulated depreciation, depletion, amortization and impairment reserve	<u>(80,847,000)</u>	<u>(76,158,000)</u>
Net carrying value of proven oil and gas properties	<u>58,519,000</u>	<u>51,833,000</u>
Standardized measure of discounted future net cash flows in excess of net carrying value of proven oil and gas properties	<u>\$ 242,528,000</u>	<u>\$ 142,176,000</u>

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the “Agreement”) is entered into as of the 23rd day of February, 2005, by and among Gulfport Energy Corporation, a Delaware corporation (the “*Company*”), Southpoint Fund LP, a Delaware limited partnership, Southpoint Qualified Fund LP, a Delaware limited partnership and Southpoint Offshore Operating Fund, LP, a Cayman Islands exempted limited partnership (individually referred to herein as an “*Investor*” and collectively as the “*Investors*”).

Recitals

Whereas, the Investors are purchasing from the Company two million shares of common stock, par value \$0.01 per share (the “*Common Stock*”), pursuant to that certain Stock Purchase Agreement (the “*Purchase Agreement*”) of even date herewith between the Company and the Investors; and

Whereas, the obligations in the Purchase Agreement are conditioned upon the execution and delivery of this Agreement.

Now, Therefore, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree hereto as follows:

SECTION 1. General

1.1 Definitions. As used in this Agreement the following terms shall have the following respective meanings:

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Form S-3*” means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

“*Holder*” means any person owning of record Registrable Securities that have not been sold to the public or any assignee of record of such Registrable Securities in accordance with Section 2.9 hereof.

“*Register*,” “*registered*,” and “*registration*” refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

“*Registrable Securities*” means (a) Common Stock of the Company issued to the Investors pursuant to the Purchase Agreement and (b) any Common Stock of the Company issued as a dividend or other distribution with respect to, or in exchange for or in replacement of, such Common Stock. Notwithstanding the foregoing, Registrable Securities shall not include any securities sold by a person to the public either pursuant to a registration statement or Rule 144 or sold in a private transaction in which the transferor’s rights under Section 2 of this Agreement are not assigned.

“**Registrable Securities then outstanding**” mean the number of shares determined by calculating the total number of shares of the Company’s Common Stock that are Registrable Securities and either (a) are then issued and outstanding or (b) are issuable pursuant to then exercisable or convertible securities.

“**Registration Expenses**” mean all expenses incurred by the Company in complying with Sections 2.2 and 2.3 hereof, including, without limitation, all registration and filing fees, printing expenses, messenger and delivery fees, securities exchange and listing fees, fees and disbursements of counsel for the Company, reasonable fees and disbursements of a single special counsel for the Holders, blue sky fees and expenses, including the fees and disbursements of blue sky counsel and the expense of any special audits incident to or required by any such registration (but excluding (a) Selling Expenses and (b) the compensation of regular employees of the Company which shall be paid in any event by the Company).

“**SEC**” or “**Commission**” means the Securities and Exchange Commission.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**Selling Expenses**” means all underwriting discounts, fees or selling commissions, any out-of-pocket expenses of any Holder (or agents who manage their accounts) or any transfer taxes relating to the sale of the Registrable Securities.

“**Special Registration Statement**” means a registration statement relating to any employee benefit plan or with respect to any corporate reorganization or other transaction under Rule 145 of the Securities Act.

SECTION 2. Restrictions on Transfer and Registration

2.1 Restrictions on Transfer.

(a) (a)Each Holder agrees not to make any disposition of all or any portion of the Registrable Securities unless and until:

(i) (i)There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

(ii) (ii)(A) The transferee has agreed in writing to be bound by the terms of this Agreement, (B) such Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (C) if reasonably requested by the Company, such Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Securities Act.

(iii) (iii) Notwithstanding the provisions of paragraphs (i) and (ii) above, no such registration statement or opinion of counsel shall be necessary for a transfer (A) by a Holder which is a partnership, to its partners or former partners in accordance with partnership interests, (B) to the Holder's family member or trust for the benefit of an individual Holder or such Holder's family member(s); *provided*, that in each case the transferee will be subject to the terms of this Agreement to the same extent as if such transferee were an original Holder hereunder, (C) pursuant to Rule 144(k) promulgated under the Securities Act; provided, however, that the Company must be satisfied in its reasonable discretion that the proposed sale of securities fully qualifies with all Rule 144 requirements, or (D) to a Holder's "affiliates", as the term "affiliates" is defined by the Securities Act or regulations promulgated under the Securities Act.

(b) (b) Each certificate representing Registrable Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. NO TRANSFER OF THE SHARES REPRESENTED BY THIS CERTIFICATE SHALL BE VALID OR EFFECTIVE UNLESS (A) SUCH TRANSFER IS MADE PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (B) THE HOLDER SHALL DELIVER TO THE COMPANY AN OPINION OF ITS COUNSEL, IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY AND REASONABLY CONCURRED IN BY THE COMPANY'S COUNSEL, THAT SUCH PROPOSED TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SECURITIES EVIDENCED HEREBY ARE SUBJECT TO THE TERMS OF A CERTAIN REGISTRATION RIGHTS AGREEMENT BY AND AMONG THE COMPANY AND THE STOCKHOLDERS IDENTIFIED THEREIN, PROVIDING FOR, AMONG OTHER THINGS, CERTAIN RESTRICTIONS ON TRANSFER. A COPY OF SUCH REGISTRATION RIGHTS AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE COMPANY."

(c) (c) The Company agrees (i) to remove the legend set forth in Section 2.1(B) upon receipt of an opinion of the Investor's counsel, reasonably concurred in by the Company's counsel within ten (10) business days of the Company's receipt of such opinion, that the Registrable Securities are eligible for transfer without registration under the Securities Act and (ii) to remove such legend at such time as the Registrable Securities are sold pursuant to an effective registration statement registering the Shares under the Securities Act.

2.2 Piggyback Registrations. (a) Subject to Section 2.3, the Company shall notify all Holders of Registrable Securities in writing at least twenty (20) days prior to the filing of any registration statement under the Securities Act for purposes of a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding Special Registration Statements) and will afford each such Holder an opportunity to include in such registration statement all or part of such Registrable Securities held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall, within twenty (20) days after the above-described notice from the Company, so notify the Company in writing. Such notice shall state the intended method of disposition of the Registrable Securities by such Holder. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(b) Underwriting. (i) If the registration statement with respect to which the Company gives notice under this Section 2.2 is for an underwritten offering, the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder to be included in a registration pursuant to this Section 2.2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of this Agreement, if the underwriter determines in good faith that marketing factors require a limitation of the number of shares to be underwritten, the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the holders of registration rights under that certain Registration Rights Agreement between the Company and the investors party thereto dated March 29, 2002; third, among (x) the Holders, (y) the holders of registration rights under that certain Registration Rights Agreement between the Company and the investors party thereto dated February 18, 2005 ("**Existing Holders**") and (z) any other shareholders of the Company acquiring the right to register securities in connection with such registration ("**New Holders**") within thirty (30) business days of the date hereof on a *pro rata* basis based on the total number of Registrable Securities proposed to be sold in the offering held by the Holders, the Existing Holders and the New Holders; and fourth, among any other shareholders of the Company having the right to register securities in connection with such registration ("**Other Holders**") on a *pro rata* basis based on the total number of Registrable Securities proposed to be sold in the offering held by the Other Holders.

(ii) If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter, delivered at least ten (10) business days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration but shall remain "Registrable Securities" under this Agreement.

(c) Right to Terminate Registration. (i) The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.2 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 2.4 hereof and any reasonable out of pocket expenses incurred by the Holders in connection with such withdrawn registration shall be reimbursed by the Company.

(d) Registrations effected pursuant to this Section 2.2 shall not be counted as Form S-3 registrations effected pursuant to Sections 2.3.

2.3 Form S-3 Registration. The Company shall use its commercially reasonable efforts to (i) file with the Commission as promptly as practicable following the date of this Agreement (but in no event later than 60 days after such date) a registration (“**Shelf Registration**”) for delayed or continuous offerings of Registrable Securities in market transactions on any appropriate form pursuant to Rule 415 under the Securities Act (or similar rule that may be adopted by the Commission), which form shall be available for the sale of all of the Registrable Securities outstanding on the effective date of the Shelf Registration in accordance with the intended methods of distribution thereof, and (ii) cause the Shelf Registration to be declared effective by the Commission as soon thereafter as practicable. The Company agrees to use its commercially reasonable efforts to keep such Shelf Registration continuously effective (subject to the terms and conditions of this Agreement) and usable for resale of Registrable Securities until the second anniversary of the date of this Agreement or such shorter period which will terminate at such time as the Holders have sold all the Registrable Securities covered by such Registration Statement or otherwise until there are no longer any Registrable Securities. If and so long as a Shelf Registration is on file and effective (subject to the terms and conditions of this Agreement), then the Company shall have no obligation to allow participation in a piggyback registration pursuant to Section 2.2; *provided, however*, that in the event that the Company fails to file, or if filed fails to so maintain the effectiveness of, a Shelf Registration pursuant to this Section 2.3, the Holders of Registrable Securities may participate in a piggyback registration as provided in Section 2.2.

2.4 Expenses of Registration. Except as specifically provided herein, (a) all Registration Expenses incurred in connection with each registration under Section 2.2 or Section 2.3 herein shall be borne by the Company, and (b) all Selling Expenses incurred in connection with any registrations hereunder shall be borne by the holders of the securities so registered *pro rata* on the basis of the number of shares so registered.

2.5 Obligations of the Company. Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective; *provided*, that the Company may discontinue any registration of its securities which is being effected pursuant to Section 2.2 at any time prior to the effective date of the registration statement subject to the terms of Section 2.2;

(b) prepare and file with the Commission such amendments and supplements to any applicable registration statement and 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 Registrable Securities covered by such registration statement during such period of effectiveness in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such registration statement; *provided*, that before filing a registration statement or prospectus, or any amendments or supplements thereto, the Company will furnish to one counsel selected by the Holders holding a majority of the Registrable Securities covered by such registration statement to represent all Holders of Registrable Securities covered by such registration statement, copies of all documents proposed to be filed, which documents will be subject to the review of such counsel;

(c) if such Registrable Securities have not been registered under Section 12 of the Exchange Act, prepare and, in any event within 60 days after a request for registration has been given to the Company, file with the Commission a registration statement with respect to such Registrable Securities under the Exchange Act and use its commercially reasonable efforts to cause such registration statement to become effective; *provided*, that the Company may discontinue any registration of its securities which is being effected pursuant to Section 2.2 at any time prior to the effective date of the registration statement subject to the terms of Section 2.2;

(d) furnish to each seller of such Registrable Securities such number of copies of any applicable registration statement and each amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and summary prospectus), and any other prospectus filed under Rule 424 under the Securities Act in conformity with the requirements of the Securities Act, and such other documents as such seller may reasonably request;

(e) use its commercially reasonable efforts to register or qualify such Registrable Securities covered by any applicable registration statement under such other securities or blue sky laws of such jurisdictions as each seller of such Registrable Securities shall reasonably request, and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction where, but for the requirements of this clause (e), it would not be obligated to be so qualified or to consent to general service of process in any such jurisdiction;

(f) use its commercially reasonable efforts to cause such Registrable Securities covered by a registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof to consummate the disposition of such Registrable Securities;

(g) notify each seller of any such Registrable Securities covered by a registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the Company's becoming aware that the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of any such seller, prepare and furnish to such seller a reasonable number of copies of an amended or supplemental prospectus as may be necessary so that, as thereafter delivered to the sellers of such Registrable Securities, such prospectus shall not include 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 in the light of the circumstances then existing; and, as promptly as possible, prepare a supplement or amendment, including a post-effective amendment, to the registration statement or a supplement to the related prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the registration statement nor such prospectus will 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, in light of the circumstances under which they are made, not misleading.

(h) otherwise use its commercially 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 (but not more than eighteen months) after the effective date of the registration statement, an earnings statement which shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations promulgated thereunder;

(i) enter into such customary agreements (including an underwriting agreement in customary form) and take such other actions as sellers of a majority of such Registrable Securities or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities;

(j) obtain a "cold comfort" letter or letters from the Company's independent public accountants in customary form and covering matters of the type customarily covered by "cold comfort" letters as the seller or sellers of a majority of such Registrable Securities shall reasonably request;

(k) obtain an opinion of counsel for the Company in customary form and covering matters of the type customarily covered in opinions of issuer's counsel as the seller or sellers of a majority of such Registrable Securities shall reasonably request;

(l) (i) prepare and file with the SEC such amendments and supplements, including post-effective amendments, to each registration statement and the prospectus used in connection therewith as may be necessary to comply with the Securities Act and to keep the registration statement continuously effective as required herein, and prepare and file with the SEC such additional registration statements as necessary to register for resale under the Securities Act all of the Registrable Securities (including naming any permitted transferees of Registrable Securities as selling stockholders in such registration statement); (ii) cause any related prospectus to be amended or supplemented by any required prospectus supplement, and as so supplemented or amended to be filed pursuant to SEC Rule 424; (iii) respond as promptly as possible to any comments received from the SEC with respect to each registration statement or any amendment thereto, or any document filed with the SEC that would suspend the effectiveness of the registration statement, and as promptly as reasonably possible provide the Investors with true and complete copies of all correspondence from and to the SEC relating to the registration statement (other than those portions of any correspondence containing material nonpublic information); and (iv) comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by such registration statement as so amended or in such prospectus as so supplemented;

(m) Notify the Investors and Investors' counsel as promptly as reasonably possible:

(i) when the SEC notifies the Company whether there will be a "review" of a registration statement and whenever the SEC comments in writing on such registration statement; and

(ii) when a registration statement, or any post-effective amendment or supplement thereto, has become effective, and after the effectiveness thereof: (A) of any request by the SEC or any other federal or state governmental authority for amendments or supplements to the registration statement or prospectus or for additional information; (B) of the issuance by the SEC or any state securities commission of any stop order suspending the effectiveness of the registration statement covering any or all of the Registrable Securities or the initiation of any proceedings for that purpose; and (C) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose. Without limitation of any remedies to which the Investors may be entitled under this Agreement, if any of the events described in this subsection (ii) occur, the Company shall use its commercially reasonable efforts to respond to and correct the event;

(n) use its commercially reasonable efforts to avoid the issuance of or, if issued, obtain the withdrawal of, (i) any order suspending the effectiveness of any registration statement or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, as promptly as possible;

(o) Furnish to the Investors and their counsel, without charge, at least one conformed copy of each registration statement and each amendment thereto, and all exhibits to the extent requested by such Investor or their counsel (including those previously furnished or incorporated by reference) as promptly as possible after the filing of such documents with the SEC;

(p) As promptly as possible furnish to each selling Investor, without charge, such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents (including, without limitation, prospectus amendments and supplements) as each such selling Investor may reasonably request in order to facilitate the disposition of the Registrable Securities covered by such prospectus and any amendment or supplement thereto. The Company hereby consents to the use of such prospectus and each amendment or supplement thereto by each of the selling Investors in connection with the offering and sale of the Registrable Securities covered by such prospectus and any amendment or supplement thereto to the extent permitted by federal and state securities laws and regulations; and

(q) make available for inspection by any seller of such Registrable Securities covered by a registration statement, by any underwriter participating in any disposition to be effected pursuant to such registration statement and by any attorney, accountant or other agent retained by any such seller or any such underwriter (collectively, the “*Inspectors*”), all pertinent financial and other records, pertinent corporate documents and properties of the Company as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause all of the Company’s officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement. Records which the Company determines, in good faith, to be confidential and which it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (i) the disclosure of such records is necessary to avoid or correct a misstatement or omission in such registration statement or (ii) the release of such records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction. Each seller of Registrable Securities agrees that information obtained by it as a result of such inspections shall be deemed confidential and shall not be used by it as the basis for any market transactions in the securities of the Company unless and until such is made generally available to the public. Each seller of Registrable Securities further agrees that it will, upon learning that disclosure of such records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of the records deemed confidential.

Notwithstanding the foregoing, the Company shall have the right to delay the filing of any registration statement otherwise required to be prepared and filed by the Company pursuant to Sections 2.2 or 2.3, or to suspend the use of any registration statement, for a period not in excess of 45 consecutive calendar days (a “*Delay Period*”) if (i) the Board of Directors of the Company determines that filing or maintaining the effectiveness of such registration statement would have a material adverse effect on the Company or the holders of its capital stock in relation to any material acquisition or disposition, financing or other corporate transaction and the Board of Directors of the Company has determined in good faith that disclosure thereof would not be in the best interests of the Company and its holders of capital stock at the time or (ii) the Board of Directors of the Company has determined in good faith that the filing of a registration statement or maintaining the effectiveness of a current Registration Statement would require disclosure of material information that the Company has a valid business purpose for retaining as confidential at such time. The Company shall be entitled to exercise a Delay Period more than one time in any calendar year so long as such exercise does not exceed 90 days per calendar year.

Each selling Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 2.5(g) hereof, such selling Holder will forthwith discontinue disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such selling Holder’s receipt of the copies of the supplemented or amended prospectus contemplated by Section 2.5(g) hereof, and, if so directed by the Company, such selling Holder will deliver to the Company all copies, other than permanent file copies then in such selling Holder’s possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice. Each selling Holder of Registrable Securities agrees that it will immediately notify the Company at any time when a prospectus relating to the registration of such Registrable Securities is required to be delivered under the Securities Act of the happening of an event as a result of which information previously furnished by such selling Holder to the Company in writing expressly for inclusion in such prospectus 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 in light of the circumstances in which they were made.

2.6 Termination of Registration Rights. A Holder's registration rights shall expire if all Registrable Securities held by and issuable to such Holder (and its affiliates, partners, former partners, members and former members) may be sold under Rule 144 during any ninety (90) day period.

2.7 Furnishing Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.2 or 2.3 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities.

2.8 Indemnification. In the event any Registrable Securities are included in a registration statement under Sections 2.2 or 2.3:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each selling Holder of Registrable Securities, the partners, members, managers, officers, directors and affiliates of each such Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, costs, expenses or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, costs, expenses or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "**Violation**") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement; and the Company will pay as incurred to each such Holder, partner, member, manager, officer, director, affiliate underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, costs, expenses, liability or action; *provided however*, that the Company shall not be liable in any such case for any such loss, claim, damage, costs, expenses, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, member, manager, officer, director, affiliate, underwriter or controlling person of such Holder.

(b) To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers and each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, members, managers, directors, officers or affiliates or any person who controls such Holder, against any losses, claims, damages, costs, expenses or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, or partner, member, manager, director, officer, affiliate or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, costs, expenses or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such registration; and each such Holder will pay as incurred any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, or partner, member, manager, officer, director, affiliate or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, cost, expense, liability or action if it is judicially determined that there was such a Violation; *provided, however*, that in no event shall any indemnity under this Section 2.8 exceed the net proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly notified, to assume the defense thereof with counsel mutually satisfactory to the parties; *provided, however*, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding in the opinion of such party's legal counsel. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.8 except to the extent that the indemnifying party has been materially prejudiced by such failure.

(d) If the indemnification provided for in this Section 2.8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages, costs, expenses or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage, cost, expense or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage, cost, expense or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; *provided*, that in no event shall any contribution by a Holder hereunder exceed the net proceeds from the offering received by such Holder.

(e) The obligations of the Company and Holders under this Section 2.8 shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

2.9 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned by a Holder to a permitted transferee or assignee of Registrable Securities which (a) is a subsidiary, parent, general partner, limited partner, retired partner, member or retired member of a Holder, (b) is a Holder's family member or trust for the benefit of an individual Holder, or (c) is acquiring at least the lesser of (x) one hundred thousand (100,000) shares of Registrable Securities (as adjusted for stock splits and combinations) or (y) all of the Registrable Securities held by such Holder; *provided, however*, (i) the transferor shall, prior to such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned and (ii) such transferee shall agree to be subject to all restrictions set forth in this Agreement.

2.10 No Inconsistent Agreements. The Company will not hereafter enter into any agreement with respect to its securities which is inconsistent with, adversely affects or violates the rights granted to the Holders in this Agreement; it being understood that the granting of additional demand or piggyback registration rights with respect to capital stock of the Company shall not be deemed inconsistent with or adverse to the rights granted to Holders hereunder, and the rights of the Holders shall be subject to any such additional grants.

2.11 "Holder Market Stand-Off" Agreement. In the event of an underwritten public offering by the Company of its securities, and if so requested by the underwriters, each Holder hereby agrees that such Holder shall not sell, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock (or other securities) of the Company held by such Holder (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock of the Company not to exceed ninety (90) days following the effective date of the registration statement relating to such underwritten offering.

2.12 Rule 144 Reporting. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its commercially reasonable efforts to:

(a) (a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public;

(b) (b) File with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

(c) (c) So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the Securities Act, and of the Exchange Act (at any time after it has become subject to such reporting requirements); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as a Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

SECTION 3. Miscellaneous.

3.1 Survival. The representations, warranties, covenants, and agreements made herein shall survive the closing of the transactions contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument.

3.2 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors or legal representatives of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time and who has become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement; *provided, however*, that prior to the receipt by the Company of adequate written notice (specifying the full name and address of any proposed transferee) of, and the written consent of the Company to, the transfer of any Registrable Securities, the Company may deem and treat the person listed as the holder of such shares in its records as the absolute owner and holder of such shares for all purposes, including the payment of dividends or any redemption price. Notwithstanding the foregoing, the Company may not assign this Agreement without the prior written consent of the Holders of at least a majority (50.1%) of the Registrable Securities.

3.3 Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

3.4 Third Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and not for the benefit of any third party.

3.5 Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

3.6 Amendment and Waiver.

(a) Except as otherwise expressly provided, this Agreement may be amended or modified only upon the written consent of the Company and the holders of at least a majority (50.1%) of the Registrable Securities.

(b) Except as otherwise expressly provided, the obligations of the Company and the rights of the Holders under this Agreement may be waived only with the written consent of the holders of at least a majority (50.1%) of the Registrable Securities.

(c) For the purposes of determining the number of Holders or Investors entitled to vote or exercise any rights hereunder, the Company shall be entitled to rely solely on the list of record holders of its stock as maintained by or on behalf of the Company.

3.7 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any Holder, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any Holder's part of any breach, default or noncompliance under the Agreement or any waiver on such Holder's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to Holders, shall be cumulative and not alternative.

3.8 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth on the signature pages hereof or at such other address as such party may designate by ten (10) days advance written notice to the other parties hereto.

3.9 Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

3.10 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

3.11 Counterparts. This Agreement may be executed in any number of counterparts (which shall include signature by facsimile), each of which shall be an original, but all of which together shall constitute one instrument

3.12 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE (WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAWS PROVISIONS).

3.13 CONSENT TO JURISDICTION. EACH INVESTOR AND THE COMPANY HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF ANY FEDERAL OR STATE COURT OF NEW YORK SITTING IN NEW YORK CITY AND IRREVOCABLY AGREES THAT ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE LITIGATED EXCLUSIVELY IN SUCH COURTS. EACH INVESTOR AND THE COMPANY AGREES NOT TO COMMENCE ANY LEGAL PROCEEDING RELATED HERETO EXCEPT IN SUCH COURT. EACH INVESTOR AND THE COMPANY IRREVOCABLY WAIVES ANY OBJECTION WHICH HE OR IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING IN ANY SUCH COURT AND HEREBY FURTHER IRREVOCABLY AND UNCONDITIONALLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION, SUIT OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

3.14 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT HE OR IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 3.14.

[remainder of this page intentionally left blank.]

In Witness Whereof, the parties hereto have executed this Registration Rights Agreement as of the date set forth in the first paragraph hereof.

COMPANY:
GULFPORT ENERGY CORPORATION

Date:

By: /s/

Name:
Title
Address:

INVESTORS:

SOUTHPOINT FUND LP

By: Southpoint GP, LP, its general partner

By: Southpoint GP, LP, its general partner

By:

John S. Clark II
Managing Member

By:

Robert W. Butts
Managing Member

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By:

Robert W. Butts
Managing Member

Address for Investors:

Southpoint Capital Advisors LP
237 Park Avenue, Suite 900
New York, NY 10017
Attn: Rob Butts

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the “Agreement”) is entered into as of the 18th day of February, 2005, by and among Gulfport Energy Corporation, a Delaware corporation (the “*Company*”), Harbert Distressed Investment Master Fund, Ltd., a Cayman Islands exempt company (“*Harbert*”), and Alpha US Sub Fund VI, LLC, a Delaware limited liability company managed as a separate account (“*Alpha*”). Each of Harbert and Alpha are referred to individually herein as an “*Investor*” and collectively as the “*Investors*”.

Recitals

Whereas, the Investors are purchasing from the Company two million shares of common stock, par value \$0.01 per share (the “*Common Stock*”), pursuant to that certain Stock Purchase Agreement (the “*Purchase Agreement*”) of even date herewith between the Company and the Investors; and

Whereas, the obligations in the Purchase Agreement are conditioned upon the execution and delivery of this Agreement.

Now, Therefore, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree hereto as follows:

SECTION 1. General

1.1 Definitions. As used in this Agreement the following terms shall have the following respective meanings:

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Form S-3*” means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

“*Holder*” means any person owning of record Registrable Securities that have not been sold to the public or any assignee of record of such Registrable Securities in accordance with Section 2.9 hereof.

“*Register,*” “*registered,*” and “*registration*” refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

“*Registrable Securities*” means (a) Common Stock of the Company issued to the Investors pursuant to the Purchase Agreement and (b) any Common Stock of the Company issued as a dividend or other distribution with respect to, or in exchange for or in replacement of, such Common Stock. Notwithstanding the foregoing, Registrable Securities shall not include any securities sold by a person to the public either pursuant to a registration statement or Rule 144 or sold in a private transaction in which the transferor’s rights under Section 2 of this Agreement are not assigned.

“Registrable Securities then outstanding” mean the number of shares determined by calculating the total number of shares of the Company’s Common Stock that are Registrable Securities and either (a) are then issued and outstanding or (b) are issuable pursuant to then exercisable or convertible securities.

“Registration Expenses” mean all expenses incurred by the Company in complying with Sections 2.2 and 2.3 hereof, including, without limitation, all registration and filing fees, printing expenses, messenger and delivery fees, securities exchange and listing fees, fees and disbursements of counsel for the Company, reasonable fees and disbursements of a single special counsel for the Holders, blue sky fees and expenses, including the fees and disbursements of blue sky counsel and the expense of any special audits incident to or required by any such registration (but excluding (a) Selling Expenses and (b) the compensation of regular employees of the Company which shall be paid in any event by the Company).

“SEC” or **“Commission”** means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Selling Expenses” means all underwriting discounts, fees or selling commissions, any out-of-pocket expenses of any Holder (or agents who manage their accounts) or any transfer taxes relating to the sale of the Registrable Securities.

“Special Registration Statement” means a registration statement relating to any employee benefit plan or with respect to any corporate reorganization or other transaction under Rule 145 of the Securities Act.

SECTION 2. Restrictions on Transfer and Registration

2.1 Restrictions on Transfer.

(a) Each Holder agrees not to make any disposition of all or any portion of the Registrable Securities unless and until:

(i) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

(ii) (A) The transferee has agreed in writing to be bound by the terms of this Agreement, (B) such Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (C) if reasonably requested by the Company, such Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Securities Act.

(iii) Notwithstanding the provisions of paragraphs (i) and (ii) above, no such registration statement or opinion of counsel shall be necessary for a transfer (A) by a Holder which is a partnership, to its partners or former partners in accordance with partnership interests, (B) to the Holder's family member or trust for the benefit of an individual Holder or such Holder's family member(s); *provided*, that in each case the transferee will be subject to the terms of this Agreement to the same extent as if such transferee were an original Holder hereunder, (C) pursuant to Rule 144(k) promulgated under the Securities Act; provided, however, that the Company must be satisfied in its reasonable discretion that the proposed sale of securities fully qualifies with all Rule 144 requirements, or (D) to a Holder's "affiliates", as the term "affiliates" is defined by the Securities Act or regulations promulgated under the Securities Act.

(b) Each certificate representing Registrable Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. NO TRANSFER OF THE SHARES REPRESENTED BY THIS CERTIFICATE SHALL BE VALID OR EFFECTIVE UNLESS (A) SUCH TRANSFER IS MADE PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (B) THE HOLDER SHALL DELIVER TO THE COMPANY AN OPINION OF ITS COUNSEL, IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY AND REASONABLY CONCURRED IN BY THE COMPANY'S COUNSEL, THAT SUCH PROPOSED TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SECURITIES EVIDENCED HEREBY ARE SUBJECT TO THE TERMS OF A CERTAIN REGISTRATION RIGHTS AGREEMENT BY AND AMONG THE COMPANY AND THE STOCKHOLDERS IDENTIFIED THEREIN, PROVIDING FOR, AMONG OTHER THINGS, CERTAIN RESTRICTIONS ON TRANSFER. A COPY OF SUCH REGISTRATION RIGHTS AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE COMPANY."

(c) The Company agrees (i) to remove the legend set forth in Section 2.1(B) upon receipt of an opinion of the Investor's counsel, reasonably concurred in by the Company's counsel within ten (10) business days of the Company's receipt of such opinion, that the Registrable Securities are eligible for transfer without registration under the Securities Act and (ii) to remove such legend at such time as the Registrable Securities are sold pursuant to an effective registration statement registering the Shares under the Securities Act.

2.2 Piggyback Registrations. (a) Subject to Section 2.3, the Company shall notify all Holders of Registrable Securities in writing at least twenty (20) days prior to the filing of any registration statement under the Securities Act for purposes of a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding Special Registration Statements) and will afford each such Holder an opportunity to include in such registration statement all or part of such Registrable Securities held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall, within twenty (20) days after the above-described notice from the Company, so notify the Company in writing. Such notice shall state the intended method of disposition of the Registrable Securities by such Holder. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(b) Underwriting. (i) If the registration statement with respect to which the Company gives notice under this Section 2.2 is for an underwritten offering, the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder to be included in a registration pursuant to this Section 2.2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of this Agreement, if the underwriter determines in good faith that marketing factors require a limitation of the number of shares to be underwritten, the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the holders of registration rights under that certain Registration Rights Agreement between the Company and the investors party thereto dated March 29, 2002; third, among (x) the Holders and (y) any other shareholders of the Company acquiring the right to register securities in connection with such registration ("**New Holders**") within thirty (30) business days of the date hereof on a *pro rata* basis based on the total number of Registrable Securities proposed to be sold in the offering held by the Holders and the New Holders; and fourth, among any other shareholders of the Company having the right to register securities in connection with such registration ("**Other Holders**") on a *pro rata* basis based on the total number of Registrable Securities proposed to be sold in the offering held by the Other Holders.

(ii) If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter, delivered at least ten (10) business days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration but shall remain "Registrable Securities" under this Agreement.

(c) Right to Terminate Registration. (i) The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.2 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 2.4 hereof and any reasonable out of pocket expenses incurred by the Holders in connection with such withdrawn registration shall be reimbursed by the Company.

(d) Registrations effected pursuant to this Section 2.2 shall not be counted as Form S-3 registrations effected pursuant to Sections 2.3.

2.3 Form S-3 Registration. The Company shall use its commercially reasonable efforts to (i) file with the Commission as promptly as practicable following the date of this Agreement (but in no event later than 60 days after such date) a registration (“**Shelf Registration**”) for delayed or continuous offerings of Registrable Securities in market transactions on any appropriate form pursuant to Rule 415 under the Securities Act (or similar rule that may be adopted by the Commission), which form shall be available for the sale of all of the Registrable Securities outstanding on the effective date of the Shelf Registration in accordance with the intended methods of distribution thereof, and (ii) cause the Shelf Registration to be declared effective by the Commission as soon thereafter as practicable. The Company agrees to use its commercially reasonable efforts to keep such Shelf Registration continuously effective (subject to the terms and conditions of this Agreement) and usable for resale of Registrable Securities until the second anniversary of the date of this Agreement or such shorter period which will terminate at such time as the Holders have sold all the Registrable Securities covered by such Registration Statement or otherwise until there are no longer any Registrable Securities. If and so long as a Shelf Registration is on file and effective (subject to the terms and conditions of this Agreement), then the Company shall have no obligation to allow participation in a piggyback registration pursuant to Section 2.2; *provided, however*, that in the event that the Company fails to file, or if filed fails to so maintain the effectiveness of, a Shelf Registration pursuant to this Section 2.3, the Holders of Registrable Securities may participate in a piggyback registration as provided in Section 2.2.

2.4 Expenses of Registration. Except as specifically provided herein, (a) all Registration Expenses incurred in connection with each registration under Section 2.2 or Section 2.3 herein shall be borne by the Company, and (b) all Selling Expenses incurred in connection with any registrations hereunder shall be borne by the holders of the securities so registered *pro rata* on the basis of the number of shares so registered.

2.5 Obligations of the Company. Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective; *provided*, that the Company may discontinue any registration of its securities which is being effected pursuant to Section 2.2 at any time prior to the effective date of the registration statement subject to the terms of Section 2.2;

(b) prepare and file with the Commission such amendments and supplements to any applicable registration statement and 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 Registrable Securities covered by such registration statement during such period of effectiveness in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such registration statement; *provided*, that before filing a registration statement or prospectus, or any amendments or supplements thereto, the Company will furnish to one counsel selected by the Holders holding a majority of the Registrable Securities covered by such registration statement to represent all Holders of Registrable Securities covered by such registration statement, copies of all documents proposed to be filed, which documents will be subject to the review of such counsel;

(c) if such Registrable Securities have not been registered under Section 12 of the Exchange Act, prepare and, in any event within 60 days after a request for registration has been given to the Company, file with the Commission a registration statement with respect to such Registrable Securities under the Exchange Act and use its commercially reasonable efforts to cause such registration statement to become effective; *provided*, that the Company may discontinue any registration of its securities which is being effected pursuant to Section 2.2 at any time prior to the effective date of the registration statement subject to the terms of Section 2.2;

(d) furnish to each seller of such Registrable Securities such number of copies of any applicable registration statement and each amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and summary prospectus), and any other prospectus filed under Rule 424 under the Securities Act in conformity with the requirements of the Securities Act, and such other documents as such seller may reasonably request;

(e) use its commercially reasonable efforts to register or qualify such Registrable Securities covered by any applicable registration statement under such other securities or blue sky laws of such jurisdictions as each seller of such Registrable Securities shall reasonably request, and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction where, but for the requirements of this clause (e), it would not be obligated to be so qualified or to consent to general service of process in any such jurisdiction;

(f) use its commercially reasonable efforts to cause such Registrable Securities covered by a registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof to consummate the disposition of such Registrable Securities;

(g) notify each seller of any such Registrable Securities covered by a registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the Company's becoming aware that the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of any such seller, prepare and furnish to such seller a reasonable number of copies of an amended or supplemental prospectus as may be necessary so that, as thereafter delivered to the sellers of such Registrable Securities, such prospectus shall not include 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 in the light of the circumstances then existing; and, as promptly as possible, prepare a supplement or amendment, including a post-effective amendment, to the registration statement or a supplement to the related prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the registration statement nor such prospectus will 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, in light of the circumstances under which they are made, not misleading.

(h) otherwise use its commercially 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 (but not more than eighteen months) after the effective date of the registration statement, an earnings statement which shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations promulgated thereunder;

(i) enter into such customary agreements (including an underwriting agreement in customary form) and take such other actions as sellers of a majority of such Registrable Securities or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities;

(j) obtain a "cold comfort" letter or letters from the Company's independent public accountants in customary form and covering matters of the type customarily covered by "cold comfort" letters as the seller or sellers of a majority of such Registrable Securities shall reasonably request;

(k) obtain an opinion of counsel for the Company in customary form and covering matters of the type customarily covered in opinions of issuer's counsel as the seller or sellers of a majority of such Registrable Securities shall reasonably request;

(l) (i) prepare and file with the SEC such amendments and supplements, including post-effective amendments, to each registration statement and the prospectus used in connection therewith as may be necessary to comply with the Securities Act and to keep the registration statement continuously effective as required herein, and prepare and file with the SEC such additional registration statements as necessary to register for resale under the Securities Act all of the Registrable Securities (including naming any permitted transferees of Registrable Securities as selling stockholders in such registration statement); (ii) cause any related prospectus to be amended or supplemented by any required prospectus supplement, and as so supplemented or amended to be filed pursuant to SEC Rule 424; (iii) respond as promptly as possible to any comments received from the SEC with respect to each registration statement or any amendment thereto, or any document filed with the SEC that would suspend the effectiveness of the registration statement, and as promptly as reasonably possible provide the Investors with true and complete copies of all correspondence from and to the SEC relating to the registration statement (other than those portions of any correspondence containing material nonpublic information); and (iv) comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by such registration statement as so amended or in such prospectus as so supplemented;

(m) Notify the Investors and Investors' counsel as promptly as reasonably possible:

(i) when the SEC notifies the Company whether there will be a "review" of a registration statement and whenever the SEC comments in writing on such registration statement; and

(ii) when a registration statement, or any post-effective amendment or supplement thereto, has become effective, and after the effectiveness thereof: (A) of any request by the SEC or any other federal or state governmental authority for amendments or supplements to the registration statement or prospectus or for additional information; (B) of the issuance by the SEC or any state securities commission of any stop order suspending the effectiveness of the registration statement covering any or all of the Registrable Securities or the initiation of any proceedings for that purpose; and (C) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose. Without limitation of any remedies to which the Investors may be entitled under this Agreement, if any of the events described in this subsection (ii) occur, the Company shall use its commercially reasonable efforts to respond to and correct the event;

(n) use its commercially reasonable efforts to avoid the issuance of or, if issued, obtain the withdrawal of, (i) any order suspending the effectiveness of any registration statement or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, as promptly as possible;

(o) Furnish to the Investors and their counsel, without charge, at least one conformed copy of each registration statement and each amendment thereto, and all exhibits to the extent requested by such Investor or their counsel (including those previously furnished or incorporated by reference) as promptly as possible after the filing of such documents with the SEC;

(p) As promptly as possible furnish to each selling Investor, without charge, such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents (including, without limitation, prospectus amendments and supplements) as each such selling Investor may reasonably request in order to facilitate the disposition of the Registrable Securities covered by such prospectus and any amendment or supplement thereto. The Company hereby consents to the use of such prospectus and each amendment or supplement thereto by each of the selling Investors in connection with the offering and sale of the Registrable Securities covered by such prospectus and any amendment or supplement thereto to the extent permitted by federal and state securities laws and regulations; and

(q) make available for inspection by any seller of such Registrable Securities covered by a registration statement, by any underwriter participating in any disposition to be effected pursuant to such registration statement and by any attorney, accountant or other agent retained by any such seller or any such underwriter (collectively, the “*Inspectors*”), all pertinent financial and other records, pertinent corporate documents and properties of the Company as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause all of the Company’s officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement. Records which the Company determines, in good faith, to be confidential and which it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (i) the disclosure of such records is necessary to avoid or correct a misstatement or omission in such registration statement or (ii) the release of such records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction. Each seller of Registrable Securities agrees that information obtained by it as a result of such inspections shall be deemed confidential and shall not be used by it as the basis for any market transactions in the securities of the Company unless and until such is made generally available to the public. Each seller of Registrable Securities further agrees that it will, upon learning that disclosure of such records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of the records deemed confidential.

Notwithstanding the foregoing, the Company shall have the right to delay the filing of any registration statement otherwise required to be prepared and filed by the Company pursuant to Sections 2.2 or 2.3, or to suspend the use of any registration statement, for a period not in excess of 45 consecutive calendar days (a “*Delay Period*”) if (i) the Board of Directors of the Company determines that filing or maintaining the effectiveness of such registration statement would have a material adverse effect on the Company or the holders of its capital stock in relation to any material acquisition or disposition, financing or other corporate transaction and the Board of Directors of the Company has determined in good faith that disclosure thereof would not be in the best interests of the Company and its holders of capital stock at the time or (ii) the Board of Directors of the Company has determined in good faith that the filing of a registration statement or maintaining the effectiveness of a current Registration Statement would require disclosure of material information that the Company has a valid business purpose for retaining as confidential at such time. The Company shall be entitled to exercise a Delay Period more than one time in any calendar year so long as such exercise does not exceed 90 days per calendar year.

Each selling Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 2.5(g) hereof, such selling Holder will forthwith discontinue disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such selling Holder’s receipt of the copies of the supplemented or amended prospectus contemplated by Section 2.5(g) hereof, and, if so directed by the Company, such selling Holder will deliver to the Company all copies, other than permanent file copies then in such selling Holder’s possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice. Each selling Holder of Registrable Securities agrees that it will immediately notify the Company at any time when a prospectus relating to the registration of such Registrable Securities is required to be delivered under the Securities Act of the happening of an event as a result of which information previously furnished by such selling Holder to the Company in writing expressly for inclusion in such prospectus 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 in light of the circumstances in which they were made.

2.6 Termination of Registration Rights. A Holder's registration rights shall expire if all Registrable Securities held by and issuable to such Holder (and its affiliates, partners, former partners, members and former members) may be sold under Rule 144 during any ninety (90) day period.

2.7 Furnishing Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.2 or 2.3 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities.

2.8 Indemnification. In the event any Registrable Securities are included in a registration statement under Sections 2.2 or 2.3:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each selling Holder of Registrable Securities, the partners, members, managers, officers, directors and affiliates of each such Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, costs, expenses or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, costs, expenses or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "**Violation**") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement; and the Company will pay as incurred to each such Holder, partner, member, manager, officer, director, affiliate underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, costs, expenses, liability or action; *provided however*, that the Company shall not be liable in any such case for any such loss, claim, damage, costs, expenses, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, member, manager, officer, director, affiliate, underwriter or controlling person of such Holder.

(b) To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers and each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, members, managers, directors, officers or affiliates or any person who controls such Holder, against any losses, claims, damages, costs, expenses or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, or partner, member, manager, director, officer, affiliate or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, costs, expenses or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such registration; and each such Holder will pay as incurred any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, or partner, member, manager, officer, director, affiliate or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, cost, expense, liability or action if it is judicially determined that there was such a Violation; *provided, however*, that in no event shall any indemnity under this Section 2.8 exceed the net proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; *provided, however*, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding in the opinion of such party's legal counsel. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.8 except to the extent that the indemnifying party has been materially prejudiced by such failure.

(d) If the indemnification provided for in this Section 2.8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages, costs, expenses or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage, cost, expense or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage, cost, expense or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; *provided*, that in no event shall any contribution by a Holder hereunder exceed the net proceeds from the offering received by such Holder.

(e) The obligations of the Company and Holders under this Section 2.8 shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

2.9 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned by a Holder to a permitted transferee or assignee of Registrable Securities which (a) is a subsidiary, parent, general partner, limited partner, retired partner, member or retired member of a Holder, (b) is a Holder's family member or trust for the benefit of an individual Holder, or (c) is acquiring at least the lesser of (x) one hundred thousand (100,000) shares of Registrable Securities (as adjusted for stock splits and combinations) or (y) all of the Registrable Securities held by such Holder; *provided, however*, (i) the transferor shall, prior to such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned and (ii) such transferee shall agree to be subject to all restrictions set forth in this Agreement.

2.10 No Inconsistent Agreements. The Company will not hereafter enter into any agreement with respect to its securities which is inconsistent with, adversely effects or violates the rights granted to the Holders in this Agreement; it being understood that the granting of additional demand or piggyback registration rights with respect to capital stock of the Company shall not be deemed inconsistent with or adverse to the rights granted to Holders hereunder, and the rights of the Holders shall be subject to any such additional grants.

2.11 "Holder Market Stand-Off" Agreement. In the event of an underwritten public offering by the Company of its securities, and if so requested by the underwriters, each Holder hereby agrees that such Holder shall not sell, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock (or other securities) of the Company held by such Holder (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock of the Company not to exceed ninety (90) days following the effective date of the registration statement relating to such underwritten offering.

2.12 Rule 144 Reporting. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its commercially reasonable efforts to:

(a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public;

(b) File with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

(c) So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the Securities Act, and of the Exchange Act (at any time after it has become subject to such reporting requirements); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as a Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

SECTION 3. Miscellaneous.

3.1 Survival. The representations, warranties, covenants, and agreements made herein shall survive the closing of the transactions contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument.

3.2 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors or legal representatives of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time and who has become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement; *provided, however*, that prior to the receipt by the Company of adequate written notice (specifying the full name and address of any proposed transferee) of, and the written consent of the Company to, the transfer of any Registrable Securities, the Company may deem and treat the person listed as the holder of such shares in its records as the absolute owner and holder of such shares for all purposes, including the payment of dividends or any redemption price. Notwithstanding the foregoing, the Company may not assign this Agreement without the prior written consent of the Holders of at least a majority (50.1%) of the Registrable Securities.

3.3 Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

3.4 Third Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and not for the benefit of any third party.

3.5 Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

3.6 Amendment and Waiver.

(a) Except as otherwise expressly provided, this Agreement may be amended or modified only upon the written consent of the Company and the holders of at least a majority (50.1%) of the Registrable Securities.

(b) Except as otherwise expressly provided, the obligations of the Company and the rights of the Holders under this Agreement may be waived only with the written consent of the holders of at least a majority (50.1%) of the Registrable Securities.

(c) For the purposes of determining the number of Holders or Investors entitled to vote or exercise any rights hereunder, the Company shall be entitled to rely solely on the list of record holders of its stock as maintained by or on behalf of the Company.

3.7 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any Holder, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any Holder's part of any breach, default or noncompliance under the Agreement or any waiver on such Holder's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to Holders, shall be cumulative and not alternative.

3.8 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth on the signature pages hereof or at such other address as such party may designate by ten (10) days advance written notice to the other parties hereto.

3.9 Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

3.10 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

3.11 Counterparts. This Agreement may be executed in any number of counterparts (which shall include signature by facsimile), each of which shall be an original, but all of which together shall constitute one instrument

3.12 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE (WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAWS PROVISIONS).

3.13 CONSENT TO JURISDICTION. EACH INVESTOR AND THE COMPANY HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF ANY FEDERAL OR STATE COURT OF NEW YORK SITTING IN NEW YORK CITY AND IRREVOCABLY AGREES THAT ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE LITIGATED EXCLUSIVELY IN SUCH COURTS. EACH INVESTOR AND THE COMPANY AGREES NOT TO COMMENCE ANY LEGAL PROCEEDING RELATED HERETO EXCEPT IN SUCH COURT. EACH INVESTOR AND THE COMPANY IRREVOCABLY WAIVES ANY OBJECTION WHICH HE OR IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING IN ANY SUCH COURT AND HEREBY FURTHER IRREVOCABLY AND UNCONDITIONALLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION, SUIT OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

3.14 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT HE OR IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 3.14.

[remainder of this page intentionally left blank.]

In Witness Whereof, the parties hereto have executed this Registration Rights Agreement as of the date set forth in the first paragraph hereof.

COMPANY:
GULFPORT ENERGY CORPORATION

By: _____
Name: _____
Title: _____
Address: _____

INVESTORS:
HARBERT DISTRESSED INVESTEMENT MASTER FUND, LTD.

By: HMC Distressed Investment Offshore Manager, LLC, as its investment manager

By: _____
Name: _____
Title: _____

ALPHA US SUB FUND VI, LLC

By: Harbert Fund Advisors, Inc. (on Alpha's behalf pursuant to the authority granted under the Investment Advisory Agreement dated as of April 29, 2003, as amended)

By: _____
Name: _____
Title: _____

Address for Investors:

c/o HMC Distressed Investment Offshore Manager, LLC
555 Madison Avenue, 16th Floor
New York, NY 10022
Attn: Philip A. Falcone
212-521-6988 (ph)
212-521-6972 (fax)

w/ copy to:

One Riverchase Parkway South
Birmingham, AL 35244
Attn: Legal Department
205-987-5500 (ph)
205-987-5505 (fax)

**\$30,000,000 SECURED REDUCING
CREDIT AGREEMENT**

Dated as of March 11, 2005

among

GULFPORT ENERGY CORPORATION,

as Borrower,

BANK OF AMERICA, N.A.,

as Administrative Agent

and

The Other Lenders Party Hereto

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CREDIT AGREEMENT

This CREDIT AGREEMENT ("**Agreement**") is entered into as of March 11, 2005 among GULFPORT ENERGY CORPORATION, a Delaware corporation ("**Borrower**"), each lender from time to time party hereto (collectively, the "**Lenders**" and individually, a "**Lender**"), and BANK OF AMERICA, N.A., as Agent.

Borrower has requested that Lenders provide a revolving credit facility, and Lenders are willing to do so on the terms and conditions set out herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms.

As used in this Agreement, the following terms shall have the meanings set out below:

"**Administrative Agent**" or "**Agent**" means Bank of America in its capacity as (a) Administrative Agent under any of the Loan Documents, and/or (b) issuer of Letters of Credit under this Agreement, as the context requires, or any successor Agent.

"**Affiliate**" means, with respect to any Person, another Person that directly or indirectly through one or more intermediaries, Controls, or is Controlled by or is under common Control with, the Person specified. "**Control**" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. Without limiting the generality of the foregoing, a Person shall be deemed to be Controlled by another Person if such other Person possesses, directly or indirectly, power to vote 50% or more of the securities having ordinary voting power for the election of directors, managing general partners or equivalent governing body of such Person.

"**Agent Fee Letter**" means that certain letter agreement dated of even date as this Agreement between Agent and Borrower.

"**Agent's Office**" means Agent's address and, as appropriate, account as set out on **Schedule 10.02**, or such other address or account as Agent may from time to time notify Borrower and Lenders.

"**Agent-Related Persons**" means Agent, together with its Affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"**Aggregate Commitments**" means the Commitments of all Lenders.

"**Agreement**" means this Credit Agreement.

"**Applicable Rate**" means the following percentages per annum, based upon the Utilization Percentage:

Applicable Rate					
Pricing Level	Utilization Percentage	Letters of Credit	Eurodollar	Base Rate	Commitment
			Rate	+	+
1	>75%	2.75%	2.75%	0.50%	0.25%
2	>50 but<75%	2.50%	2.505	0.505	0.25%
3	>25 but<50%	2.25%	2.255	0.25%	0.155
4	<25%	2.00%	2.005	0.255	0.155

Any increase or decrease in the Applicable Rate resulting from a change in the Utilization Percentage shall become effective on the date such change occurs.

“**Assignment and Assumption Agreement**” means an Assignment and Assumption Agreement substantially in the form of *Exhibit F*.

“**Attorney Costs**” means and includes all reasonable fees, expenses and disbursements of any law firm or other external counsel.

“**Attributable Indebtedness**” means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

“**Availability Period**” means the period from and including the Closing Date to the earliest of (a) the Maturity Date, and (b) the date of termination of the commitment of each Lender to make Loans and of the obligation of Agent to make L/C Credit Extensions pursuant to *Section 8.02*.

“**Bank of America**” means Bank of America, N.A. and its successors.

“**Base Rate**” means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate *plus* 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate.” The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

“**Base Rate Loan**” means a Loan that bears interest based on the Base Rate.

“**Borrower**” has the meaning specified in the preamble.

“**Borrowing**” means a borrowing consisting of simultaneous Revolving Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by each of Lenders pursuant to *Section 2.01*.

“**Borrowing Base**” means the maximum loan amount that may be supported by the Borrowing Base Oil and Gas Properties, as determined by the Administrative Agent and approved by the Required Lenders from time to time in accordance with *Section 2.04* of this Agreement.

“Borrowing Base Oil and Gas Properties” means those Oil and Gas Properties of the Borrower that are subject to the liens created by the Collateral Documents, together with the additional Borrowing Base Oil and Gas Properties that are described in **Exhibit B** attached hereto and made a part hereof, as such **Exhibit B** may be amended from time to time.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where Agent’s Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Cash Collateralize” has the meaning specified in **Section 2.03(g)**.

“Capitalization” means Stockholder’s Equity plus Subordinated Liabilities.

“Change of Control” means, with respect to any Person, an event or series of events by which the holders of the capital ownership of such Person as of the date hereof cease to own and control, directly and indirectly, at least fifty-one percent (51%) of such Person’s capital ownership.

“Closing Date” means the first date all the conditions precedent in **Section 4.01** are satisfied or waived in accordance with **Section 10.01** (or, in the case of **Section 4.01(b)**, waived by the Person entitled to receive the applicable payment).

“Code” means the Internal Revenue Code of 1986.

“Collateral” shall mean any and all assets and rights and interests in or to property of Borrower and each of the other Loan Parties, whether real or personal, tangible or intangible, in which a Lien is granted or purported to be granted pursuant to the Collateral Documents.

“Collateral Documents” means all agreements, instruments and documents now or hereafter executed and delivered in connection with this Agreement pursuant to which Liens are granted or purported to be granted to Agent in Collateral securing all or part of the Obligations each in form and substance reasonably satisfactory to Agent and, including without limitation, those documents described on the attached **Exhibit E**.

“Commitment” means, as to each Lender, its obligation to (a) make Revolving Loans to Borrower pursuant to **Section 2.01**, and (b) purchase participations in L/C Obligations, in an aggregate principal amount at any one time outstanding not to exceed the *lesser* of (i) the amount set out opposite such Lender’s name on **Schedule 2.01**, or in the Assignment and Assumption Agreement pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement and (ii) such Lender’s Pro Rata Share of the Borrowing Base then in effect.

“Compliance Certificate” means a certificate substantially in the form of **Exhibit D**.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” has the meaning specified in the definition of **“Affiliate.”**

“Credit Extension” means a Borrowing or an L/C Credit Extension.

“**Current Financial Statements**” means the most recent financial statements delivered under **Sections 6.01(a)** or **6.01(b)**.

“**Debtor Relief Laws**” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“**Default**” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“**Default Rate**” means an interest rate equal to (a) the Base Rate *plus* (b) the Applicable Rate, if any, applicable to Base Rate Loans *plus* (c) 2.0% per annum; *provided that*, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan *plus* 2.0% per annum, in each case to the fullest extent permitted by applicable Laws.

“**Defaulting Lender**” means any Lender that (a) has failed to fund any portion of the Revolving Loans or participations in L/C Obligations required to be funded by it under this Agreement within one Business Day of the date required to be funded by it under this Agreement, (b) has otherwise failed to pay over to Agent or any other Lender any other amount required to be paid by it under this Agreement within one Business Day of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

“**Disposition**” or “**Dispose**” means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

“**Dollar**” and “**\$**” mean lawful money of the United States.

“**EBITDAX**” means, for any reporting period, net income on a consolidated basis before deductions for taxes (excluding unrealized gains and losses related to trading securities and commodity hedges) plus depreciation, depletion, amortization and interest expense, plus exploration costs deducted in determining net income under full cost accounting.

“**Eligible Assignee**” has the meaning specified in **Section 10.07(h)**.

“**Environmental Laws**” means any and all federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“**Environmental Liability**” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“**ERISA**” means the Employee Retirement Income Security Act of 1974.

“**ERISA Affiliate**” means any trade or business (whether or not incorporated) under common control with Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“**ERISA Event**” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon Borrower or any ERISA Affiliate.

“**Escrow Agreement**” means that certain Escrow Agreement dated March 11, 1997 among Borrower (as successor to DLB Oil & Gas, Inc.), Texaco Exploration and Production Inc. and JPMorgan Chase Bank, N.A. (successor to The Chase Manhattan Bank).

“**Eurodollar Rate**” means for any Interest Period with respect to any Eurodollar Rate Loan:

(a) the rate per annum equal to the rate determined by the Agent to be the offered rate (rounded upwards, if necessary, to the next 1/10,000 of 1%) that appears on the page of the Dow Jones Market Service (formerly known as the Telerate screen) (or any successor thereto) that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(b) if the rate referenced in the preceding clause (a) does not appear on such page or service or such page or service shall not be available, the rate per annum equal to the rate determined by the Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(c) if the rates referenced in the preceding clauses (a) and (b) are not available, the rate per annum determined by the Agent as the rate of interest at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America’s London Branch to major banks in the London interbank eurodollar market at their request at approximately 4:00 p.m. (London time) two Business Days prior to the first day of such Interest Period.

“Eurodollar Rate Loan” means a Loan that bears interest at a rate based on the Eurodollar Rate.

“Event of Default” has the meaning specified in *Section 8.01*.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided that* (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by Agent.

“Funded Debt” means, as of any date of determination, for the Borrower and its Subsidiaries on a consolidated basis, the sum of (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money (including Obligations hereunder) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments, (d) all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business), (e) Indebtedness in respect of capital leases, (f) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Borrower or any Subsidiary, and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Borrower or a Subsidiary is a general partner or joint venturer, unless such Indebtedness is expressly made non-recourse to the Borrower or such Subsidiary.

“GAAP” means generally accepted accounting principles in the United States set out in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, administrative tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantor” means each Subsidiary of Borrower, now or hereafter in existence.

“Guaranty” means the Guaranty made by any Guarantor in favor of Agent on behalf of Lenders, in form and substance reasonably satisfactory to Agent.

“Guarantee” means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term “Guarantee” as a verb has a corresponding meaning.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Hydrocarbons” means crude oil, condensate, natural gas, natural gas liquids and other hydrocarbons.

“Indebtedness” means, as to any Person at a particular time, all obligations required by GAAP to be classified upon such Persons balance sheet as liabilities, including all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) capital leases and Synthetic Lease Obligations; and

(g) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be Swap Termination Value thereof as of such date. The amount of any capital lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

“Indemnified Liabilities” has the meaning specified in **Section 10.05**.

“Indemnitees” has the meaning specified in **Section 10.05**.

“Information” has the meaning specified in **Section 10.08**.

“Initial Financial Statements” means the audited consolidated balance sheet of Borrower and its Subsidiaries for the fiscal year ended [September 30, 2003], and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of Borrower and its Subsidiaries, including the notes thereto.

“Initial Period” means the period commencing with the Closing Date and ending on the date immediately prior to the date of redetermination of the Borrowing Base attributable to Borrower’s Oil and Gas Properties and the Monthly Borrowing Base Reduction as provided in **Section 2.04**.

“Interest Expense” means, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses of the Borrower and its Subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of the Borrower and its Subsidiaries with respect to such period under capital leases that is treated as interest in accordance with GAAP.

“Interest Payment Date” means, (a) as to any Eurodollar Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; *provided that*, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan, the last Business Day of each March, June, September and December and the Maturity Date.

“Interest Period” means as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one, two, three or six months thereafter (subject to availability), as selected by Borrower in its Revolving Loan Notice; *provided that*:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless, such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period shall extend beyond the Maturity Date.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“**IRS**” means the United States Internal Revenue Service.

“**Laws**” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“**L/C Advance**” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Pro Rata Share.

“**L/C Borrowing**” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Borrowing.

“**L/C Credit Extension**” means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the renewal or increase of the amount thereof.

“**L/C Obligations**” means, as at any date of determination, the aggregate undrawn face amount of all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings.

“**Leases**” means oil and gas leases and all oil, gas and mineral leases constituting any part of the Borrowing Base Oil and Gas Properties.

“**Lender**” has the meaning specified in the preamble and, as the context requires, includes Agent in its capacity as issuer of Letters of Credit.

“**Lending Office**” means, as to any Lender, the office or offices of such Lender described as such on **Schedule 10.02**, or such other office or offices as a Lender may from time to time notify Borrower and Agent.

“**Letter of Credit**” means any letter of credit issued under this Agreement. A Letter of Credit may be a commercial letter of credit or a standby letter of credit, whether irrevocable or otherwise.

“**Letter of Credit Application**” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by Agent.

“**Letter of Credit Expiration Date**” means the day that is thirty days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

“**Letter of Credit Sublimit**” means an amount equal to \$1,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.

“**Lien**” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, and any financing lease having substantially the same economic effect as any of the foregoing).

“**Loan**” means an extension of credit by a Lender to Borrower under **Article II** in the form of a Revolving Loan.

“**Loan Documents**” means this Agreement, each Note, each Swap Contract, each Collateral Document, and each Guaranty and all other agreements, certificates, documents, instruments and writings at any time delivered in connection herewith or therewith.

“**Loan Parties**” means, collectively, Borrower and each Person (other than Agent or any Lender) executing a Loan Document including, without limitation, each Guarantor and each Person executing a Collateral Document.

“**Marketable Title**” means good and indefeasible title, free and clear of all Liens other than Permitted Liens.

“**Material Adverse Effect**” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual and contingent), condition (financial or otherwise) or prospects of Borrower or Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party; or (d) a material adverse change in, or a material adverse effect upon, any Borrowing Base Oil and Gas Property or any other Collateral.

“**Maturity Date**” means March 11, 2008.

“**Monthly Borrowing Base Reduction**” means the amount by which the Borrowing Base shall be reduced as of the first day of each calendar month pursuant to **Section 2.04**.

“**Multiemployer Plan**” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“**Note**” means a promissory note made by Borrower in favor of a Lender evidencing Loans made by such Lender, substantially in the form of **Exhibit C**.

“**Obligations**” means all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document (including any Swap Contract) or otherwise with respect to any Loan or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“**Oil and Gas Properties**” means fee, leasehold or other interests in or under mineral estates or oil, gas and other liquid or gaseous hydrocarbon leases with respect to properties situated in the United States, including, overriding royalty and royalty interests, leasehold estate interests, net profits interests, production payment interests and mineral fee interests, together with contracts executed in connection therewith and all tenements, hereditaments, appurtenances and properties, real or personal, appertaining, belonging, affixed or incidental thereto.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Outstanding Amount” means (a) with respect to Revolving Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Revolving Loans, as the case may be, occurring on such date; and (b) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.

“Participant” has the meaning specified in **Section 10.07(d)**.

“PBG” means the Pension Benefit Guaranty Corporation.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by Borrower or any ERISA Affiliate or to which Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Permitted Liens” means Liens permitted under **Section 7.01**.

“Person” means any individual, trustee, corporation, general partnership, limited partnership, limited liability company, joint stock company, trust, unincorporated organization, bank, business association, firm, joint venture or Governmental Authority.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

“Pro Rata Share” means, with respect to each Lender, at any time, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the amount of the Commitment of such Lender at such time and the denominator of which is the amount of the Aggregate Commitments at such time; *provided that* if the commitment of each Lender to make Loans and the obligation of Agent to make L/C Credit Extensions have been terminated pursuant to **Section 8.02**, then the Pro Rata Share of each Lender shall be determined based on the Pro Rata Share of such Lender immediately prior to such termination and after giving effect to any subsequent assignments made pursuant to **Section 10.07**. The initial Pro Rata Share of each Lender is set out opposite the name of such Lender on **Schedule 2.01** or in the Assignment and Assumption Agreement pursuant to which such Lender becomes a party hereto, as applicable.

“Proved Developed Producing Reserves” means Proved Reserves which are categorized as both **“Developed”** and **“Producing”** in the Definitions for Oil and Gas reserves promulgated by the Society of Petroleum Engineers (or any generally recognized successor) as in effect at the time in question.

“Proved Reserves” means Proved Reserves as defined in the Definitions for Oil and Gas reserves promulgated by the Society of Petroleum Engineers (or any generally recognized successor) as in effect at the time in question.

“PW9” means the present worth of future net income, discounted to present value at the simple interest rate of nine percent (9%) per year.

“Register” has the meaning set out in *Section 10.07(c)*.

“Reportable Event” means any of the events set out in Section 4043(c) of ERISA, other than events for which the 30-day notice period has been waived.

“Request for Credit Extension” means (a) with respect to a Borrowing, conversion or continuation of Revolving Loans, a Revolving Loan Notice, and (b) with respect to an L/C Credit Extension, a Letter of Credit Application.

“Required Lenders” means, as of any date of determination, Lenders having more than 51% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of Agent to make L/C Credit Extensions have been terminated pursuant to *Section 8.02*, Lenders holding in the aggregate more than 51% of the Total Outstandings (with the aggregate amount of each Lender’s risk participation and funded participation in L/C Obligations being deemed “held” by such Lender for purposes of this definition); *provided that* the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders. Notwithstanding the foregoing, if at any time there are fewer than three Lenders which are parties to this Agreement, “Required Lenders” shall mean all Lenders.

“Reserve Report” means a report prepared by a company engineer or an independent petroleum engineer or firm of engineers that is reasonably satisfactory to the Borrower and the Administrative Agent regarding the Proved Reserves attributable to the Borrowing Base Oil and Gas Properties, using the criteria and parameters required by and acceptable to the Securities and Exchange Commission, and incorporating the present cost of appropriate plugging and abandonment obligations to be incurred in the future, taking into account any plugging and abandonment fund required to be accrued or established by Borrower out of cash flow from the Borrowing Base Oil and Gas Properties covered by such report with respect to such future obligations. Unless Administrative Agent notifies Borrower to the contrary, Ryder Scott Company is deemed a satisfactory firm of engineers.

“Responsible Officer” means the chief executive officer, president, vice president, chief financial officer, treasurer or assistant treasurer of a Loan Party. Any document delivered under this Agreement that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other equity interest of Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other equity interest or of any option, warrant or other right to acquire any such capital stock or other equity interest, except for any distributions in kind made in accordance with any preferred stock requirements, existing or future stock options, warrant or similar plans in existence as of the date of this Agreement.

“**Revolving Loan**” has the meaning specified in **Section 2.01**.

“**Revolving Loan Notice**” means a notice of (a) a Borrowing, (b) a conversion of Revolving Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, pursuant to **Section 2.02(a)**, which, if in writing, shall be substantially in the form of **Exhibit A**.

“**Stockholder’s Equity**” means, at any time, the sum of the following accounts set forth on the consolidated Financial Statements of Borrower, prepared in accordance with GAAP: (A) the par or stated value of all outstanding capital stock (common and preferred); (B) capital surplus including paid in capital; and (C) retained earnings.

“**Subordinated Liabilities**” means all other liabilities subordinated to the Obligations in a manner acceptable to Agent its sole discretion.

“**Subsidiary**” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Borrower.

“**Swap Contract**” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “**Master Agreement**”), including any such obligations or liabilities under any Master Agreement.

“**Swap Termination Value**” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

“*Synthetic Lease Obligation*” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“*Taxes*” has the meaning specified in *Section 3.01(a)*.

“*Texaco Lien*” means that certain security interest and Lien granted to Texaco Exploration and Production, Inc., a Delaware corporation, by DLB Oil & Gas, Inc. an Oklahoma corporation and predecessor in interest to Borrower, pursuant to that certain Security Agreement and Assignment of Production Proceeds dated March 11, 1997, as the same may be amended, restated, supplemented or modified from time to time, subject to the terms hereof.

“*Total Liabilities*” means the sum of current liabilities *plus* long term liabilities.

“*Total Outstandings*” means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

“*Transfer Order Letters*” means the letters in lieu of division or transfer orders, in form acceptable to the Administrative Agent.

“*Type*” means with respect to any Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

“*Unfunded Pension Liability*” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“*United States*,” and “*U.S.*” mean the United States of America.

“*Unreimbursed Amount*” has the meaning set out in *Section 2.03(c)(i)*.

“*Utilization Percentage*” means, on any day, the ratio, stated as a percentage of the aggregate principal amount of the Total Outstandings to the Aggregate Commitments.

1.02 Other Interpretive Provisions.

With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) (i) The words “*herein*”, “*hereto*”, “*hereof*” and “*hereunder*” and words of similar import when used in any Loan Document shall refer to such Loan Document as a whole and not to any particular provision thereof; (ii) Article, Section, Exhibit and Schedule references are to the Loan Document in which such reference appears; (iii) the term “*including*” is by way of example and not limitation; and (iv) the term “*documents*” includes any and all instruments, documents, agreements, certificates, notices, reports, financial statements and other writings, however evidenced, whether in physical or electronic form.

(c) In the computation of periods of time from a specified date to a later specified date, the word “*from*” means “*from and including*,” the words “*to*” and “*until*” each mean “*to but excluding*,” and the word “*through*” means “*to and including*.”

(d) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 Accounting Terms.

(a) All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Initial Financial Statements, *except* as otherwise specifically prescribed herein. All financial ratios contemplated by this Agreement shall be calculated on a consolidated basis for Borrower and its Subsidiaries.

(b) If at any time any change in GAAP would affect the computation of any financial ratio or requirement set out in any Loan Document, and either Borrower or the Required Lenders shall so request, Agent, Lenders and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); *provided that*, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Agent and Lenders financial statements and other documents required under this Agreement or as reasonably requested under this Agreement setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.04 Rounding

. Any financial ratios required to be maintained by any Loan Party pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 References to Agreements and Laws

. Unless otherwise expressly provided herein, (a) references to Organization Documents, agreements (including the Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document; and (b) references to any Law shall include all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such Law.

1.06 Letter of Credit Amounts

. Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to mean the maximum face amount of such Letter of Credit after giving effect to all increases thereof contemplated by such Letter of Credit or the Letter of Credit Application therefor, whether or not such maximum face amount is in effect at such time.

ARTICLE II

THE COMMITMENTS AND CREDIT EXTENSIONS.

2.01 Revolving Loans

. Subject to the terms and conditions set out herein, each Lender severally agrees to make loans (each such loan, a “*Revolving Loan*”) to Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of such Lender’s Commitment as set forth on *Schedule 2.01*; *provided that*, that after giving effect to any Borrowing, (a) the Total Outstandings shall not exceed the lower of (i) Aggregate Commitments and (ii) the Borrowing Base, and (b) the aggregate Outstanding Amount of the Revolving Loans of any Lender, *plus* such Lender’s Pro Rata Share of the Outstanding Amount of all L/C Obligations shall not exceed such Lender’s Commitment. Within the limits of each Lender’s Commitment, and subject to the other terms and conditions hereof, Borrower may borrow under this *Section 2.01*, prepay under *Section 2.05*, and reborrow under this *Section 2.01*. Revolving Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein.

2.02 Borrowings, Conversions and Continuations of Revolving Loans.

(a) Each Borrowing, each conversion of Revolving Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon Borrower’s irrevocable notice to Agent, which may be given by telephone, *provided that* such notice is promptly followed by facsimile notice. Each such notice must be received by Agent not later than 11:00 a.m., Central Time, (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Loans, and (ii) on the requested date of any Borrowing of Base Rate Loans. Each telephonic notice by Borrower pursuant to this *Section 2.02(a)* must be confirmed promptly by delivery to Agent of a written Revolving Loan Notice, appropriately completed and signed by a Responsible Officer of Borrower. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$500,000 or a greater integral multiple of \$100,000. Each Borrowing of or conversion to Base Rate Loans shall be in a principal amount of \$100,000 or a greater integral multiple of \$100,000. Each Revolving Loan Notice (whether telephonic or written) shall specify (i) whether Borrower is requesting a Borrowing, a conversion of Revolving Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Revolving Loans to be borrowed, converted or continued, (iv) the Type of Revolving Loans to be borrowed or to which existing Revolving Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If Borrower fails to specify a Type of Revolving Loan in a Revolving Loan Notice or if Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Revolving Loans shall be made, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Revolving Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Revolving Loan Notice, Agent shall promptly notify each Lender of the amount of its Pro Rata Share of the applicable Revolving Loans, and if no timely notice of a conversion or continuation is provided by Borrower, Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans described in the preceding subsection. In the case of a Borrowing, each Lender shall make the amount of its Revolving Loan available to Agent in immediately available funds at Agent’s Office not later than 1:00 p.m., Central Time, on the Business Day specified in the applicable Revolving Loan Notice. Upon satisfaction of the applicable conditions set out in *Section 4.02* (and, if such Borrowing is the initial Credit Extension, *Section 4.01*), Agent shall make all funds so received available to Borrower in like funds as received by Agent either by (i) crediting the account of Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) Agent by Borrower; *provided that*, that if, on the date of the Revolving Loan Notice with respect to such Borrowing is given by Borrower there are L/C Borrowings outstanding, then the proceeds of such Borrowing shall be applied, first, to the payment in full of any such L/C Borrowings, and second, to Borrower as provided above.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Required Lenders, and the Required Lenders may demand that any or all of the then outstanding Eurodollar Rate Loans be converted immediately to Base Rate Loans and Borrower agrees to pay all amounts due under **Section 3.05** in accordance with the terms thereof due to any such conversion.

(d) Agent shall promptly notify Borrower and Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. The determination of the Eurodollar Rate by Agent shall be conclusive in the absence of manifest error.

(e) After giving effect to all Borrowings, all conversions of Revolving Loans from one Type to the other, and all continuations of Revolving Loans as the same Type, there shall not be more than six (6) Interest Periods in effect with respect to Revolving Loans.

2.03 Letters of Credit.

(a) The Letter of Credit Commitment.

(i) Subject to the terms and conditions set out herein, (A) Agent agrees, in reliance upon the agreements of the other Lenders set out in this **Section 2.03**: (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of Borrower, and to amend or renew Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drafts under the Letters of Credit; and (B) Lenders severally agree to participate in Letters of Credit issued for the account of Borrower; *provided that* Agent shall not be obligated to make any L/C Credit Extension with respect to any Letter of Credit, and no Lender shall be obligated to participate in, any Letter of Credit if as of the date of such L/C Credit Extension, (x) the Total Outstandings would exceed the Aggregate Commitments, (y) the aggregate Outstanding Amount of the Revolving Loans of any Lender, *plus* such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, would exceed such Lender's Commitment, or (z) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit. Within the foregoing limits, and subject to the terms and conditions hereof, Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed.

(ii) Agent shall be under no obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain Agent from issuing such Letter of Credit, or any Law applicable to Agent or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over Agent shall prohibit, or request that Agent refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon Agent with respect to such Letter of Credit any restriction, reserve or capital requirement (for which Agent is not otherwise compensated under this Agreement) not in effect on the Closing Date, or shall impose upon Agent any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which Agent in good faith deems material to it;

(B) the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last renewal, (*provided that* such Letter of Credit may include provisions for automatic renewal), unless the Required Lenders have approved such expiry date;

(C) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all Lenders have approved such expiry date;

(D) the issuance of such Letter of Credit would violate one or more policies of Agent; or

(E) such Letter of Credit is in an initial amount less than \$100,000, in the case of a commercial Letter of Credit, or \$500,000, in the case of a standby Letter of Credit, or is to be denominated in a currency other than Dollars.

(iii) Agent shall be under no obligation to amend any Letter of Credit if (A) Agent would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of Borrower delivered to Agent in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of Borrower. Such Letter of Credit Application must be received by Agent not later than 11:00 a.m., Central Time, at least two Business Days (or such later date and time as Agent may agree in a particular instance in its sole discretion) prior to the proposed issuance date or date of amendment, as the case may be.

(ii) Promptly after receipt of any Letter of Credit Application by Agent at the address set out in **Schedule 10.02** for receiving Letter of Credit Applications and related correspondence, if the requested issuance or amendment is permitted in accordance with the terms hereof, then, subject to the terms and conditions hereof, Agent shall, on the requested date, issue a Letter of Credit for the account of Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with Agent's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from Agent a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Pro Rata Share times the amount of such Letter of Credit.

(iii) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, Agent will also deliver to Borrower a true and complete copy of such Letter of Credit or amendment.

(iv) If Borrower so requests in any applicable Letter of Credit Application, Agent may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic renewal provisions (each, an “**Auto-Renewal Letter of Credit**”); *provided that* any such Auto-Renewal Letter of Credit must permit Agent to prevent any such renewal at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the “**Nonrenewal Notice Date**”) in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by Agent, Borrower shall not be required to make a specific request to Agent for any such renewal. Once an Auto-Renewal Letter of Credit has been issued, Lenders shall be deemed to have authorized (but may not require) Agent to permit the renewal of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; *provided that*, Agent shall not permit any such renewal if (A) Agent has determined that it would have no obligation at such time to issue such Letter of Credit in its renewed form under the terms hereof (by reason of **Section 2.03(a)(ii)** or otherwise), or (B) it has received notice (which may be by telephone or in writing) at least two Business Days before the Nonrenewal Notice Date (1) from the Required Lenders that they have elected not to permit such renewal or (2) from any Lender or Borrower that one or more of the applicable conditions specified in **Section 4.02** is not then satisfied. Notwithstanding anything to the contrary contained herein, Agent shall have no obligation to permit the renewal of any Auto-Renewal Letter of Credit at any time.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of drawing under such Letter of Credit, Agent shall notify Borrower thereof. Not later than 11:00 a.m., Central Time, on the date of any payment by Agent under a Letter of Credit (each such date, an “**Honor Date**”), Borrower shall reimburse Agent in an amount equal to the amount of such drawing. If Borrower fails to so reimburse Agent by such time, Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the “**Unreimbursed Amount**”), and the amount of such Lender’s Pro Rata Share thereof. In such event, Borrower shall be deemed to have requested a Borrowing of Base Rate Loans to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in **Section 2.02** for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Aggregate Commitments and the conditions set out in **Section 4.02** (other than the delivery of a Revolving Loan Notice). Any notice given by Agent pursuant to this **Section 2.03(c)(i)** may be given by telephone if immediately confirmed in writing; *provided that* the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender (including Agent in its capacity as a Lender) shall upon any notice pursuant to **Section 2.03(c)(i)** make funds available to Agent at Agent's Office in an amount equal to its Pro Rata Share of the Unreimbursed Amount not later than 1:00 p.m., Central Time, on the Business Day specified in such notice by Agent, whereupon, subject to the provisions of **Section 2.03(c)(iii)**, each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to Borrower in such amount.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Borrowing of Base Rate Loans because the conditions set out in **Section 4.02** cannot be satisfied or for any other reason, Borrower shall be deemed to have incurred from Agent an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each Lender's payment to Agent pursuant to **Section 2.03(c)(ii)** shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this **Section 2.03**.

(iv) Until each Lender funds its Revolving Loan or L/C Advance pursuant to this **Section 2.03(c)** to reimburse Agent for any amount drawn under any Letter of Credit, interest in respect of such Lender's Pro Rata Share of such amount shall be solely for the account of Agent.

(v) Each Lender's obligation to make Revolving Loans or L/C Advances to reimburse Agent for amounts drawn under Letters of Credit, as contemplated by this **Section 2.03(c)**, shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against Agent, Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default; or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing. No such making of an L/C Advance shall relieve or otherwise impair the obligation of Borrower to reimburse Agent for the amount of any payment made by Agent under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to Agent any amount required to be paid by such Lender pursuant to the foregoing provisions of this **Section 2.03(c)** by the time specified in **Section 2.03(c)(ii)**, Agent shall be entitled to recover from such Lender, on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to Agent at a rate per annum equal to the Federal Funds Rate from time to time in effect. A certificate of Agent submitted to any Lender with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after Agent has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with **Section 2.03(c)**, if Agent receives any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from Borrower or otherwise, including proceeds of Cash Collateral applied thereto by Agent), Agent will distribute to such Lender its Pro Rata Share thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by Agent.

(ii) If any payment received by Agent pursuant to *Section 2.03(c)(i)* is required to be returned under any of the circumstances described in *Section 10.06* (including pursuant to any settlement entered into by Agent in its discretion, each Lender shall pay to Agent its Pro Rata Share thereof on demand of Agent) *plus* interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect.

(e) Obligations Absolute. The obligation of Borrower to reimburse Agent for each drawing under each Letter of Credit, and to repay each L/C Borrowing, shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) the existence of any claim, counterclaim, set-off, defense or other right that Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), Agent or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by Agent under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by Agent under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, Borrower.

Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with Borrower's instructions or other irregularity, Borrower will immediately notify Agent. Borrower shall be conclusively deemed to have waived any such claim against Agent and its correspondents unless such notice is given as aforesaid.

(f) Role of Agent. Each Lender and Borrower agree that, in paying any drawing under a Letter of Credit, Agent shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of Agent, any Agent-Related Person nor any of the respective correspondents, participants or assignees of Agent shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Letter of Credit Application. Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; *provided that*, that this assumption is not intended to, and shall not, preclude Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of Agent, any Agent-Related Person, nor any of the respective correspondents, participants or assignees of Agent, shall be liable or responsible for any of the matters described in clauses (i) through (v) of **Section 2.03(e)**; *provided that*, that anything in such clauses to the contrary notwithstanding, Borrower may have a claim against Agent, and Agent may be liable to Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by Borrower which Borrower proves were caused by Agent's willful misconduct or gross negligence or Agent's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing, Agent may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and Agent shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(g) Cash Collateral. Upon the request of Agent, (i) if Agent has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the Letter of Credit Expiration Date, any Letter of Credit may for any reason remain outstanding and partially or wholly undrawn, Borrower shall immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations (in an amount equal to such Outstanding Amount determined as of the date of such L/C Borrowing or the Letter of Credit Expiration Date, as the case may be). For purposes hereof, "**Cash Collateralize**" means to pledge and deposit with or deliver to Agent, for the benefit of Agent, as issuer of Letters of Credit and Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance reasonably satisfactory to Agent (which documents are hereby consented to by Lenders). Derivatives of such term have corresponding meanings. Borrower hereby grants to Agent, for the benefit of Agent, as issuer of Letters of Credit and Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at Bank of America.

(h) Applicability of ISP98 and UCP. Unless otherwise expressly agreed by Agent and Borrower when a Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), (i) the rules of the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance) shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce (the "**ICC**") at the time of issuance (including the ICC decision published by the Commission on Banking Technique and Practice on April 6, 1998 regarding the European single currency (euro)) shall apply to each commercial Letter of Credit.

(i) Letter of Credit Fees. Borrower shall pay to Agent for the account of each Lender in accordance with its Pro Rata Share (i) a Letter of Credit fee for each commercial Letter of Credit equal to the Applicable Rate times the daily maximum amount available to be drawn under such letter of credit (whether or not such maximum amount is then in effect under such Letter of Credit), and (ii) a letter of credit fee for each standby Letter of Credit equal to the Applicable Rate times the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). Such letter of credit fees shall be computed on a quarterly basis in arrears. Such letter of credit fees shall be due and payable on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. If there is any change in the Applicable Rate during any quarter, the actual daily amount of each standby Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(j) Conflict with Letter of Credit Application. In the event of any conflict between the terms hereof and the terms of any Letter of Credit Application, the terms hereof shall control.

2.04 Borrowing Base Determination.

(a) Subject to the applicable provisions of Article IV, the Borrowing Base in effect during the Initial Period is equal to \$18,000,000 and the Monthly Borrowing Base Reduction is equal to \$0.00. The Borrowing Base and the Monthly Borrowing Base Reduction for all periods subsequent to the Initial Period will be based upon the Reserve Reports provided by the Borrower relative to the Proved Reserves attributable to the Borrowing Base Oil and Gas Properties described on *Exhibit B*, which will be provided to Administrative Agent from time to time. The Borrowing Base and the Monthly Borrowing Base Reduction shall be re-determined from time to time pursuant to the provisions of this Section. The Borrowing Base in effect subsequent to the Initial Period shall automatically be reduced on the first day of each month by the Monthly Borrowing Base Reduction.

(b) On or before each April 1 and October 1 commencing April 1, 2005, until the Maturity Date, the Borrower shall furnish to the Administrative Agent a Reserve Report, which shall set out, as of each preceding January 1 or July 1, as applicable, the Proved Reserves attributable to the Borrowing Base Oil and Gas Properties. Each October Reserve Report may be prepared by the Borrower's own engineers and shall be certified by the President or other Responsible Officer of the Borrower. Each April Reserve Report shall be a complete report prepared by independent reservoir engineers acceptable to Administrative Agent relating to the Proved Reserves attributable to the Borrowing Base Oil and Gas Properties. Upon receipt of each such Reserve Report, the Administrative Agent shall make a determination of the Borrowing Base and the Monthly Borrowing Base Reduction which shall become effective upon approval by the Required Lenders and subsequent written notification from the Administrative Agent to the Borrower, and which, subject to the other provisions of this Agreement, shall be the Borrowing Base and the Monthly Borrowing Base Reduction until the effective date of the next redetermination of the Borrowing Base as set out in this *Section 2.04*. For any Oil and Gas Properties which are being acquired by Borrower to be included as Borrowing Base Oil and Gas Properties, Administrative Agent shall be satisfied in its sole discretion that Borrower is acquiring Marketable Title in addition to satisfying all other conditions relating to ownership and transfer of Borrowing Base Oil and Gas Properties. The Administrative Agent may, subject to approval of the Required Lenders, and must, upon the request of the Required Lenders, redetermine the Borrowing Base and the Monthly Borrowing Base Reduction at any time, and from time to time, which redetermination shall become effective upon approval by the Required Lenders and subsequent written notification from the Administrative Agent to the Borrower and which, subject to the other provisions of this Agreement, shall be the basis on which the Borrowing Base and the Monthly Borrowing Base Reduction shall thereafter be calculated until the effective date of the next redetermination of the Borrowing Base and the Monthly Borrowing Base Reduction, as set out in this Section; *provided that*, that the Required Lenders shall not request more than one (1) unscheduled Borrowing Base and the Monthly Borrowing Base Reduction redetermination for every scheduled redetermination.

(c) The Administrative Agent shall have the right to initiate no more than one (1) unscheduled redeterminations of the Borrowing Base between the scheduled redetermination dates described in **Section 2.04(b)** by requesting in writing that the Borrower provide an unscheduled Reserve Report regarding the Proved Reserves attributable to the Borrowing Base Oil and Gas Properties with an effective date not more than ninety days prior to Borrower's delivery of such Reserve Report to Administrative Agent, and such Reserve Report shall be delivered to Administrative Agent within thirty days after Borrower's receipt of such written request during the term of this Agreement. The Borrower shall have the right to request, by written notice to Administrative Agent, one unscheduled redetermination of the Borrowing Base and the Monthly Borrowing Base Reduction during any twelve-month consecutive period, subject to contemporaneously providing to Administrative Agent a Reserve Report with an effective date not more than ninety days prior to the date of such notice.

(d) If at any time the Required Lenders cannot otherwise agree on a redetermination of the Borrowing Base and the Monthly Borrowing Base Reduction, then the Borrowing Base, shall be set on the basis of the Administrative Agent's calculation of the "weighted arithmetic average" (as hereinafter calculated) of the Borrowing Base and the Monthly Borrowing Base Reduction, as determined by each individual Lender and communicated to Administrative Agent in writing. However, the amount of the Borrowing Base shall never be increased at any time without the unanimous consent of all the Lenders, notwithstanding anything else herein to the contrary. For purposes of this paragraph, the "weighted arithmetic average" of the Borrowing Base shall be determined by first multiplying the Borrowing Base proposed in writing to Administrative Agent by each Lender by such Lender's Pro Rata Share, and then adding the results of each such calculation, with the resultant sum being the Borrowing Base.

(e) The Borrowing Base shall represent the Required Lenders' approval (except where unanimous consent is required) of the Administrative Agent's determination, in accordance with their customary lending practices, of the maximum loan amount that may be supported by the Borrowing Base Oil and Gas Properties and the Borrower acknowledges, for purposes of this Agreement, such determination by the Administrative Agent as being the maximum loan amount that may be supported by the Borrowing Base Oil and Gas Properties. In making any redetermination of the Borrowing Base, the Administrative Agent and the Lenders shall apply the parameters and other credit factors consistently applied then generally being utilized by the Administrative Agent and each such Lender, respectively, for Borrowing Base redeterminations for other similarly situated borrowers. The Borrower, Lenders and the Administrative Agent acknowledge that (i) due to the uncertainties of the oil and gas extraction process, the Borrowing Base Oil and Gas Properties are not subject to evaluation with a high degree of accuracy and are subject to potential rapid deterioration in value, and (ii) for this reason and the difficulties and expenses involved in liquidating and collecting against the Borrowing Base Oil and Gas Properties, the Administrative Agent's determination of the maximum loan amount with respect to the Borrowing Base Oil and Gas Properties contains an equity cushion, which equity cushion is acknowledged by the Borrower as essential for the adequate protection of the Lenders.

(f) The Borrower may, from time to time upon written notice to the Administrative Agent, propose to add Oil and Gas Properties of the Borrower to the Borrowing Base Oil and Gas Properties. Any such proposal to add Oil and Gas Properties of the Borrower to the Borrowing Base Oil and Gas Properties shall be accompanied by a Reserve Report applicable to such properties that conforms to the requirements of **Section 2.04**, and evidence sufficient to establish that the Borrower has Marketable Title to such Oil and Gas Properties, and any such addition shall become effective at such time as: (a) the Administrative Agent, with the approval of the Lenders, has made a determination of the amount by which the Borrowing Base would be increased as the result of such addition and (b) the conditions set out in **Article IV** hereof, to the extent they are applicable to such additional Oil and Gas Properties of the Borrower, have been satisfied. In determining the increase in the Borrowing Base pursuant to this Section, the Administrative Agent and the Lenders shall apply the parameters and other credit factors set out in **Section 2.04**, above. Agent and Lenders hereby acknowledge and agree that the title is sufficient for the current Leases that have been subject to review by Agent or its counsel and no updated or endorsement will be required at any time for any production under the such Leases, unless Agent receives notice, or otherwise becomes aware of, any circumstances that would affect Borrower's representations and warranties with regard to title to any such Borrowing Base Oil and Gas Property. Notwithstanding the foregoing, Borrower hereby agrees to provide Agent, within 60 days of this Agreement, an updated title opinion of that certain Title Opinion dated January 27, 1997 prepared by Ottinger, Herbert & Sikes, LLP, as supplemented by that certain Supplemental Title Opinion dated January June 2, 1998 also prepared by Ottinger, Herbert & Sikes, LLP, each of which cover State Lease 340, West Cote Blanche Bay Fielding, with such update confirming Marketable Title of such property in the name of Borrower.

(g) At any time that Borrower proposes to increase the Borrowing Base by adding additional Oil and Gas Properties to the Borrowing Base Oil and Gas Properties pursuant to **Section 2.04(f)**, Borrower may also request that Lenders increase the amount of the Aggregate Commitments stated on **Schedule 2.01**. At any time that Borrower makes such a request it shall promptly provide Administrative Agent with such financial information as Administrative Agent may request to assist the Administrative Agent in evaluating such request. Following the receipt of such information from Borrower, the Administrative Agent shall, with the unanimous approval of the Lenders, subject to all internal approvals of each Lender, and in the normal course of its business, make a redetermination of the Aggregate Commitments, which shall become effective upon written notification from the Administrative Agent to Borrower of the new Aggregate Commitments based on the parameters and other credit factors set out in **Section 2.04(e)**, above.

2.05 Prepayments.

(a) Borrower may, upon notice to Agent, at any time or from time to time voluntarily prepay Revolving Loans in whole or in part without premium or penalty; *provided that* (i) such notice must be received by Agent not later than 11:00 a.m., Central Time, (A) five Business Days prior to any date of prepayment of Eurodollar Rate Loans, and (B) on the date of prepayment of Base Rate Loans; (ii) any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$500,000 or a greater integral multiple of \$100,000; and (iii) any prepayment of Base Rate Loans shall be in a principal amount of \$100,000 or a greater integral multiple of \$100,000, or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Revolving Loans to be prepaid. Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Pro Rata Share of such prepayment. If such notice is given by Borrower, Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest thereon, together with any additional amounts required pursuant to **Section 3.05**. Each such prepayment shall be applied to the Revolving Loans of Lenders in accordance with their respective Pro Rata Shares.

(b) If for any reason (including a redetermination of the Borrowing Base) the Total Outstandings at any time exceed the *lesser* of Aggregate Commitments then in effect and the Borrowing Base then in effect, Borrower shall immediately (and in any event within three (3) Business Days) (i) prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess or (ii) add to the Borrowing Base Oil and Gas Properties additional Oil and Gas Properties of the Borrower sufficient in value, as determined pursuant to *Section 2.04*, to increase the Borrowing Base to equal or exceed the Total Outstandings.

(c) On each date on which Borrower sells any of its Borrowing Base Oil and Gas Properties, the Borrowing Base shall be automatically reduced to the loan value (determined in accordance with the procedures for determining the Borrowing Base) of the remaining Borrowing Base Oil and Gas Properties, and the Borrower shall be required immediately to make the prepayment, if any, required pursuant to *Section 2.05(b)*.

2.06 Repayment of Loans.

Borrower shall repay to Lenders on the Maturity Date the aggregate principal amount of Revolving Loans outstanding on such date, together with all accrued and unpaid interest and fees.

2.07 Interest.

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Eurodollar Rate for such Interest Period *plus* the Applicable Rate; (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate *plus* the Applicable Rate.

(b) If any amount payable by Borrower under any Loan Document is not paid when due and is not cured within any applicable cure period, whether at stated maturity by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Furthermore, while any Event of Default exists (or after acceleration), Borrower shall pay interest on the principal amount of all outstanding Obligations at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.08 Fees.

In addition to certain fees described in subsection (i) of *Section 2.03*, Borrower shall pay to Agent for the account of each Lender in accordance with its Pro Rata Share, a commitment fee equal to the Applicable Rate times the actual daily amount by which the applicable Borrowing Base exceeds the sum of (a) the Outstanding Amount of Revolving Loans and (b) the Outstanding Amount of L/C Obligations. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more conditions in *Article IV* is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the Maturity Date. The commitment fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Rate during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect. Borrower acknowledges that other loans outstanding with the Agent from time to time and not subject to this Agreement are not considered Revolving Loans in calculating the commitment fee.

2.09 Computation of Interest and Fees.

All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's prime rate shall be made on the basis of a year of 365 or 366 days, as the case may be and the actual number of days elapsed. All other computations of interest and all fees shall be made on the basis of a year of 360 days and the actual number of days elapsed, (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365 day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, *provided that* any Loan that is repaid on the same day on which it is made shall, subject to *Section 2.11(a)*, bear interest for one day.

2.10 Evidence of Debt.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by Agent in the ordinary course of business. The accounts or records maintained by Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by Lenders to Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of Agent in respect of such matters, the accounts and records of Agent shall control in the absence of manifest error. Upon the request of any Lender made through Agent, Borrower shall execute and deliver to such Lender (through Agent) a Note, which shall evidence, such Lender's Loans, in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of the applicable Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit. In the event of any conflict between the accounts and records maintained by Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of Agent shall control in the absence of manifest error.

2.11 Payments Generally.

(a) (i) All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall be made to Agent, for the account of the respective Lenders to which such payment is owed, at Agent's Office in Dollars and in immediately available funds not later than 12:00 noon, Central Time, on the date specified herein. Agent will promptly distribute to each Lender its Pro Rata Share (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by Agent after 12:00 noon, Central Time, shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue.

(ii) On each date when the payment of any principal, interest or fees are due hereunder or under any Note, Borrower agrees to maintain on deposit in an ordinary checking account maintained by Borrower with Agent (as such account shall be designated by Borrower in a written notice to Agent from time to time, the "**Borrower Account**") an amount sufficient to pay such principal, interest or fees in full on such date. Borrower hereby authorizes Agent, upon notice to Borrower (which notice may be by telephone) (A) to deduct automatically all principal, interest or fees when due hereunder or under any Note from Borrower Account, and (B) if and to the extent any payment of principal, interest or fees under this Agreement or any Note is not made when due to automatically deduct any such amount from any or all of the accounts of Borrower maintained at Agent. Agent agrees to provide written notice to Borrower of any automatic deduction made pursuant to this **Section 2.II(a)(ii)** showing in reasonable detail the amounts of such deduction. Lenders agree to reimburse Borrower based on their Pro Rata Share for any amounts deducted from such accounts in excess of amounts due hereunder and under any other Loan Documents.

(b) If any payment to be made by Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(c) Unless Borrower or any Lender has notified Agent, prior to the date any payment is required to be made by it to Agent hereunder, that Borrower or such Lender, as the case may be, will not make such payment, Agent may assume that Borrower or such Lender, as the case may be, has timely made such payment and may (but shall not be so required to), in reliance thereon, make available a corresponding amount to the Person entitled thereto. If and to the extent that such payment was not in fact made to Agent in immediately available funds, then:

(i) if Borrower failed to make such payment, each Lender shall forthwith on demand repay to Agent the portion of such assumed payment that was made available to such Lender in immediately available funds, together with interest thereon in respect of each day from and including the date such amount was made available by Agent to such Lender to the date such amount is repaid to Agent in immediately available funds, at the Federal Funds Rate from time to time in effect; and

(ii) if any Lender failed to make such payment, such Lender shall forthwith on demand pay to Agent the amount thereof in immediately available funds, together with interest thereon for the period from the date such amount was made available by Agent to Borrower to the date such amount is recovered by Agent (the "**Compensation Period**") at a rate per annum equal to the Federal Funds Rate from time to time in effect. If such Lender pays such amount to Agent, then such amount shall constitute such Lender's Revolving Loan included in the applicable Borrowing. If such Lender does not pay such amount forthwith upon Agent's demand therefor, Agent may make a demand therefor upon Borrower, and Borrower shall pay such amount to Agent, together with interest thereon for the Compensation Period at a rate per annum equal to the rate of interest applicable to the applicable Borrowing. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Commitment or to prejudice any rights which Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

A notice of Agent to any Lender or Borrower with respect to any amount owing under this subsection (c) shall be conclusive, absent manifest error.

(d) If any Lender makes available to Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this *Article II*, and such funds are not made available to Borrower by Agent because the conditions to the applicable Credit Extension set out in *Article IV* are not satisfied or waived in accordance with the terms hereof, Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(e) The obligations of Lenders hereunder to make Revolving Loans and to fund participations in Letters of Credit are several and not joint. The failure of any Lender to make any Revolving Loan or to fund any such participation on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Revolving Loan or purchase its participation.

(f) Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.12 Sharing of Payments.

If, other than as expressly provided elsewhere herein, any Lender shall obtain on account of Revolving Loans made by it, or the participations in L/C Obligations held by it, any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share contemplated hereunder) thereof, such Lender shall immediately (a) notify Agent of such fact, and (b) purchase from the other Lenders such participations in the Revolving Loans made by them and/or such subparticipations in the participations in L/C Obligations held by them, as the case may be, as shall be necessary to cause such purchasing Lender to share the excess payment in respect of such Revolving Loans or such participations, as the case may be, pro rata with each of them; *provided that* if all or any portion of such excess payment is thereafter recovered from the purchasing Lender under any of the circumstances described in *Section 10.06* (including pursuant to any settlement entered into by the purchasing Lender in its discretion), such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered, without further interest thereon. Borrower agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to *Section 10.09*) with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation. Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify Lenders following any such purchases or repayments. Each Lender that purchases a participation pursuant to this Section shall from and after such purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Obligations purchased.

ARTICLE III

TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

(a) Any and all payments by Borrower to or for the account of Agent or any Lender under any Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of Agent and each Lender, taxes imposed on or measured by its overall net income, and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which Agent or such Lender, as the case may be, is organized or maintains a lending office (all such non-excluded taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and liabilities being hereinafter referred to as "**Taxes**"). If Borrower shall be required by any Laws to deduct any Taxes from or in respect of any sum payable under any Loan Document to Agent or any Lender, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section), each of Agent and such Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions, (iii) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable Laws, and (iv) within thirty days after the date of such payment, Borrower shall furnish to Agent (which shall forward the same to such Lender) the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, Borrower agrees to pay, subject to applicable laws, any and all present or future stamp, court or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under any Loan Document or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, any Loan Document (hereinafter referred to as "**Other Taxes**").

(c) If Borrower shall be required to deduct or pay any Taxes or Other Taxes from or in respect of any sum payable under any Loan Document to Agent or any Lender, Borrower shall also pay to Agent or to such Lender, at the time interest is paid, such additional amount that Agent or such Lender specifies is necessary to preserve the after-tax yield (after factoring in all taxes, including taxes imposed on or measured by net income) that Agent or such Lender would have received if such Taxes or Other Taxes had not been imposed.

(d) Borrower agrees to indemnify Agent and each Lender for (i) the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section) paid by Agent and such Lender, (ii) amounts payable under **Section 3.01(c)** and (iii) any liability (including additions to tax, penalties, interest and expenses) arising therefrom or with respect thereto, in each case whether or not such Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Payment under this subsection (d) shall be made within thirty days after the date Lender or Agent makes a demand therefor.

3.02 Illegality.

If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Eurodollar Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, then, on notice thereof by such Lender to Borrower through Agent, any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate Loans shall be suspended until such Lender notifies Agent and Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, Borrower shall, upon demand from such Lender (with a copy to Agent), prepay or, if applicable, convert all Eurodollar Rate Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans. Upon any such prepayment or conversion, Borrower shall also pay accrued interest on the amount so prepaid or converted and all amounts due under **Section 3.05** in accordance with the terms thereof due to such prepayment or conversion. Each Lender agrees to designate a different Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender.

3.03 Inability to Determine Rates.

If Agent determines in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof for any reason that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Loan, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to Lenders of funding such Eurodollar Rate Loan, Agent will promptly so notify Borrower and all Lenders. Thereafter, the obligation of Lenders to make or maintain Eurodollar Rate Loans shall be suspended until Agent revokes such notice. Upon receipt of such notice, Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

3.04 Increased Cost and Reduced Return; Capital Adequacy; Reserves on Eurodollar Rate Loans.

(a) If any Lender determines that as a result of the introduction of or any change in or in the interpretation of any Law, or such Lender's compliance therewith, there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Loans or (as the case may be) issuing or participating in Letters of Credit, or a reduction in the amount received or receivable by such Lender in connection with any of the foregoing (excluding for purposes of this subsection (a) any such increased costs or reduction in amount resulting from (i) Taxes or Other Taxes (as to which **Section 3.01** shall govern), (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or any foreign jurisdiction or any political subdivision of either thereof under the Laws of which such Lender is organized or has its Lending Office, and (iii) reserve requirements utilized, as to Eurodollar Rate Loans, in the determination of the Eurodollar Rate), then from time to time upon demand of such Lender (with a copy of such demand to Agent), Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender determines that the introduction of any Law regarding capital adequacy or any change therein or in the interpretation thereof, or compliance by such Lender (or its Lending Office) therewith, has the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder (taking into consideration its policies with respect to capital adequacy and such Lender's desired return on capital), then from time to time upon demand of such Lender (with a copy of such demand to Agent), Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such reduction.

3.05 Funding Losses.

Upon demand of any Lender (with a copy to Agent) from time to time, Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or

(b) any failure by Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by Borrower;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by Borrower to Lenders under this *Section 3.05*, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Base Rate used in determining the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Revolving Loan was in fact so funded.

3.06 Matters Applicable to all Requests for Compensation.

A certificate of Agent or any Lender claiming compensation under this *Article III* and setting forth the calculation of the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, Agent or such Lender may use any reasonable averaging and attribution methods.

3.07 Survival.

All of Borrower's obligations under this *Article III* shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

ARTICLE IV

CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

4.01 Conditions of Initial Credit Extension.

The obligation of each Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent:

(a) Agent's receipt of the following, each of which shall be originals or facsimiles (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance reasonably satisfactory to Agent and its legal counsel:

(i) executed counterparts of this Agreement, the Guaranty and all Collateral Documents covering all assets of Borrower, sufficient in number for distribution to Agent, each Lender and Borrower;

(ii) a Note executed by Borrower in favor of each Lender requesting a Note;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certificates as Agent may reasonably require to evidence that each Loan Party is duly organized or formed and that Borrower is, validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

(v) a favorable opinion of counsel to the Loan Parties acceptable to Agent, addressed to Agent and each Lender, as to such matters concerning the Loan Parties and the Loan Documents;

(vi) a certificate of a Responsible Officer of each Loan Party either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(vii) a certificate signed by a Responsible Officer of Borrower certifying (A) that the conditions specified in *Sections 4.02(a)* and *(b)* have been satisfied, and (B) that there has been no event or circumstance since the date of the Initial Financial Statements that had or could reasonably be expected to have a Material Adverse Effect;

(b) Agent shall have received evidence that all insurance required to be maintained pursuant to the Loan Documents has been obtained and is in effect;

(c) Agent shall have received evidence, satisfactory to Agent in its sole discretion, that as of the execution, delivery, filing and recording of the Collateral Documents, Agent shall hold a perfected, first priority Lien in all Collateral for the Loan, except to the Collateral subject to the Texaco Lien which will be in an inferior and subordinate position to such Lien;

(d) Agent shall have received the results of a Uniform Commercial Code search showing all financing statements and other documents or instruments on file against the Borrower in the Offices of the Secretary of State of the State of Delaware, such search to be as of a date no more than ten days prior to the date of Closing; and

(e) The Administrative Agent and the Lenders shall have been, and shall continue to be, satisfied, in their good faith discretion, that the Borrower holds Marketable Title to the Borrowing Base Oil and Gas Properties, and that such ownership includes record title to an undivided net revenue interest in the production from each such Borrowing Base Oil and Gas Property that is not less than, as well as an undivided working interest in each Borrowing Base Oil and Gas Property that is not greater than (unless there is a corresponding increase in the net revenue interest attributed to such party therein), the net revenue interest therein and the working interest therein, respectively, attributed to the Borrower on *Exhibit B*, subject to the limitations and qualifications on such exhibit (or attributed to Borrower in any Collateral Document applicable to any Oil and Gas Property that is added to the Borrowing Base Oil and Gas Properties in connection with any subsequent funding after the Closing Date); *provided that*, for purposes of closing, Administrative Agent and Lenders intend to have confirmed, to their satisfaction, the status of Borrower's title to Borrowing Base Oil and Gas Properties comprising a minimum of seventy-five percent (75%) of the PW9 (based on the most recent Borrowing Base evaluation by the Administrative Agent) of the Proved Reserves that are attributable to those Borrowing Base Oil and Gas Properties; such determination by Administrative Agent and the Lenders, however, shall not relieve Borrower from the ongoing obligation to comply with all of its representations, warranties and covenants herein and in the Collateral Documents regarding Borrower's title to all Borrowing Base Oil and Gas Properties.

(f) Any fees required to be paid on or before the Closing Date shall have been paid.

(g) Borrower shall have paid all Attorney Costs of Agent to the extent invoiced prior to or on the Closing Date, *plus* such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between Borrower and Agent).

(h) Agent shall have received, in form and substance reasonably satisfactory to it, such other assurances, certificates, documents or consents related to the foregoing as Agent or the Required Lenders reasonably may require.

(i) The Closing Date shall have occurred on or before March 18, 2005.

(j) Agent shall have received such other assurances, certificates, documents, consents, evidence of perfection of all Liens securing the Obligations or opinions as Agent or the Required Lenders reasonably may require.

4.02 Conditions to all Credit Extensions and Conversions and Continuations.

The obligation of each Lender to honor any Request for Credit Extension is subject to the following conditions precedent:

(a) The representations and warranties of Borrower and each other Loan Party contained in *Article V* or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith, shall be true and correct in all material respects on and as of the date of such Credit Extension, conversion or continuation, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except that for purposes of this *Section 4.02*, the representations and warranties contained in subsections (a) and (b) of *Section 5.05* shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of *Section 6.01*.

(b) No Default shall exist, or would result from such proposed Credit Extension, conversion or continuation.

(c) Agent shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension submitted by Borrower shall be deemed to be a representation and warranty that the conditions specified in *Sections 4.02(a)* and *(b)* have been satisfied on and as of the date of the applicable Credit Extension.

4.03 Conditions to Credit Extensions Relating to Additional Borrowing Base Oil and Gas Properties.

The obligation of each Lender to honor any Request for Credit Extension that would be secured by Borrowing Base Oil and Gas Properties added subsequent to the Closing Date is subject to the following conditions precedent: As of the time of funding any additional advances to Borrower that have been approved by the Lenders pursuant to *Section 2.01* and are made in conjunction with the addition of Oil and Gas Properties owned by the Borrower to the Borrowing Base Oil and Gas Properties, the Borrower shall have duly delivered to the Agent: (i) the Collateral Documents that are necessary or appropriate, in the reasonable opinion of the Agent, relating to such additional Oil and Properties, (ii) Transfer Order Letters applicable to the production of oil and gas from the such additional Borrowing Base Oil and Gas Properties and (iii) evidence, reasonably satisfactory to Agent in its sole discretion, that Borrower and the Borrowing Base Oil and Gas Properties will be in material compliance with all Environmental Laws. Furthermore, Agent shall have completed its title due diligence confirming that Borrower has satisfactory title to Leases representing seventy-five percent (75%) of the PW9 of Borrower's Proved Reserves.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Agent and Lenders that:

5.01 Existence, Qualification and Power; Compliance with Laws.

Each Loan Party (a) is duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own its assets and carry on its business and (ii) execute, deliver, and perform its obligations under the Loan Documents to which it is a party, and (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or licenses, except in each case referred to in clause (b)(i) or (c), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.02 Authorization; No Contravention.

The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, (i) any Contractual Obligation to which such Person is a party or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law.

5.03 Governmental Authorization.

No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document.

5.04 Binding Effect.

This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, subject to bankruptcy, insolvency and general principles of equity.

5.05 Financial Statements; No Material Adverse Effect.

(a) The Initial Financial Statements and the audited Current Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited Current Financial Statements of Borrower and its Subsidiaries (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since the date of the Initial Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

5.06 Litigation.

Except as specifically disclosed in *Schedule 5.06* hereto, there are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of Borrower investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against Borrower or any of its Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

5.07 No Default.

Neither Borrower nor any Subsidiary is in default under or with respect to any Contractual Obligation that could either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 Title; Liens; Priority of Liens.

Each of Borrower, each Loan Party, and each other Subsidiary (a) has good record and Marketable Title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (b) own the personal property granted by it as Collateral under the Collateral Documents, free and clear of any and all Liens in favor of third parties other than those permitted under *Section 7.01*, and (c) have Marketable Title to the working and net revenue interests in the Borrowing Base Oil and Gas Properties as set out on *Exhibit B*. Except as set out in the instruments and agreements, if any, more particularly described in *Exhibit B* hereto, all such shares of production which the Borrower is entitled to receive, and shares of expenses which the Borrower is obligated to bear, are not subject to change, except for changes attributable to future elections by the Borrower not to participate in operations proposed pursuant to customary forms of applicable joint operating agreements, and except for changes attributable to changes in participating areas under any federal units wherein participating areas may be formed, enlarged or contracted in accordance with the rules and regulations of the applicable Governmental Authority. Upon the proper filing of UCC financing statements in the proper locations, the proper recording of mortgages in the proper office, and the taking of the other actions required by the Required Lenders, the Liens granted in property pursuant to the Collateral Documents will constitute valid and enforceable first, prior and perfected Liens on the Collateral in favor of Agent, for the ratable benefit of Agent and Lenders, except to the Collateral subject to the Texaco Lien which will be in an inferior and subordinate position to such Lien. The property of Borrower and its Subsidiaries is subject to no Liens, other than Permitted Liens. All such shares of production which the Borrower is entitled to receive, and shares of expenses which the Borrower is obligated to bear, are not subject to change, except for changes attributable to future elections by the Borrower not to participate in operations proposed pursuant to customary forms of applicable joint operating agreements, and except for changes attributable to changes in participating areas under any federal units wherein participating areas may be formed, enlarged or contracted in accordance with the rules and regulations of the applicable governmental authority.

5.09 Environmental Compliance.

Borrower and its Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof Borrower has reasonably concluded that, except as specifically disclosed in *Schedule 5.09* hereto, such Environmental Laws and claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.10 Insurance.

The properties of Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of Borrower, in such amounts, after giving effect to any self-insurance compatible with the following standards, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where Borrower or the applicable Subsidiary operates.

5.11 Taxes.

Borrower and its Subsidiaries have filed all federal, state and other material tax returns and reports required to be filed, and have paid all federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against Borrower or any Subsidiary that would, if made, have a Material Adverse Effect.

5.12 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.13 Subsidiaries.

As of the Closing Date, Borrower has no Subsidiaries other than those specifically disclosed in *Schedule 5.13*.

5.14 Disclosure.

Borrower has disclosed to Agent and Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party in connection with any Loan Document to Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

5.15 Compliance with Laws.

Borrower, each Subsidiary and each other Loan Party is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.16 Investment Company Act; Public Utility Holding Company Act.

None of Borrower, any Person Controlling Borrower, or any Subsidiary (a) is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, or (b) is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

5.17 Tax Shelter Regulations.

Borrower does not intend to treat the Loans and/or Letters of Credit and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4). In the event Borrower determines to take any action inconsistent with such intention, it will promptly notify Agent thereof. Accordingly, if Borrower so notifies Agent, Borrower acknowledges that one or more of the Lenders may treat its Revolving Loans and/or Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and such Lender or Lenders, as applicable, will maintain the lists and other records required by such Treasury Regulation.

5.18 Rights in Collateral; Priority of Liens

Borrower and each other Loan Party own the property granted by it as Collateral under the Collateral Documents, free and clear of any and all Liens in favor of third parties, other than Permitted Liens. Upon the proper filing of UCC financing statements in the proper locations, and the taking of the other actions required by the Required Lenders, the Liens granted pursuant to the Collateral Documents will constitute valid and enforceable first, prior and perfected Liens on the Collateral in favor of Agent, for the ratable benefit of Agent and Lenders, except to the Collateral subject to the Texaco Lien which will be in an inferior and subordinate position to such Lien.

5.19 Oil and Gas Leases.

The Leases which constitute any part of the Borrowing Base Oil and Gas Properties are in full force and effect as to those portions thereof that comprise the Borrowing Base Oil and Gas Properties.

5.20 Oil and Gas Contracts.

Except: (a) as set out on *Schedule 5.20* attached hereto, and (b) as may subsequently occur and be disclosed by Borrower in the next Compliance Certificate delivered by Borrower after such occurrence, the Borrower is not obligated, by virtue of any prepayment under any contract providing for the sale by the Borrower of Hydrocarbons which contains a "take-or-pay" clause or under any similar prepayment agreement or arrangement, including, "gas balancing agreements", to deliver a material amount of Hydrocarbons produced from the Borrowing Base Oil and Gas Properties at some future time without then or thereafter receiving full payment therefor (i.e., in the case of oil, not in excess of sixty days, and in the case of gas, not in excess of ninety days). Except: (a) as set out on *Schedule 5.20* attached hereto, and (b) as may subsequently occur and be disclosed by Borrower in the next Compliance Certificate delivered by Borrower after such occurrence, the Borrowing Base Oil and Gas Properties are not subject to any contractual, or other arrangement for the sale of crude oil which cannot be canceled on ninety days' (or less) notice, unless the price provided for therein is equal to or greater than the prevailing market price in the vicinity. To the best of the Borrower's knowledge, the Borrowing Base Oil and Gas Properties are not subject to any regulatory refund obligation and no facts exist which might cause the same to be imposed.

5.21 Producing Wells.

All producing wells that constitute part of the Borrowing Base Oil and Gas Properties: (a) have been, during all times that any such wells were operated by Borrower or its Affiliates, and (b) to the knowledge of the Borrower, have been at all other times; drilled, operated and produced in conformity with all applicable Laws, rules, regulations and orders of all regulatory authorities having jurisdiction, are subject to no penalties on account of past production, and are bottomed under and are producing from, and the well bores are wholly within, the Borrowing Base Oil and Gas Properties, or on Oil and Gas Properties which have been pooled, unitized or communitized with the Borrowing Base Oil and Gas Properties, except to the extent that any noncompliance with the representations set out in this Section would not have a Material Adverse Effect.

5.22 Purchasers of Production.

The names and business addresses of the Persons who: (a) have purchased any of the Borrower's interests in oil and gas produced from the Borrowing Base Oil and Gas Properties during the six calendar months preceding the Closing Date, and (b) are considered by Borrower to be potential future purchasers of Borrower's interest in oil and gas produced from the Borrowing Base Oil and Gas Properties, are identified on *Schedule 5.22* attached hereto.

ARTICLE VI

AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, Borrower shall, and shall (except in the case of the covenants set out in *Sections 6.01, 6.02, 6.03 and 6.11*) cause each Subsidiary to:

6.01 Financial Statements.

Deliver to Agent a sufficient number of copies for delivery by Agent to each Lender, of the following, in form and detail reasonably satisfactory to Agent and the Required Lenders:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of Borrower, a consolidated balance sheet of Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing reasonably acceptable to the Required Lenders (provided that with regard to the calendar year 2004, such financial statements need not be prepared by nationally recognized independent certified public accountants), which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit;

(b) as soon as available, but in any event within 45 days after the end of each fiscal quarters of each fiscal year of Borrower, a consolidated balance sheet of Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of Borrower as fairly presenting the financial condition, results of operations, shareholders equity and cash flows of Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

6.02 Certificates; Other Information.

Deliver to Agent a sufficient number of copies for delivery to each Lender, of the following, in form and detail reasonably satisfactory to Agent and the Required Lenders:

(a) concurrently with the delivery of the financial statements referred to in *Section 6.01(a)*, a certificate of its independent certified public accountants certifying such financial statements and stating that in making the examination necessary therefor no knowledge was obtained of any Default or, if any such Default shall exist, stating the nature and status of such event;

(b) concurrently with the delivery of the financial statements referred to in *Sections 6.01(a)* and *(b)*, a duly completed Compliance Certificate signed by a Responsible Officer of Borrower;

(c) to the extent an Event of Default has occurred and is continuing, promptly after any request by Agent or any Lender, copies of any audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of Borrower by independent accountants in connection with the accounts or books of Borrower or any Subsidiary, or any audit of any of them;

(d) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of Borrower, and copies of all annual, regular, periodic and special reports and registration statements which Borrower may file or be required to file with the Securities and Exchange Commission under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to Agent pursuant hereto;

(e) Promptly after Borrower has notified Agent of any intention by Borrower to treat the Loans and/or Letters of Credit and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4), a duly completed copy of IRS Form 8886 or any successor form; and

(f) Commencing on March 31, 2005 and continuing thereafter at the end of each fiscal quarter thereafter, a report of Borrower's commodity hedge position for such 6-month period.

6.03 Notices.

Promptly notify Agent and each Lender:

(a) of the occurrence of any Default;

(b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of Borrower or any Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between Borrower or any Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting Borrower or any Subsidiary, including pursuant to any applicable Environmental Laws;

(c) the occurrence of any ERISA Event; and

(d) of any material change in accounting policies or financial reporting practices by Borrower or any Subsidiary.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of Borrower setting forth details of the occurrence referred to therein and stating what action Borrower has taken and proposes to take with respect thereto. Each notice pursuant to *Section 6.03(a)* shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

6.04 Payment of Obligations.

Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by Borrower or such Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by Borrower or such Subsidiary; and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

6.05 Preservation of Existence, Etc.

(a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.06 Maintenance of Properties.

(a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; (c) use the standard of care typical in the industry in the operation and maintenance of its facilities; and (d) cause its tangible property relating to the Borrowing Base Oil and Gas Properties to be maintained in good repair and condition, cause all necessary replacements thereof to be made, and cause such property to be operated in a good and workmanlike manner in accordance with standard industry practices, unless the failure to do so would not have a Material Adverse Effect.

6.07 Maintenance of Insurance.

Maintain with financially sound and reputable insurance companies not Affiliates of Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts (after giving effect to any self-insurance compatible with the following standards) as are customarily carried under similar circumstances by such other Persons and providing for not less than thirty days' prior notice to Agent of termination, lapse or cancellation of such insurance *provided that* such insurance coverage shall include insurance for business interruption of Borrower with terms reasonably satisfactory to Agent.

6.08 Compliance with Laws.

Comply in all material respects with the requirements of all Laws, and all orders, writs, injunctions and decrees applicable to it or to its business (including continuing its qualification with the Minerals Management Service) or property (including the Borrowing Base Oil and Gas Properties), except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 Books and Records.

Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of Borrower or such Subsidiary, as the case may be, and maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over Borrower or such Subsidiary, as the case may be. Borrower shall maintain at all times books and records pertaining to the Collateral in such detail, form and scope as Agent or any Lender shall reasonably require.

6.10 Inspection Rights.

Permit representatives and independent contractors of Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, and make all financial records and other records relating to the Borrowing Base Oil & Gas Properties available for inspection, all at the expense of Agent on behalf of the Lenders (except that, during the continuance of a Event of Default, all such inspections shall be at Borrower's expense) and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to Borrower; *provided that*, such actions shall not unreasonably interfere with the business or operations of Borrower. When a Default exists, Agent or any Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of Borrower at any time during normal business hours and upon reasonable advance notice.

6.11 Use of Proceeds.

Use the proceeds of the Credit Extensions for capital expenditures, general corporate purposes not in contravention of any Law or of any Loan Document, and development and exploration of Oil and Gas Properties.

6.12 Accounts.

Borrower shall maintain its primary deposit accounts, cash management and collection and lockbox services with Administrative Agent.

6.13 Additional Guarantors.

Notify Agent at the time that any Person becomes a Subsidiary, and promptly thereafter (and in any event within thirty days), cause such Person to (a) become a Guarantor by executing and delivering Agent a counterpart of the Guaranty or such other document as Agent shall deem appropriate for such purpose, and (b) deliver to Agent documents of the types referred to in clauses (iii) and (iv) of **Section 4.01(a)** and favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to in clause (a)), all in form, content and scope reasonably satisfactory to Agent.

6.14 Collateral Records.

Borrower agrees to execute and deliver promptly, and to cause each other Loan Party to execute and deliver promptly, to Agent, from time to time, solely for Agent's convenience in maintaining a record of the Collateral, such written statements and schedules as Agent may reasonably require designating, identifying or describing the Collateral. The failure by Borrower or any other Loan Party, however, to promptly give Agent such statements or schedules shall not affect, diminish, modify or otherwise limit the Liens on the Collateral granted pursuant to the Collateral Documents.

6.15 Security Interests.

Borrower shall, and shall cause each other Loan Party to, defend the Collateral against all claims and demands of all Persons at any time claiming the same or any interest therein. Borrower shall, and shall cause each other Loan Party to, comply with the requirements of all state and federal laws in order to grant to Agent and Lenders valid and perfected first priority security interests in the Collateral, except to the Collateral subject to the Texaco Lien which will be in an inferior and subordinate position to such Lien, with perfection, in the case of any investment property or deposit account, being effected by giving Agent control of such investment property or deposit account, rather than by the filing of a UCC financing statement with respect to such investment property. Agent is hereby authorized by Borrower to file any UCC financing statements covering the Collateral whether or not Borrower's signatures appear thereon. Borrower shall, and shall cause each other Loan Party, to do whatever Agent may reasonably request, from time to time, to effect the purposes of this Agreement and the other Loan Documents, including filing notices of liens, UCC financing statements, fixture filings and amendments, renewals and continuations thereof; cooperating with Agent's representatives; keeping stock records; obtaining waivers from landlords and mortgagees and from warehousemen and their landlords and mortgages; and, paying claims which might, if unpaid, become a Lien on the Collateral.

6.16 Title Defects.

Cure any title defects to the Borrowing Base Oil and Gas Properties material in value, in the reasonable opinion of the Administrative Agent, within ninety days after receipt of written notice thereof from Administrative Agent and, in the event any title defects are not cured in a timely manner, pay all related costs and fees reasonably incurred by the Administrative Agent for the account of the Lenders to do so; provided the Borrower may remove any of its Oil and Gas Properties from the Borrowing Base Oil and Gas Properties so long as the Indebtedness evidenced by the Notes is less than or equal to the Borrowing Base (determined by the Lenders in accordance with **Section 2.04** exclusive of such Oil and Gas Properties). In the event that the Borrower is unable to cure a title defect, Borrower shall have the ability to substitute additional collateral ("**Collateral**"); *provided that* Borrower's ability to substitute such Collateral is subject to the requirements described in **Section 2.04**. Furthermore, after identification and prior to the cure of any such title defect, the Administrative Agent may, subject to approval of the Required Lenders, and must, upon the request of the Required Lenders, redetermine the Borrowing Base to reflect the amount of such title defect.

6.17 Maintenance of Tangible Property.

Maintain all of its tangible property relating to the Borrowing Base Oil and Gas Properties in good repair and condition and make all necessary replacements thereof and operate such property in a good and workmanlike manner in accordance with standard industry practices, unless the failure to do so would not have a Material Adverse Effect on the Borrower or the value of any Borrowing Base Oil and Gas Property.

6.18 Inspection of Tangible Assets/Right of Audit.

Permit any authorized representative of the Administrative Agent or any Lender to visit and inspect (at the risk of the Administrative Agent, such Lender and/or such representative) the Borrowing Base Oil and Gas Properties, and/or to audit the books and records of the Borrower related to the Borrowing Base Oil and Gas Properties during normal business hours, at the expense of the Administrative Agent or such Lender and during normal business hours following reasonable advance notice; provided, that any actions shall not unreasonably interfere with the business or operations of Borrower.

6.19 Leases.

Keep and continue all material Leases comprising the Borrowing Base Oil and Gas Properties and related contracts and agreements relating thereto in full force and effect in accordance with the terms thereof and not permit the same to lapse or otherwise become impaired for failure to comply with the obligations thereof, whether express or implied; provided, however, that this provision shall not prevent the Borrower from abandoning and releasing any such Leases upon their termination as the result of cessation of production in paying quantities that did not result from the Borrower's failure to maintain such production as a reasonably prudent operator. Subject to approval by the Administrative Agent, Borrower shall have the right to replace Leases that lapse or become impaired.

6.20 Operation of Borrowing Base Oil and Gas Properties.

Operate or, to the extent that the right of operation is vested in others, exercise all reasonable efforts to require the operator to operate the Borrowing Base Oil and Gas Properties and all wells drilled thereon and that may hereafter be drilled thereon, continuously and in a prudent and workmanlike manner and in accordance with all Laws of the State in which the Borrowing Base Oil and Gas Properties are situated and the United States of America, as well as all rules, regulations, and Laws of any governmental agency having jurisdiction to regulate the manner in which the operation of the Borrowing Base Oil and Gas Properties shall be carried on, and comply with all terms and conditions of the Leases it now holds, and any assignment or contract obligating the Borrower in any way with respect to the Borrowing Base Oil and Gas Properties, except for any such non-compliance that would not have a Material Adverse Effect; but nothing herein shall be construed to empower the Borrower to bind the Administrative Agent or any Lender to any contract obligation, or render the Administrative Agent or any Lender in any way responsible or liable for bills or obligations incurred by the Borrower.

6.21 Change of Purchasers of Production.

Concurrently with the delivery of (and as part of) the annual Compliance Certificate, and at any other time that the Administrative Agent may reasonably request in writing, the Borrower shall notify the Administrative Agent in writing of the identity and address of each Person who: (a) has purchased any of the Borrower's interests in oil and gas produced from the Borrowing Base Oil and Gas Properties during the six calendar months preceding such anniversary of the Closing, and (b) are considered by Borrower to be potential future purchasers of Borrower's interest in oil and gas produced from the Borrowing Base Oil and Gas Properties and, if requested by the Administrative Agent, shall provide the Administrative Agent with Transfer Order Letters executed by the Borrower and addressed to such purchasers of production.

6.22 Escrow Agreement.

Comply with the terms of the Escrow Agreement.

ARTICLE VII

NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly:

7.01 Liens.

Create, incur, assume or suffer to exist, any Lien upon any of its Borrowing Base Oil and Gas Properties, or any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following ("Permitted Liens"):

- (a) Liens pursuant to any Loan Document;
 - (b) Liens existing on the date hereof and listed on *Schedule 7.01* hereto and any renewals, rearrangements, amendments, modifications and/or extensions thereof, *provided that*, the property covered thereby is not increased and any renewal or extension of the obligations secured or benefited thereby is permitted by *Section 7.03(b)*;
 - (c) Liens for taxes, assessments, or other governmental charges or levies not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;
 - (d) operators', vendors', carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business or which are incident to the exploration, development, operation, and maintenance of the Borrower's Oil and Gas Properties, not overdue for a period of more than thirty days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;
 - (e) Liens in favor of operators and non-operators under joint operating agreements or similar contractual arrangements arising in the ordinary course of the business of the Borrower to secure amounts owing, which amounts are not yet due or are being contested in good faith by appropriate proceedings, if such reserve as may be required by GAAP shall have been made therefor;
 - (f) Liens under production sales agreements, division orders, operating agreements, and other agreements customary in the oil and gas business for processing, producing, and selling hydrocarbons securing obligations not constituting Indebtedness and provided that such Liens do not secure obligations to deliver hydrocarbons at some future date without receiving full payment therefor within 90 days of delivery;
 - (g) pledges or deposits in the ordinary course of business or Liens in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;
 - (h) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety bonds (other than bonds related to judgments or litigation), performance bonds and other obligations of a like nature incurred in the ordinary course of business;
-

(i) easements, rights-of-way, restrictions, servitudes, permits, conditions, covenants, exceptions, or reservations and other similar encumbrances, defects, irregularities, and deficiencies in title affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person;

(j) Liens securing judgments for the payment of money not constituting an Event of Default under **Section 8.01(h)** or securing appeal or other surety bonds relating to such judgments;

(k) Liens securing Indebtedness permitted under **Section 7.03(e)**; *provided that*, (i) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (ii) the Indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition; and

(l) the Texaco Lien.

7.02 Hedging.

Enter into, during the term of this Agreement, any Swap Contracts, except for Swap Contracts that: (a) satisfy the requirements under **Section 7.03(d)** below, (b) cover monthly notional volumes of Hydrocarbons that do not exceed 75% of the Proved Developed Producing Reserves that are projected to be produced from the Borrowing Base Oil and Gas Properties for the applicable calendar month in the most recent Reserve Report or as otherwise determined as calculated by the Agent; provided that, where only annual volumes are presented in the Reserve Report, monthly volumes will be calculated by dividing the applicable volumes by the number of months covered by the Reserve Report for the applicable year, (c) are based on fixed prices to Borrower that are equal to or greater than the prices utilized by Agent in its most recent determination of the Borrowing Base and (iv) do not include terms longer than 36 months.

7.03 Indebtedness.

Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness committed to or outstanding on the date hereof and listed on **Schedule 7.03** hereto and any refinancings, refundings, renewals or extensions thereof; *provided that* the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and by an amount equal to any existing commitments unutilized thereunder;

(c) Guarantees of Borrower or any Subsidiary in respect of Indebtedness otherwise permitted hereunder of Borrower or any Subsidiary;

(d) Obligations (contingent or otherwise) of Borrower or any Subsidiary existing or arising under any Swap Contract, *provided that* (i) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments, investments, assets, or property held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person and not for purposes of speculation or taking a "market view;" (ii) such Swap Contract does not contain any provision exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party, and (iii) if the Swap Contract relates to Hydrocarbons, Borrower enters into such Swap Contract with or through a counterparty that has a credit rating of at least "A-" by Standard and Poors or "A3" by Moody's Investment Service.

(e) Indebtedness in respect of capital leases, Synthetic Lease Obligations and purchase money obligations for fixed assets within the limitations set out in **Section 7.01(k)**; *provided that*, the aggregate amount of all such Indebtedness at any one time outstanding may not exceed \$1,000,000; and

(f) Indebtedness associated with bonds, surety obligations or sinking funds required by any Governmental Authority or operators in connection with the operation of Oil and Gas Properties; and

(g) any Indebtedness associated or related to any preferred stock offering outstanding as of the date of this Agreement.

7.04 Fundamental Changes.

Merge, dissolve, liquidate, consolidate with or into, another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person; provided that, so long as no Event of Default has occurred and is continuing or would result therefrom and so long as Borrower is the surviving entity, Borrower may merge or consolidate with or into another Person without the consent of the Agent, but with prior reasonable notice to Agent.

7.05 Dispositions.

Make any Disposition or enter into any agreement to make any Disposition, except the following (*provided that* each such Disposition shall be for fair market value):

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) sales, leases, assignments, transfers or disposals of, in one or any series of related transactions, any portion of the Borrowing Base Oil and Gas Properties, whether now owned or hereafter acquired, including transfers to Affiliates, which, in the aggregate, do not exceed \$100,000 during any period beginning on the date of Administrative Agent's written notice to Borrower pursuant to **Section 2.04** of a Borrowing Base redetermination (except that the first such period shall begin on the Closing Date) and ending on the date of the next such written notice from Administrative Agent to Borrower;

(c) sales of Hydrocarbons in the ordinary course of business; and

(d) Dispositions of property by any Subsidiary to Borrower or to a wholly-owned Subsidiary, *provided that*, if the transferor of such property is a Guarantor, the transferee thereof must either be Borrower or a Guarantor;

provided that any Disposition pursuant to clauses (a) through (e) shall be for fair market value.

7.06 Restricted Payments

(a) Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so.

7.07 Change in Nature of Business.

Engage in any material line of business substantially different from those lines of business conducted by Borrower and its Subsidiaries on the date hereof.

7.08 Transactions with Affiliates.

Enter into any transaction allowed under *Section 7.05* or of any kind with any Affiliate of Borrower, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to Borrower or such Subsidiary as would be obtainable by Borrower or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate, *provided that* the foregoing restriction shall not apply to transactions between or among Borrower and any of its wholly-owned Subsidiaries or between and among any wholly-owned Subsidiaries.

7.09 Margin Regulations.

Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System of the United States) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

7.10 Pooling or Unitization.

Voluntarily pool or unitize all or any part of the Borrowing Base Oil and Gas Properties where the pooling or unitization would result in any material diminution of the Borrower's net revenue interest in production from the pooled or unitized lands, without the Required Lenders' prior consent. Any unitization, pooling or communitization or other action or instrument in violation of this *Section 7.10* shall be of no force or effect against any Lender.

7.11 Financial Covenants

(a) Current Ratio. Permit, as of any date of determination, the ratio of its current assets to current liabilities to be less than 1.00:1.00.

(b) Funded Debt to EBITDAX Ratio. Permit, as of any date of determination, the ratio of Funded Debt as of such date to EBITDAX for the 12-month period ending on such date to be greater than 2.00:1.00.

(c) Interest Coverage Ratio. Permit, as of any date of determination, the ratio of EBITDAX for the 12-month period ending on such date to Interest Expense for the 12-month period ending on such date to be less than 3.00:1.00.

7.12 Texaco Lien and Escrow Agreement.

Amend, or agree to amend, the documents evidencing the Texaco Lien or the Escrow Agreement with the prior consent of Agent, such consent not to be unreasonable withheld, conditioned or delayed.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default.

Any of the following shall constitute an Event of Default:

(a) Non-Payment. Borrower or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan, or any L/C Obligation, or (ii) when and as required to be paid herein, any interest on any Loan or on any L/C Obligation, or any fee due hereunder, or (iii) when and as required to be paid herein, any other amount payable hereunder or under any other Loan Document, which failure to pay is not cured within five (5) days of the applicable due date; or

(b) Negative Covenants. Borrower fails to observe any term, covenant or agreement contained in *Article VII* or any Loan Party fails to observe any negative covenant in any other Loan Document, which failure is not cured within thirty (30) days thereafter; or

(c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in (a) or (b) above) contained herein or in any other Loan Document on its part to be performed or observed and such failure continues for thirty (30) days; or

(d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of Borrower or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed; or

(e) Cross-Default. (i) Borrower or any Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and after any applicable grace period, in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$50,000 or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which Borrower or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which Borrower or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by Borrower or such Subsidiary as a result thereof is greater than \$50,000, which failure or occurrence is not cured within any applicable cure period; or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person, which proceeding is not dismissed within sixty (60) days after filing; or

(g) Inability to Pay Debts; Attachment. (i) Borrower or any Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within thirty days after its issue or levy; or

(h) Judgments. There is entered against Borrower or any Subsidiary (i) one or more final, non-appealable, judgments or orders for the payment of money in an aggregate amount exceeding \$100,000 (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of ten consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$100,000, or (ii) Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$100,000; or

(j) Invalidity of Loan Documents. Any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party or any other Person contests in any manner the validity or enforceability of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document, or any Lien with respect to any material portion of the Collateral intended to be secured thereby ceases to be, or, subject to **Section 7.01**, is not, valid, perfected and prior to all other Liens or is terminated, revoked or declared void; or

(k) Change of Control. There occurs any Change of Control with respect to Borrower and/or any Guarantor; or

(l) Material Adverse Effect. There occurs any event or circumstance that has a Material Adverse Effect.

8.02 Remedies Upon Event of Default.

If any Event of Default occurs, Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

(a) declare the commitment of each Lender to make Loans and any obligation of Agent to make L/C Credit Extensions to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by Borrower;

(c) require that Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and

(d) exercise on behalf of itself and Lenders all rights and remedies available to it and Lenders under the Loan Documents or applicable law;

provided that, upon the occurrence of an actual or deemed entry of an order for relief with respect to Borrower under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans and any obligation of Agent to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of Agent or any Lender.

8.03 Application of Funds.

After the exercise of remedies provided for in *Section 8.02* (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set out in the proviso to *Section 8.02*), any amounts received on account of the Obligations shall be applied by Agent in the following order:

- (a) First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including Attorney Costs and amounts payable under *Article III*) payable to Agent in its capacity as such;
- (b) Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to Lenders (including Attorney Costs and amounts payable under *Article III*), ratably among them in proportion to the amounts described in this clause (b) payable to them;
- (c) Third, to the payments of all amounts due to any Lender or Affiliate of any Lender under any Swap Contract;
- (d) Fourth, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans and L/C Borrowings, ratably among Lenders in proportion to the respective amounts described in this clause (d) payable to them;
- (e) Fifth, to payment of that portion of the Obligations constituting unpaid principal of the Loans and L/C Borrowings, ratably among Lenders in proportion to the respective amounts described in this clause (e) held by them;
- (f) Sixth, to Agent, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit; and
- (g) Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to Borrower or as otherwise required by Law.

Subject to *Section 2.03(c)*, amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause (f) above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set out above.

ARTICLE IX

AGENT

9.01 Appointment and Authorization of Agent.

Each Lender hereby irrevocably appoints, designates and authorizes Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere herein or in any other Loan Document, Agent shall not have any duties or responsibilities, except those expressly set out herein, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" herein and in the other Loan Documents with reference to Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties. All benefits and immunities provided to Agent in this *Article IX* shall apply to Agent as issuer of Letters of Credit with respect to any acts taken or omissions suffered by Agent in connection with Letters of Credit issued by it or proposed to be issued by it and the applications and agreements for letters of credit pertaining to such Letters of Credit made by Agent, and as additionally provided herein with respect to Agent as issuer of Letters of Credit.

9.02 Delegation of Duties.

Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

9.03 Liability of Agent.

No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set out herein), or (b) be responsible in any manner to any Lender or Participant for any recital, statement, representation or warranty made by any Loan Party or any officer thereof, contained herein or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Loan Party or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender or Participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party or any Affiliate thereof.

9.04 Reliance by Agent.

(a) Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, communication, signature, resolution, representation, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, electronic mail message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to any Loan Party), independent accountants and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under any Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by all Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders (or such greater number of Lenders as may be expressly required by any instance), and such request and any action taken or failure to act pursuant thereto shall be binding upon all Lenders.

(b) For purposes of determining compliance with the conditions specified in *Section 4.01*, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

9.05 Notice of Default.

Agent shall not be deemed to have knowledge or notice of the occurrence of any Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to Agent for the account of Lenders, unless Agent shall have received written notice from a Lender or Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default." Agent will notify Lenders of its receipt of any such notice. Agent shall take such action with respect to such Default as may be directed by the Required Lenders in accordance with *Article VIII*; *provided that*, unless and until Agent has received any such direction, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable or in the best interest of Lenders.

9.06 Credit Decision; Disclosure of Information by Agent.

Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of any Loan Party or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession. Each Lender represents to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Loan Parties and their respective Subsidiaries, and all applicable banks or other regulatory Laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrower and the other Loan Parties hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower and the other Loan Parties. Except for notices, reports and other documents expressly required to be furnished to Lenders by Agent herein, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Loan Parties or any of their respective Affiliates which may come into the possession of any Agent-Related Person.

9.07 Indemnification of Agent.

Whether or not the transactions contemplated hereby are consummated, Lenders shall indemnify upon demand each Agent-Related Person (to the extent not reimbursed by or on behalf of any Loan Party and without limiting the obligation of any Loan Party to do so), pro rata, and hold harmless each Agent-Related Person from and against any and all Indemnified Liabilities incurred by it; *provided that* no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities to the extent determined in a final, nonappealable judgment by a court of competent jurisdiction to have been caused primarily by such Agent-Related Person's own gross negligence or willful misconduct; it being agreed by all Lenders that no action taken in accordance with the directions of the Required Lenders shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs and costs and expenses in connection with the use of IntraLinks, Inc. or other similar information transmission systems in connection with this Agreement) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Agent is not reimbursed for such expenses by or on behalf of Borrower. The undertaking in this Section shall survive termination of the Aggregate Commitments, the payment of all other Obligations and the resignation of Agent.

9.08 Agent in its Individual Capacity.

Bank of America and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with each of the Loan Parties and their respective Affiliates as though Bank of America were not Agent hereunder and without notice to or consent of Lenders. Lenders acknowledge that, pursuant to such activities, Bank of America or its Affiliates may receive information regarding any Loan Party or its Affiliates (including information that may be subject to confidentiality obligations in favor of such Loan Party or such Affiliate) and acknowledge that Agent shall be under no obligation to provide such information to them. With respect to its Loans, Bank of America shall have the same rights and powers under this Agreement as any other Lender and may exercise such rights and powers as though it were not Agent, and the terms "Lender" and "Lenders" include Bank of America in its individual capacity.

9.09 Successor Agent.

Agent may resign as Agent upon thirty days' written notice to Lenders and Borrower; *provided that* any such resignation by Bank of America shall also constitute its resignation as Agent in its capacity of issuer of Letters of Credit. If Agent resigns under this Agreement, the Required Lenders shall appoint from among Lenders a successor Agent for Lenders, which successor Agent shall be consented to by Borrower at all times other than during the existence of a Default (which consent of Borrower shall not be unreasonably withheld or delayed). If no successor Agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with Lenders and Borrower, a successor Agent from among Lenders. Upon the acceptance of its appointment as successor Agent hereunder, the Person acting as such successor Agent shall succeed to all the rights, powers and duties of the retiring Agent (including those in its capacity as issuer of Letters of Credit) and the term "Agent" shall mean such successor Agent in all such capacities and the retiring Agent's appointment, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such retiring Agent or any other Lender, other than the obligation of the successor Agent to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or to make other arrangements satisfactory to the retiring Agent to effectively assume the obligations of the retiring Agent with respect to such Letters of Credit. After any retiring Agent's resignation hereunder as Agent, the provisions of this *Article IX* and *Sections 10.04* and *10.05* shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor Agent has accepted appointment as Agent by the date which is thirty days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and Lenders shall perform all of the duties of Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above.

9.10 Agent May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether Agent shall have made any demand on Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of Lenders and Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of Lenders and Agent and their respective agents and counsel and all other amounts due Lenders and Agent under *Sections 2.03(i), 2.08 and 10.04*) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to Agent and, in the event that Agent shall consent to the making of such payments directly to Lenders, to pay to Agent any amount due for the reasonable compensation, expenses, disbursements and advances of Agent and its agents and counsel, and any other amounts due Agent under *Sections 2.08 and 10.04*.

Nothing contained herein shall be deemed to authorize Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize Agent to vote in respect of the claim of any Lender in any such proceeding.

9.11 Guaranty Matters.

Each Lender hereby irrevocably authorizes Agent, at its option and in its discretion, to release any Guarantor from its obligations under the Guaranty if such Person ceases to be a Subsidiary as a result of a transaction permitted hereunder. Upon request by Agent at any time, each Lender will confirm in writing Agent's authority to release any Guarantor from its obligations under the Guaranty pursuant to this *Section 9.11*.

9.12 Collateral Matters.

(a) Each Lender hereby irrevocably authorizes and directs Agent to enter into the Collateral Documents for the benefit of such Lender. Each Lender hereby agrees, and each holder of any Note by the acceptance thereof will be deemed to agree, that, except as otherwise set out in *Section 10.01*, any action taken by the Required Lenders, in accordance with the provisions of this Agreement or the Collateral Documents, and the exercise by the Required Lenders of the powers set out herein or therein, together with such other powers as are reasonably incidental thereto, shall be authorized and binding upon all of Lenders. Agent is hereby authorized by all Lenders on behalf of all of Lenders, without the necessity of any notice to or further consent from any Lender from time to time prior to, an Event of Default, to take any action with respect to any Collateral or Collateral Documents which may be necessary to perfect and maintain perfected the Liens upon the Collateral granted pursuant to the Collateral Documents.

(b) Each Lender hereby irrevocably authorizes Agent, at its option and in its discretion,

(i) to release any Lien on any property granted to or held by Agent under any Loan Document (i) upon termination of the Aggregate Commitments and payment in full of all Obligations (other than contingent indemnification obligations) and the expiration or termination of all Letters of Credit, (ii) that is sold or to be sold as part of or in connection with any sale permitted hereunder or under any other Loan Document, (iii) subject to **Section 10.01**, if approved, authorized or ratified in writing by the Required Lenders, or (iv) in connection with any foreclosure sale or other disposition of Collateral after the occurrence of an Event of Default; and

(ii) to subordinate any Lien on any property granted to or held by Agent under any Loan Document to the holder of any Lien on such property that is permitted by this Agreement or any other Loan Document.

Upon request by Agent at any time, each Lender will confirm in writing Agent's authority to release or subordinate its interest in particular types or items of Collateral pursuant to this **Section 9.12**.

(c) Subject to (b) above, Agent shall (and is hereby irrevocably authorized by each Lender, to) execute such documents as may be necessary to evidence the release or subordination of the Liens granted to Agent for the benefit of Agent and Lenders herein or pursuant hereto upon the applicable Collateral; *provided that* (i) Agent shall not be required to execute any such document on terms which, in Agent's opinion, would expose Agent to or create any liability or entail any consequence other than the release or subordination of such Liens without recourse or warranty and (ii) such release or subordination shall not in any manner discharge, affect or impair the Obligations or any Liens upon (or obligations of Borrower or any other Loan Party in respect of) all interests retained by Borrower or any other Loan Party, including the proceeds of the sale, all of which shall continue to constitute part of the Collateral. In the event of any sale or transfer of Collateral, or any foreclosure with respect to any of the Collateral, Agent shall be authorized to deduct all expenses reasonably incurred by Agent from the proceeds of any such sale, transfer or foreclosure.

(d) Agent shall have no obligation whatsoever to any Lender or any other Person to assure that the Collateral exists or is owned by Borrower or any other Loan Party or is cared for, protected or insured or that the Liens granted to Agent herein or in any of the Collateral Documents or pursuant hereto or thereto have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise or to continue exercising at all or in any manner or under any duty of care, disclosure or fidelity any of the rights, authorities and powers granted or available to Agent in this **Section 9.12** or in any of the Collateral Documents, it being understood and agreed that in respect of the Collateral, or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its sole discretion, given Agent's own interest in the Collateral as one of Lenders and that Agent shall have no duty or liability whatsoever to Lenders.

(e) Each Lender hereby appoints each other Lender as agent for the purpose of perfecting Lenders' security interest in assets which, in accordance with Article 9 of the UCC can be perfected only by possession. Should any Lender (other than Agent) obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver such Collateral to Agent or in accordance with Agent's instructions.

ARTICLE X

MISCELLANEOUS

10.01 Amendments, Etc.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and Borrower or the applicable Loan Party, as the case may be, and acknowledged by Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided that*, no such amendment, waiver or consent shall:

(a) waive any condition set out in **Section 4.01(a)** without the written consent of each Lender; *provided that*, in the sole discretion of Agent, only a waiver by Agent shall be required with respect to immaterial matters or items specified in **Section 4.01(a) (iii)** or **(iv)** with respect to which Borrower has given assurances satisfactory to Agent that such items shall be delivered promptly following the Closing Date;

(b) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to **Section 8.02**) without the written consent of such Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for any payment (excluding mandatory prepayments) of principal, interest, fees or other amounts due to Lenders (or any of them) hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or (subject to clause (ii) of the second proviso to this **Section 10.01**) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; *provided that*, only the consent of the Required Lenders shall be necessary (i) to amend the definition of "Default Rate" or to waive any obligation of Borrower to pay interest at the Default Rate or (ii) to amend any financial covenant hereunder (or any defined term used therein) even if the effect of such amendment would be to reduce the rate of interest on any Loan or L/C Borrowing or to reduce any fee payable hereunder;

(e) change **Section 2.12** or **Section 8.03** in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender;

(f) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(g) release any Guarantor or release the Liens on all or substantially all of the Collateral except in accordance with the terms of any Loan Document without the written consent of each Lender; or

(h) amend the requirement that the Borrowing Base may be increased only with the consent of all Lenders;

and, *provided further that* (i) no amendment, waiver or consent shall, unless in writing and signed by Agent in addition to Lenders required above, affect the rights or duties of Agent under this Agreement or any other Loan Document, (A) as Administrative Agent or (B) as Letter of Credit issuer or under any Letter of Credit Application relating to any Letter of Credit issued or to be issued by it (including any reduction in any fee, charge, expense, cost or other amount payable to Agent for its own account under this Agreement in any such capacity); and (ii) the Agent Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the respective parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended without the consent of such Lender.

10.02 Notices and Other Communications; Facsimile Copies.

(a) General. Unless otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered, to the applicable address, facsimile number or (subject to subsection (c) below) electronic mail address, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, specified for such Person on *Schedule 10.02* or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (i) actual receipt by the relevant party hereto and (ii) (A) if delivered by hand or by courier, upon delivery; (B) if delivered by mail, four Business Days after deposit in the mails, postage prepaid; (C) if delivered by facsimile, when sent and the sender has received electronic confirmation of error free receipt; and (D) if delivered by electronic mail (which form of delivery is subject to the provisions of subsection (c) below), when delivered; *provided, however, that* notices and other communications to Agent pursuant to *Article II* shall not be effective until actually received by Agent. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

(b) Effectiveness of Facsimile Documents and Signatures. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be binding on all Loan Parties, Agent and Lenders. Agent may also require that any such documents and signatures be confirmed by a manually-signed original thereof; *provided, however, that* the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

(c) Limited Use of Electronic Mail. Electronic mail and internet and intranet websites may be used only to distribute routine communications, such as financial statements, and to distribute Loan Documents for execution by the parties thereto, and may not be used for any other purpose.

(d) Reliance by Agent and Lenders. Agent and Lenders shall be entitled to rely and act upon any notices (including telephonic Revolving Loan Notices) purportedly given by or on behalf of Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. Borrower shall indemnify each Agent-Related Person and each Lender from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of Borrower. All telephonic notices to and other communications with Agent may be recorded by Agent, and each of the parties hereto hereby consents to such recording.

10.03 No Waiver; Cumulative Remedies.

No failure by any Lender or Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.04 Attorney Costs, Expenses and.

Borrower agrees (a) to pay or reimburse Agent for all costs and expenses incurred in connection with the development, preparation, negotiation and execution of this Agreement and the other Loan Documents and any amendment, waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all Attorney Costs and reasonable costs and expenses in connection with the use of IntraLinks, Inc. or other similar information transmission systems in connection with this Agreement, and (b) to pay or reimburse Agent and each Lender for all reasonable costs and expenses incurred in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Loan Documents (including all such reasonable costs and expenses incurred during any "workout" or restructuring in respect of the Obligations and during any legal proceeding, including any proceeding under any Debtor Relief Law), including all Attorney Costs. The foregoing costs and expenses shall include all search, filing, recording, and fees and taxes related thereto, and other out-of-pocket expenses incurred by Agent and the cost of independent public accountants and other outside experts retained by Agent or any Lender. The agreements in this Section shall survive the termination of the Aggregate Commitments and repayment of all other Obligations.

10.05 Indemnification by Borrower.

Whether or not the transactions contemplated hereby are consummated, Borrower shall indemnify and hold harmless each Agent-Related Person, each Lender and their respective Affiliates, directors, officers, employees, counsel, agents and attorneys-in-fact (collectively the "**Indemnitees**") from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against any such Indemnitee in any way relating to or arising out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Loan Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated thereby or the consummation of the transactions contemplated thereby, (b) any Commitment, Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by Agent to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (c) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by Borrower, any Subsidiary or any other Loan Party, or any Environmental Liability related in any way to Borrower, any Subsidiary or any other Loan Party, or (d) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of, preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether Indemnitee is a party thereto (all the foregoing, collectively, the "**Indemnified Liabilities**"); *provided that* such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, claims, demand, actions, judgments, suits, costs, expenses or disbursements are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. No Indemnitee shall be liable for any damages arising from the use by others of any information or other materials obtained through IntraLinks or other similar information transmission systems in connection with this Agreement, nor shall any Indemnitee have any liability for any indirect or consequential damages relating to this Agreement or any other Loan Document or arising out of its activities in connection herewith or therewith (whether before or after the Closing Date). The agreements in this Section shall survive the resignation of Agent, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations. All amounts due under this **Section 10.05** shall be payable within ten Business Days after demand therefor.

10.06 Payments Set Aside.

To the extent that any payment by or on behalf of Borrower is made to Agent or any Lender, or Agent or any Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Lender severally agrees to pay to Agent upon demand its applicable share of any amount so recovered from or repaid by Agent, *plus* interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect.

10.07 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and outstanding Loans, including participations in L/C Obligations); *provided that* (i) each of Agent and, while no Event of Default exists, Borrower, consent to such assignment, (ii) the aggregate amount of the Commitment subject to each such assignment (including all Loans outstanding under such Commitment) shall not be less than \$5,000,000 (except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender), (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, except that this clause (ii) shall not apply to rights in respect of outstanding Loans, (iv) any assignment of a Commitment must be approved by Agent, unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee), and (v) the parties to each assignment shall execute and deliver to Agent an Assignment and Assumption Agreement, together with a processing and recordation fee payable by the Eligible Assignee in the amount of \$3,500. Subject to acceptance and recording thereof by Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption Agreement, the Eligible Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption Agreement, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption Agreement, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption Agreement covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of *Sections 3.01, 3.04, 3.05, 10.04 and 10.05* with respect to facts and circumstances occurring prior to the date of such assignment). Upon request, Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Agent, acting solely for this purpose as an agent of Borrower, shall maintain at Agent's Office a copy of each Assignment and Assumption Agreement delivered to it and a register for the recordation of the names and addresses of Lenders, and the Commitments of, and principal amount of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "**Register**"). The entries in the Register shall be conclusive, and Borrower, Agent and Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Any Lender may, without the consent of, or notice to, Borrower or Agent, sell participations to any Person (other than a natural person or Borrower or any of Borrower's Affiliates or Subsidiaries (each a "**Participant**") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations) owing to it); *provided that* (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) Borrower, Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; *provided that* such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first provision to **Section 10.01** that directly affects such Participant. Subject to subsection (e) of this Section, Borrower agrees that each Participant shall be entitled to the benefits of **Sections 3.01, 3.04** and **3.05** to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of **Section 10.09** as though it were a Lender, *provided* such Participant agrees to be subject to **Section 2.12** as though it were a Lender.

(e) A Participant shall not be entitled to receive any greater payment under **Section 3.01** or **3.04** than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with Borrower's prior written consent.

(f) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; *provided that* no such pledge or assignment shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) If the consent of Borrower to an assignment to an Eligible Assignee is required hereunder (including a consent to an assignment which does not meet the minimum assignment threshold specified in clause (i) of the proviso to the first sentence of **Section 10.07(b)**), Borrower shall be deemed to have given its consent ten (10) Business Days after the date notice thereof has been delivered to Borrower by the assigning Lender (through Agent) unless such consent is expressly refused by Borrower prior to such fifth Business Day.

(h) As used herein, “*Eligible Assignee*” means (a) a Lender; (b) an Affiliate of a Lender; and (c) any other Person (other than a natural Person) approved by (i) Agent and (ii) unless an Event of Default has occurred and is continuing, Borrower (such approval referred to in (i) and (ii) not to be unreasonably withheld, conditioned or delayed); *provided that* notwithstanding the foregoing, “*Eligible Assignee*” shall not include Borrower or any of Borrower’s Affiliates or Subsidiaries.

(i) Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Commitment and Loans pursuant to subsection (b) above, Bank of America may, upon thirty days’ notice to Borrower and Lenders, resign in its capacity as issuer of Letters of Credit hereunder (the “*L/C Issuer*”). In the event of any such resignation as L/C Issuer, Borrower shall be entitled to appoint from among Lenders a successor L/C Issuer hereunder; *provided that*, no failure by Borrower to appoint any such successor shall affect the resignation of Bank of America as L/C Issuer, as the case may be. If Bank of America resigns as L/C Issuer, it shall retain all the rights and obligations of Agent as the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all L/C Obligations with respect thereto (including the right to require Lenders to make Base Rate Loans or fund risk participations in Unreimbursed Amounts pursuant to **Section 2.03(c)**). Borrower, Lenders and Bank of America agree that they shall amend this Agreement as necessary to reflect that Bank of America remains Agent for purposes of administering this Agreement, but has resigned in its capacity as L/C Issuer and another Lender(s) shall provides such service, including the obligation of the successor to Bank of America as L/C Issuer to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or to make other arrangements satisfactory to Bank of America to effectively assume the obligations of Bank of America with respect to such Letters of Credit.

10.08 Confidentiality.

Each of Agent and Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent requested by any regulatory authority; (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process; (d) to any other party to this Agreement; (e) in connection with the exercise of any remedies hereunder or any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or under any other Loan Document; (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any Eligible Assignee of or Participant in, or any prospective Eligible Assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any direct or indirect contractual counterparty or prospective counterparty (or such contractual counterparty's or prospective counterparty's professional advisor) to any credit derivative transaction relating to obligations of a Loan Party; (g) with the consent of Borrower; (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to Agent or any Lender on a nonconfidential basis from a source other than Borrower; or (j) to the National Association of Insurance Commissioners or any other similar organization. In addition, Agent and Lenders may disclose the existence of this Agreement and information about this Agreement to market data collectors, similar service providers to the lending industry, and service providers to Agent and Lenders in connection with the administration and management of this Agreement, the other Loan Documents, the Commitments, and the Credit Extensions. For the purposes of this Section, "Information" means all information received from any Loan Party relating to any Loan Party or its business, other than any such information that is available to Agent or any Lender on a nonconfidential basis prior to disclosure by any Loan Party; *provided that*, in the case of information received from any Loan Party after the date hereof, such information must be in writing. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. In addition, Agent may disclose to any agency or organization that assigns standard identification numbers to loan facilities such basic information describing the facilities provided hereunder as is necessary to assign unique identifiers (and, if requested, supply a copy of this Agreement), it being understood that the Person to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to make available to the public only such Information as such person normally makes available in the course of its business of assigning identification numbers. Notwithstanding anything herein to the contrary, "Information" shall not include, and Agent and each Lender may disclose to any and all Persons, without limitation of any kind, any information with respect to the "tax treatment" and "tax structure" (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to Agent or such Lender relating to such tax treatment and tax structure; *provided that* with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Loans, Letters of Credit and transactions contemplated hereby.

10.09 Set-off.

In addition to any rights and remedies of Lenders provided by law, upon the occurrence and during the continuance of any Event of Default, each Lender is authorized at any time and from time to time, without prior notice to Borrower or any other Loan Party, any such notice being waived by Borrower (on its own behalf and on behalf of each Loan Party) to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the respective Loan Parties against any and all Obligations owing to such Lender hereunder or under any other Loan Document, now or hereafter existing, irrespective of whether or not Agent or such Lender shall have made demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured or denominated in a currency different from that of the applicable deposit or Indebtedness. Each Lender agrees promptly to notify Borrower and Agent after any such set-off and application made by such Lender; *provided that*, the failure to give such notice shall not affect the validity of such set-off and application.

10.10 Interest Rate Limitation.

Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the "**Maximum Rate**"). If Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to Borrower. In determining whether the interest contracted for, charged, or received by Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.11 Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.12 Integration.

This Agreement, together with the other Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and thereof and supersedes all prior agreements, written or oral, on such subject matter. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control; *provided that* the inclusion of supplemental rights or remedies in favor of Agent or Lenders in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

10.13 Survival of Representations and Warranties.

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof; provided that no representation or warranty shall survive for any period following the satisfaction of the Obligations hereunder. Such representations and warranties have been or will be relied upon by Agent and each Lender, regardless of any investigation made by Agent or any Lender or on their behalf and notwithstanding that Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

10.14 Severability.

If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.15 Governing Law; Submission to Jurisdiction.

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE; *PROVIDED THAT* AGENT AND EACH LENDER SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS SITTING IN HOUSTON OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF SUCH STATE, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, BORROWER, AGENT AND EACH LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. BORROWER, AGENT AND EACH LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF *FORUM NON CONVENIENS*, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF ANY LOAN DOCUMENT OR OTHER DOCUMENT RELATED THERETO. BORROWER, AGENT AND EACH LENDER WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY THE LAW OF SUCH STATE.

10.16 WAIVER OF JURY TRIAL

(a) THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM. FOR PURPOSES OF THIS SECTION 10.16, "CLAIM" MEANS ANY CONTROVERSIES OR CLAIMS BETWEEN BORROWER, AGENT AND ANY LENDER AND ANY OTHER OBLIGOR, WHETHER ARISING IN CONTRACT, TORT OR BY STATUTE, INCLUDING CONTROVERSIES OR CLAIMS THAT ARISE OUT OF OR RELATE DIRECTLY OR INDIRECTLY TO: (I) THIS AGREEMENT, OR (II) ANY OTHER LOAN DOCUMENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

10.17 Time of the Essence.

Time is of the essence of the Loan Documents.

[Signatures appear on the following page.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

GULFPORT ENERGY CORPORATION

By: /s/ Michael G. Moore

Vice President and Chief Financial Officer

BANK OF AMERICA, N.A., as Agent

By: /s/ Charles W. Patterson

Senior Vice President

BANK OF AMERICA, N.A., as a Lender

By: /s/ Charles W. Patterson

Senior Vice President

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "*Agreement*") is entered into as of February 17, 2005, by and among Gulfport Energy Corporation, a Delaware corporation (the "*Company*"), and Harbert Distressed Investment Master Fund, Ltd., a Cayman Islands exempt company ("*Harbert*"), and Alpha US Sub Fund VI, LLC, a Delaware limited liability company managed as a separate account ("*Alpha*"). Each of Harbert and Alpha are referred to individually herein as a "*Purchaser*" and collectively as the "*Purchasers*".

WITNESSETH:

WHEREAS, the Company desires to sell to the Purchasers, and the Purchasers desire to buy from the Company, the number of Shares (as defined below) set forth opposite such Purchaser's name on Schedule I hereto, for an aggregate of 2,000,000 shares of the Company's common stock, par value \$0.01 per share (the "*Shares*").

NOW, THEREFORE, in consideration of and subject to the mutual agreements, terms and conditions herein contained, the receipt and sufficiency of which are hereby acknowledged, the Company and the Purchaser agree as follows:

1. SUBSCRIPTION FOR AND PURCHASE OF SHARES

1.1 Purchase of Shares. Subject to the terms and conditions set forth herein, the Purchasers hereby subscribe for and agree to purchase, and the Company hereby agrees to sell, assign, transfer and deliver to the Purchasers, the Shares for an aggregate consideration of \$7,000,000 (the "*Purchase Price*") in the amounts and for the consideration set forth on Schedule I hereto.

1.2 Closing Date. The closing of the transactions contemplated hereby shall take place at the offices of Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201-4675, at 10:00 a.m., central time, on February 18, 2005, or at such other location, date and time, as may be agreed upon between the Purchasers and the Company, or by facsimile or other electronic means (such closing being called the "*Closing*" and such date and time being called the "*Closing Date*").

1.3 Delivery. At the Closing, the Company shall deliver to the Purchasers or their designee a certificate or certificates representing the Shares against payment of the Purchase Price by wire transfer or payment with other immediately available funds to an account designated by the Company in writing.

1.4 Legend. (a) The certificate or certificates representing the Shares shall bear a legend restricting transfer under the Securities Act of 1933, as amended (the "*Securities Act*") and acknowledging the restrictions on transfer set forth herein, such legend shall be substantially in the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. NO TRANSFER OF THE SHARES REPRESENTED BY THIS CERTIFICATE SHALL BE VALID OR EFFECTIVE UNLESS (A) SUCH TRANSFER IS MADE PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (B) THE HOLDER SHALL DELIVER TO THE COMPANY AN OPINION OF ITS COUNSEL, IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY AND REASONABLY CONCURRED IN BY THE COMPANY'S COUNSEL, THAT SUCH PROPOSED TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SECURITIES EVIDENCED HEREBY ARE SUBJECT TO THE TERMS OF A CERTAIN REGISTRATION RIGHTS AGREEMENT BY AND AMONG THE COMPANY AND THE STOCKHOLDERS IDENTIFIED THEREIN, PROVIDING FOR, AMONG OTHER THINGS, CERTAIN RESTRICTIONS ON TRANSFER. A COPY OF SUCH REGISTRATION RIGHTS AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE COMPANY.

(b) The Company agrees (i) to remove the legend set forth in Section 1.4(a) upon receipt of an opinion of the Purchaser's counsel, reasonably concurred in by the Company's counsel within ten (10) business days of the Company's receipt of such opinion, that the Shares are eligible for transfer without registration under the Securities Act and (ii) to remove such legend at such time as the Shares are sold pursuant to an effective registration statement registering the Shares under the Securities Act.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Purchasers that, as of the date hereof:

2.1 Organization. The Company is a corporation duly organized and validly existing under the laws of the State of Delaware and is in good standing under such laws. The Company has the requisite corporate power and authority to own and operate its properties and assets, and to carry on its business as presently conducted and as presently proposed to be conducted. The Company is qualified to do business as a foreign corporation in each jurisdiction in which the ownership of its property or the nature of its business requires such qualification, except where the failure to be so qualified would not reasonably be expected to have a material adverse effect on the business, assets, liabilities, operations or conditions (financial or otherwise) of the Company and its subsidiaries, taken as a whole (a "*Material Adverse Effect*").

2.2 Authorization. The Company has taken all corporate action necessary for the authorization, execution, delivery and performance of this Agreement and the Registration Rights Agreement (as defined below) (collectively, the "Transaction Agreements") and the authorization, sale, issuance and delivery of the Shares. The Transaction Agreements constitute the legal, valid, and binding obligation of the Company enforceable in accordance with their terms, except to the extent limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general application related to the enforcement of creditors' rights generally and (b) general principles of equity, and except that enforcement of rights to indemnification contained herein may be limited by applicable federal or state laws or the public policy underlying such laws, regardless of whether enforcement is considered in a proceeding in equity or at law.

2.3 No Conflict. The execution and delivery of the Transaction Agreements do not, and the consummation of the transactions contemplated thereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or to a loss of a material benefit under, result in the creation or imposition of (or the obligation to create or impose) any lien, claim or encumbrance upon any of the property or assets of the Company pursuant to the terms of, any provision of, the Company's Restated Certificate of Incorporation or Bylaws, as amended, or any mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or its properties or assets, which would have a Material Adverse Effect or would materially impair or restrict the Company's power to perform its obligations as contemplated under such agreements.

2.4 Capitalization. (a) The authorized capital stock of the Company consists solely of (i) 35,000,000 shares of Common Stock, of which 20,146,566 shares are issued and outstanding, and (ii) 5,000,000 shares of preferred stock, par value \$0.01 per share (the "**Preferred Stock**"), of which the Company has designated 30,000 shares as Series A Preferred Stock, 14,014 of which are issued and outstanding or issuable pursuant to the terms thereof. All of the issued and outstanding shares of Common Stock and Preferred Stock have been duly authorized and validly issued and are fully paid and nonassessable and are not subject to any preemptive rights. None of the outstanding shares of capital stock of the Company were issued in violation of the Securities Act or any state securities laws.

(b) Except as set forth on Schedule 2.4(b) hereof, the Company has not issued or granted any outstanding options, warrants, rights or other securities convertible into or exchangeable or exercisable for shares of the Company's capital stock, any other commitments or agreements providing for the issuance of additional shares of the Company's capital stock, the sale of treasury shares or for the repurchase or redemption of shares of the Company's capital stock or any obligations arising from canceled stock of the Company. Other than this Agreement, there are no agreements of any kind which may obligate the Company to issue, sell, purchase, register for sale, redeem or otherwise acquire any of its securities or interests. The issuance and sale of the Shares will not give rise to any preemptive rights or rights of first refusal on behalf of any person in existence on the date hereof. There are no outstanding or authorized stock appreciation, phantom stock or similar rights with respect to the Company. Except as set forth on Schedule 2.4(b) hereof, there are no outstanding securities of the Company, or contracts binding on the Company relating to such securities, that give to their holders anti-dilution protections or similar rights. Except as set forth on Schedule 2.4(b) hereof, the issuance of the Shares will not give any other holder of the Company's securities the right to receive as a result of such issuance any additional securities or property or change any material rights enjoyed with respect to such securities.

(c) The Shares have been duly authorized, and, upon issuance pursuant to the terms hereof, (a) will be validly issued, fully paid and nonassessable, (b) will not be subject to any encumbrances, preemptive rights or any other similar contractual rights of the stockholders of the Company or, to the Company's knowledge, any other person, and (c) the applicable Purchaser will obtain sole record and beneficial ownership of such Shares and take good marketable title thereto, free and clear of any liens, encumbrances, claims, charges, taxes, options or transfer restrictions of any kind which are imposed by the Company, or arise as a result of the Company's action or omission, other than those transfer restrictions explicitly set forth in the Transaction Agreements.

(d) Except as set forth on Schedule 2.4(d) hereof, there are no voting trusts, stockholder agreements, proxies or other agreements in effect with respect to the voting or transfer of the Shares.

2.5 Compliance With Securities Laws. (a) Subject to and in reliance on the truth and accuracy of the Purchasers' representations and warranties set forth in this Agreement, the offer, sale and issuance of the Shares is exempt from the registration requirements of the Securities Act and any applicable state securities laws and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

(b) Neither the Company, nor any affiliate of the Company, nor any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause the offering or issuance of the Shares pursuant to the Transaction Agreements to be integrated with prior offerings by the Company for purposes of the Securities Act which would cause the exemptions from the Securities and Exchange Commission (the "**SEC**") registration upon which the Company is relying for the offering or issuance of the Shares pursuant to the Transaction Agreements to be unavailable, or would cause any applicable state securities laws exemptions or any applicable stockholder approval provisions exemptions, including, without limitation, under the rules and regulations of any national securities exchange or automated quotation system on which any of the securities of the Company are listed or designated to be unavailable, nor will the Company take any action or steps that would cause the foregoing.

2.6 SEC Documents. (a) Except as set forth on Schedule 2.6(a), the Company has filed all required reports, schedules, forms, statements and other documents with the SEC since December 31, 2002 (the "**SEC Documents**"). As of their respective dates, except as set forth on Schedule 2.6(a), the SEC Documents complied in all material respects with the requirements of the Securities Act or the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), as the case may be, and the rules and regulations of the SEC promulgated thereunder, and, except to the extent that information contained in any SEC Document has been revised or superseded by a later document filed with the SEC and made publicly available prior to the date of this Agreement, none of the SEC Documents contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) The Company's financial statements included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with U.S. generally accepted accounting principles ("**GAAP**") applied on a consistent basis during the periods involved and fairly present the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operation and cashflows for the periods then ending in accordance with GAAP (subject, in the case of the unaudited statements, to normal year-end audit adjustments and the absence of footnotes). Except as disclosed in financial statements included in the SEC Documents, neither the Company nor any of its subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of the Company and its consolidated subsidiaries or in the notes thereto and which would reasonably be expected to have a Material Adverse Effect. Since September 30, 2004, the Company has incurred no material liabilities, other than liabilities incurred in the ordinary course of business consistent with past practice.

(c) The Company maintains a system of internal control over financial reporting which, to the Company's knowledge, is sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with United States generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorizations, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established and maintained disclosure controls and procedures (as such term is defined in Rule 13a-15 and Rule 15d-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that material information relating to the Company is made known to the Company's principal executive officer and its principal financial officer by others within those entities, and such disclosure controls and procedures are effective to perform the functions for which they were established; the Company's auditors and the audit committee of the board of directors of the Company have been advised of: (i) any significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial data; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting; since the date of the most recent evaluation of such disclosure controls and procedures, there have been no significant changes in internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses; the principal executive officer and principal financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and any related rules and regulations promulgated by the SEC, and the statements contained in any such certification are complete and correct; and the Company is otherwise in material compliance with all applicable provisions of the Sarbanes-Oxley Act that are effective.

(d) All material agreements to which the Company is a party or to which the property or assets of the Company are subject are included as part of or specifically identified in the SEC Documents to the extent required by the rules and regulations of the SEC as in effect at the time of filing of such SEC Documents. All such material agreements required to be filed as exhibits to the SEC Documents that are in effect as of the date hereof are legal, valid and binding obligations of the Company in accordance with their respective terms and, to the knowledge of the Company, the other parties thereto, except in any case as may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally and by general equitable principles. The Company is not, nor to its knowledge is any counterparty, in violation of or default under, any material agreement.

2.7 Governmental and Like Consents. No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of the Company is required in connection with the valid execution and delivery of the Transaction Agreements, the offer, sale or issuance of the Shares or the consummation of any other transaction contemplated by the Transaction Agreements, except with respect to the Company's credit agreement with Bank of Oklahoma (which such consent shall be obtained on or before the Closing Date), such filings as may be required to be made with the SEC, the Over-the-Counter Bulletin Board or under applicable state securities laws.

2.8 Litigation. Except as disclosed in the SEC Documents, there is no suit, action, or proceeding pending or affecting the Company or any of its subsidiaries that, individually or in the aggregate, would reasonably be expected to (a) have a Material Adverse Effect, (b) impair the Company's ability to perform its obligations under the Transaction Agreements or (c) prevent the consummation of any of the transactions contemplated by the Transaction Agreements, nor is there any judgment, decree, injunction, rule or order of any governmental entity or arbitrator outstanding against the Company or any of its subsidiaries having, or which, insofar as reasonably can be foreseen in the future have, any such effect.

2.9 No Material Adverse Changes. Since September 30, 2004, (a) there has been no event which has had a Material Adverse Effect; (b) except as contemplated by this Agreement or as described in the SEC Documents, and except with respect to the adoption of the Company's 2005 Stock Incentive Plan, there has been no transaction entered into by the Company other than transactions in the ordinary course of business or transactions which would not, individually or in the aggregate, be material to the Company; (c) there have not been any changes in the Company's authorized capital or any increases in the indebtedness of the Company; and (d) there has been no actual or, to the knowledge of the Company, threatened revocation of, or default under, any contract to which the Company is a party, except as would not have a Material Adverse Effect.

2.10 Regulatory Matters. (a) The Company holds all permits, licenses, certificates, registrations and other similar authorizations necessary or appropriate for the conduct of its business (collectively, the "Authorizations"), the lack of which would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has maintained and kept in force and effect, and has applied in a timely manner for renewal of all such Authorizations. The Company is in compliance with all such Authorizations and any terms and conditions thereto except such non-compliance as would not, individually or in the aggregate, have a Material Adverse Effect. Each Authorization which is material to the business of the Company is valid and in full force and effect, and the Company has not received notice from any regulatory authority of its intention to revoke, suspend, condition or fail to renew any such Authorization, which would, individually or in the aggregate, have a Material Adverse Effect. No event has occurred, or facts and circumstances exist, which would be reasonably expected to allow, or after notice or lapse of time would reasonably be expected to allow, revocation, suspension, non-renewal or termination or result in any other material impairment of the Company's rights under any of its Authorizations to the extent that such revocation, termination or impairment would have a Material Adverse Effect.

3. REPRESENTATIONS AND WARRANTIES OF PURCHASERS

Each Purchaser severally, but not jointly, hereby represents and warrants to the Company as follows:

3.1 Organization. Harbert is an exempt company duly organized and validly existing under the laws of the Cayman Islands, with all requisite power and authority to own, lease and operate its properties and to conduct its business as presently conducted. Alpha is a limited liability company duly organized and validly existing under the laws of the State of Delaware, with all requisite power and authority to own, lease and operate its properties and to conduct its business as presently conducted.

3.2 Authority. Each of the Purchasers has taken all action necessary for the authorization, execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by each of the Purchasers and constitutes the legal, valid and binding obligation of each of the Purchasers, enforceable in accordance with its terms, except to the extent limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general application related to the enforcement of creditors' rights generally and (b) general principles of equity, and except that enforcement of rights to indemnification contained herein may be limited by applicable federal or state laws or the public policy underlying such laws, regardless of whether enforcement is considered in a proceeding in equity or at law.

3.3 Investment. Each of the Purchasers is acquiring the Shares for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof. Each of the Purchasers understands that the Shares have not been registered under the Securities Act and are being issued pursuant to an exemption from the registration requirements of the Securities Act. Each of the Purchasers has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. Each of the Purchasers understands that it must bear the economic risk of this investment indefinitely unless the Shares are registered pursuant to the Securities Act, or an exemption from registration is available. Each of the Purchasers represents that by reason of its, or of its management's, business or financial experience, the Purchaser has the capacity to protect its own interests in connection with the transactions contemplated in the Transaction Agreements.

3.4 Accredited Investor Status. Each of the Purchasers is an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act.

3.5 Restricted Securities. Each of the Purchasers understand that the Shares are restricted securities under the Securities Act insofar as they are being acquired from the Company in a transaction not involving a public offering and that under the Securities Act and applicable regulations promulgated thereunder the Shares may be resold without registration under the Securities Act only in certain limited circumstances. Each of the Purchasers is familiar with Rule 144 promulgated by the SEC, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

3.6 Information. Each of the Purchasers has received and reviewed the SEC Documents, the Company’s Restated Certificate of Incorporation and Bylaws, as amended, and other information provided to it by the Company in the course of the Purchaser’s due diligence. Each of the Purchasers acknowledge that it is satisfied with the information that it has received. Each of the Purchasers has had an opportunity to ask questions of and receive information and answers from the Company concerning the Company and the Common Stock and to assess and evaluate any information supplied to the Purchaser by the Company, and all such questions have been answered and all such information has been provided to the full satisfaction of such Purchaser.

4. CONDITIONS PRECEDENT TO CLOSING

4.1 Conditions to Obligations of the Purchaser. The Purchasers’ obligation to purchase the Shares pursuant to this Agreement is subject to the satisfaction or waiver, at or prior to the Closing Date, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company under Section 2 of this Agreement shall be true, complete and correct on and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of such date and the Company’s Chief Executive Officer shall have certified to such effect to the Purchasers in writing.

(b) No Proceeding Pending. No proceeding challenging the Transaction Agreements, or the transactions contemplated thereby, or seeking to prohibit, alter, prevent or materially delay the Closing, shall have been instituted before any court, arbitrator or governmental authority or official or shall be pending against or involving the Company.

(c) Legal Compliance. The sale of the Shares to the Purchasers shall not be prohibited by any law, rule, governmental order or regulation. All necessary consents, approvals, licenses, permits, orders and authorizations of, or registrations, declarations and filings with, any governmental authority or of or with any other person with respect to any of the transactions contemplated hereby shall have been duly obtained or made to the extent required on or before the date hereof and, when made, shall be in full force and effect.

(d) Delivery of Stock Certificates. The Company shall have delivered or cause to be delivered a stock certificate or stock certificates representing the Shares.

(e) Agreements, Conditions and Covenants. The Company shall have performed or complied in all material respects with all agreements, conditions and covenants required by this Agreement to be performed or complied with by it on or before the Closing Date and the Company's Chief Executive Officer shall have certified to such effect to the Purchasers in writing.

(f) Registration Rights Agreement. The Company shall have executed and delivered a registration rights agreement in the form attached hereto as Exhibit A (the "**Registration Rights Agreement**").

(g) Material Adverse Effect. There shall have been no event or events which has occurred which, taken individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

4.2 Conditions to Obligations of the Company. The Company's obligation to sell and transfer the Shares pursuant to this Agreement is subject to the satisfaction or waiver at or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Purchasers under Section 3 of this Agreement shall be true, complete and correct on and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of such date.

(b) No Proceeding Pending. No proceeding challenging the Transaction Agreements, or the transactions contemplated thereby, or seeking to prohibit, alter, prevent or materially delay the Closing, shall have been instituted before any court, arbitrator or governmental authority or official or shall be pending against or involving the Company.

(c) Agreements, Conditions and Covenants. The Purchaser shall have performed or complied in all material respects with all agreements, conditions and covenants required by this Agreement to be formed or complied with by it on or before the Closing Date.

(d) Registration Rights Agreement. The Purchaser shall have executed and delivered the Registration Rights Agreement.

5. MISCELLANEOUS

5.1 Waiver, Amendment. Neither this Agreement nor any provisions hereof shall be waived, modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, modification, change, discharge or termination is sought.

5.2 Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by either the Company or the Purchaser, without the prior written consent of each other party.

5.3 Section and Other Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

5.4 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to principles of conflicts of laws thereof.

5.5 Counterparts. This Agreement may be executed in any number of counterparts (which shall include signatures by facsimile), each of which when so executed and delivered shall be deemed to be an original and all of which together shall be deemed to be one and the same agreement.

5.6 Notices. All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally, one business day after deposit with a nationally recognized overnight courier service, or five business days after deposit with the U.S. Postal Service if sent by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

(a) if to the Purchasers:

c/o HMC Distressed Investment Offshore Manger, LLC
555 Madison Avenue, 16th Floor
New York, NY 10022
Attn: Philip A. Falcone
212-521-6988 (ph)
212-521-6972 (fax)

w/ copy to:

One Riverchase Parkway South
Birmingham, AL 35244
Attn: Legal Department
205-987-5500 (ph)
205-987-5505 (fax)

(b) if to the Company:

Michael Moore
Gulfport Energy Corporation
14313 North May Avenue, Suite 100
Oklahoma City, Oklahoma 73134
405-848-8807 ext 108

with copy to (which copy shall not constitute notice):

Seth R. Molay, P.C.
Akin Gump Strauss Hauer & Feld LLP
1700 Pacific Avenue
Suite 4100
Dallas, Texas 75201
214-969-4780

5.7 Binding Effect. The provisions of this Agreement shall be binding upon and accrue to the benefit of the parties hereto and their respective heirs, legal representatives, permitted successors and assigns.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company and the Purchasers have executed this Agreement as of the date first written above.

COMPANY:

GULFPORT ENERGY CORPORATION

By: _____

Name: _____

Title: _____

PURCHASERS:

HARBERT DISTRESSED INVESTMENT MASTER FUND, LTD.

By: HMC Distressed Investment Offshore Manager, LLC, as its investment manager

By: _____

Name: _____

Title: _____

ALPHA US SUB FUND VI, LLC

By: Harbert Fund Advisors, Inc. (on Alpha's behalf pursuant to the authority granted under the Investment Advisory Agreement dated as of April 29, 2003, as amended)

By: _____

Name: _____

Title: _____

Exhibit A

Registration Rights Agreement

Schedule I

Purchasers

	<u>Number of Shares</u>	<u>Consideration</u>
Harbert Distressed Investment Master Fund, Ltd.	1,955,000 shares	\$ 6,842,500
Alpha US Sub Fund VI, LLC	45,000 shares	\$ 157,500

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "*Agreement*") is entered into as of February 22, 2005, by and among Gulfport Energy Corporation, a Delaware corporation (the "*Company*"), Southpoint Fund LP, a Delaware limited partnership ("*Southpoint Fund*"), Southpoint Qualified Fund LP, a Delaware limited partnership ("*Southpoint Qualified Fund*") and Southpoint Offshore Operating Fund, LP, a Cayman Islands exempted limited partnership ("*Southpoint Offshore*", and each of Southpoint Fund, Southpoint Qualified Fund and Southpoint Offshore referred to individually herein as a "*Purchaser*" and collectively as the "*Purchasers*").

WITNESSETH:

WHEREAS, the Company desires to sell to the Purchasers, and the Purchasers desire to buy from the Company, the number of Shares (as defined below) set forth opposite such Purchaser's name on Schedule I hereto, for an aggregate of 2,000,000 shares of the Company's common stock, par value \$0.01 per share (the "*Shares*").

NOW, THEREFORE, in consideration of and subject to the mutual agreements, terms and conditions herein contained, the receipt and sufficiency of which are hereby acknowledged, the Company and the Purchaser agree as follows:

1. SUBSCRIPTION FOR AND PURCHASE OF SHARES

1.1 Purchase of Shares. Subject to the terms and conditions set forth herein, the Purchasers hereby subscribe for and agree to purchase, and the Company hereby agrees to sell, assign, transfer and deliver to the Purchasers, the Shares for an aggregate consideration of \$7,000,000 (the "*Purchase Price*") in the amounts and for the consideration set forth on Schedule I hereto.

1.2 Closing Date. The closing of the transactions contemplated hereby shall take place at the offices of Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201-4675, at 10:00 a.m., central time, on February 18, 2005, or at such other location, date and time, as may be agreed upon between the Purchasers and the Company, or by facsimile or other electronic means (such closing being called the "*Closing*" and such date and time being called the *Closing Date*).

1.3 Delivery. At the Closing, the Company shall deliver to the Purchasers or their designee a certificate or certificates representing the Shares against payment of the Purchase Price by wire transfer or payment with other immediately available funds to an account designated by the Company in writing.

1.4 Legend. (a) The certificate or certificates representing the Shares shall bear a legend restricting transfer under the Securities Act of 1933, as amended (the "*Securities Act*") and acknowledging the restrictions on transfer set forth herein, such legend shall be substantially in the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. NO TRANSFER OF THE SHARES REPRESENTED BY THIS CERTIFICATE SHALL BE VALID OR EFFECTIVE UNLESS (A) SUCH TRANSFER IS MADE PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (B) THE HOLDER SHALL DELIVER TO THE COMPANY AN OPINION OF ITS COUNSEL, IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY AND REASONABLY CONCURRED IN BY THE COMPANY'S COUNSEL, THAT SUCH PROPOSED TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SECURITIES EVIDENCED HEREBY ARE SUBJECT TO THE TERMS OF A CERTAIN REGISTRATION RIGHTS AGREEMENT BY AND AMONG THE COMPANY AND THE STOCKHOLDERS IDENTIFIED THEREIN, PROVIDING FOR, AMONG OTHER THINGS, CERTAIN RESTRICTIONS ON TRANSFER. A COPY OF SUCH REGISTRATION RIGHTS AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE COMPANY.

(b) The Company agrees (i) to remove the legend set forth in Section 1.4(a) upon receipt of an opinion of the Purchaser's counsel, reasonably concurred in by the Company's counsel within ten (10) business days of the Company's receipt of such opinion, that the Shares are eligible for transfer without registration under the Securities Act and (ii) to remove such legend at such time as the Shares are sold pursuant to an effective registration statement registering the Shares under the Securities Act.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Purchasers that, as of the date hereof:

2.1 Organization. The Company is a corporation duly organized and validly existing under the laws of the State of Delaware and is in good standing under such laws. The Company has the requisite corporate power and authority to own and operate its properties and assets, and to carry on its business as presently conducted and as presently proposed to be conducted. The Company is qualified to do business as a foreign corporation in each jurisdiction in which the ownership of its property or the nature of its business requires such qualification, except where the failure to be so qualified would not reasonably be expected to have a material adverse effect on the business, assets, liabilities, operations or conditions (financial or otherwise) of the Company and its subsidiaries, taken as a whole (a "*Material Adverse Effect*").

2.2 Authorization. The Company has taken all corporate action necessary for the authorization, execution, delivery and performance of this Agreement and the Registration Rights Agreement (as defined below) (collectively, the "Transaction Agreements") and the authorization, sale, issuance and delivery of the Shares. The Transaction Agreements constitute the legal, valid, and binding obligation of the Company enforceable in accordance with their terms, except to the extent limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general application related to the enforcement of creditors' rights generally and (b) general principles of equity, and except that enforcement of rights to indemnification contained herein may be limited by applicable federal or state laws or the public policy underlying such laws, regardless of whether enforcement is considered in a proceeding in equity or at law.

2.3 No Conflict. The execution and delivery of the Transaction Agreements do not, and the consummation of the transactions contemplated thereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or to a loss of a material benefit under, result in the creation or imposition of (or the obligation to create or impose) any lien, claim or encumbrance upon any of the property or assets of the Company pursuant to the terms of, any provision of, the Company's Restated Certificate of Incorporation or Bylaws, as amended, or any mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or its properties or assets, which would have a Material Adverse Effect or would materially impair or restrict the Company's power to perform its obligations as contemplated under such agreements.

2.4 Capitalization. (a) The authorized capital stock of the Company consists solely of (i) 35,000,000 shares of Common Stock, of which 22,146,566 shares are issued and outstanding, and (ii) 5,000,000 shares of preferred stock, par value \$0.01 per share (the "**Preferred Stock**"), of which the Company has designated 30,000 shares as Series A Preferred Stock, 14,329 of which are issued and outstanding or issuable pursuant to the terms thereof. All of the issued and outstanding shares of Common Stock and Preferred Stock have been duly authorized and validly issued and are fully paid and nonassessable and are not subject to any preemptive rights. None of the outstanding shares of capital stock of the Company were issued in violation of the Securities Act or any state securities laws.

(b) Except as set forth on Schedule 2.4(b) hereof, the Company has not issued or granted any outstanding options, warrants, rights or other securities convertible into or exchangeable or exercisable for shares of the Company's capital stock, any other commitments or agreements providing for the issuance of additional shares of the Company's capital stock, the sale of treasury shares or for the repurchase or redemption of shares of the Company's capital stock or any obligations arising from canceled stock of the Company. Other than this Agreement, there are no agreements of any kind which may obligate the Company to issue, sell, purchase, register for sale, redeem or otherwise acquire any of its securities or interests. The issuance and sale of the Shares will not give rise to any preemptive rights or rights of first refusal on behalf of any person in existence on the date hereof. There are no outstanding or authorized stock appreciation, phantom stock or similar rights with respect to the Company. Except as set forth on Schedule 2.4(b) hereof, there are no outstanding securities of the Company, or contracts binding on the Company relating to such securities, that give to their holders anti-dilution protections or similar rights. Except as set forth on Schedule 2.4(b) hereof, the issuance of the Shares will not give any other holder of the Company's securities the right to receive as a result of such issuance any additional securities or property or change any material rights enjoyed with respect to such securities.

(c) The Shares have been duly authorized, and, upon issuance pursuant to the terms hereof, (a) will be validly issued, fully paid and nonassessable, (b) will not be subject to any encumbrances, preemptive rights or any other similar contractual rights of the stockholders of the Company or, to the Company's knowledge, any other person, and (c) the applicable Purchaser will obtain sole record and beneficial ownership of such Shares and take good marketable title thereto, free and clear of any liens, encumbrances, claims, charges, taxes, options or transfer restrictions of any kind which are imposed by the Company, or arise as a result of the Company's action or omission, other than those transfer restrictions explicitly set forth in the Transaction Agreements.

(d) Except as set forth on Schedule 2.4(d) hereof, there are no voting trusts, stockholder agreements, proxies or other agreements in effect with respect to the voting or transfer of the Shares.

2.5 Compliance With Securities Laws. (a) Subject to and in reliance on the truth and accuracy of the Purchasers' representations and warranties set forth in this Agreement, the offer, sale and issuance of the Shares is exempt from the registration requirements of the Securities Act and any applicable state securities laws and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

(b) Neither the Company, nor any affiliate of the Company, nor any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause the offering or issuance of the Shares pursuant to the Transaction Agreements to be integrated with prior offerings by the Company for purposes of the Securities Act which would cause the exemptions from the Securities and Exchange Commission (the "*SEC*") registration upon which the Company is relying for the offering or issuance of the Shares pursuant to the Transaction Agreements to be unavailable, or would cause any applicable state securities laws exemptions or any applicable stockholder approval provisions exemptions, including, without limitation, under the rules and regulations of any national securities exchange or automated quotation system on which any of the securities of the Company are listed or designated to be unavailable, nor will the Company take any action or steps that would cause the foregoing.

2.6 SEC Documents. (a) Except as set forth on Schedule 2.6(a), the Company has filed all required reports, schedules, forms, statements and other documents with the SEC since December 31, 2002 (the "*SEC Documents*"). As of their respective dates, except as set forth on Schedule 2.6(a), the SEC Documents complied in all material respects with the requirements of the Securities Act or the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), as the case may be, and the rules and regulations of the SEC promulgated thereunder, and, except to the extent that information contained in any SEC Document has been revised or superseded by a later document filed with the SEC and made publicly available prior to the date of this Agreement, none of the SEC Documents contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) The Company's financial statements included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with U.S. generally accepted accounting principles ("*GAAP*") applied on a consistent basis during the periods involved and fairly present the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operation and cashflows for the periods then ending in accordance with GAAP (subject, in the case of the unaudited statements, to normal year-end audit adjustments and the absence of footnotes). Except as disclosed in financial statements included in the SEC Documents, neither the Company nor any of its subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of the Company and its consolidated subsidiaries or in the notes thereto and which would reasonably be expected to have a Material Adverse Effect. Since September 30, 2004, the Company has incurred no material liabilities, other than liabilities incurred in the ordinary course of business consistent with past practice.

(c) The Company maintains a system of internal control over financial reporting which, to the Company's knowledge, is sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with United States generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorizations, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established and maintained disclosure controls and procedures (as such term is defined in Rule 13a-15 and Rule 15d-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that material information relating to the Company is made known to the Company's principal executive officer and its principal financial officer by others within those entities, and such disclosure controls and procedures are effective to perform the functions for which they were established; the Company's auditors and the audit committee of the board of directors of the Company have been advised of: (i) any significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial data; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting; since the date of the most recent evaluation of such disclosure controls and procedures, there have been no significant changes in internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses; the principal executive officer and principal financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and any related rules and regulations promulgated by the SEC, and the statements contained in any such certification are complete and correct; and the Company is otherwise in material compliance with all applicable provisions of the Sarbanes-Oxley Act that are effective.

(d) All material agreements to which the Company is a party or to which the property or assets of the Company are subject are included as part of or specifically identified in the SEC Documents to the extent required by the rules and regulations of the SEC as in effect at the time of filing of such SEC Documents. All such material agreements required to be filed as exhibits to the SEC Documents that are in effect as of the date hereof are legal, valid and binding obligations of the Company in accordance with their respective terms and, to the knowledge of the Company, the other parties thereto, except in any case as may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally and by general equitable principles. The Company is not, nor to its knowledge is any counterparty, in violation of or default under, any material agreement.

2.7 Governmental and Like Consents. No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of the Company is required in connection with the valid execution and delivery of the Transaction Agreements, the offer, sale or issuance of the Shares or the consummation of any other transaction contemplated by the Transaction Agreements, except with respect to the Company's credit agreement with Bank of Oklahoma (which such consent shall be obtained on or before the Closing Date), such filings as may be required to be made with the SEC, the Over-the-Counter Bulletin Board or under applicable state securities laws.

2.8 Litigation. Except as disclosed in the SEC Documents, there is no suit, action, or proceeding pending or affecting the Company or any of its subsidiaries that, individually or in the aggregate, would reasonably be expected to (a) have a Material Adverse Effect, (b) impair the Company's ability to perform its obligations under the Transaction Agreements or (c) prevent the consummation of any of the transactions contemplated by the Transaction Agreements, nor is there any judgment, decree, injunction, rule or order of any governmental entity or arbitrator outstanding against the Company or any of its subsidiaries having, or which, insofar as reasonably can be foreseen in the future have, any such effect.

2.9 No Material Adverse Changes. Since September 30, 2004, (a) there has been no event which has had a Material Adverse Effect; (b) except as contemplated by this Agreement or as described in the SEC Documents, and except with respect to (i) the closing of a private placement of 2,000,000 shares of Common Stock on February 18, 2005 and (ii) the adoption of the Company's 2005 Stock Incentive Plan, there has been no transaction entered into by the Company other than transactions in the ordinary course of business or transactions which would not, individually or in the aggregate, be material to the Company; (c) there have not been any changes in the Company's authorized capital or any increases in the indebtedness of the Company; and (d) there has been no actual or, to the knowledge of the Company, threatened revocation of, or default under, any contract to which the Company is a party, except as would not have a Material Adverse Effect.

2.10 Regulatory Matters. (a) The Company holds all permits, licenses, certificates, registrations and other similar authorizations necessary or appropriate for the conduct of its business (collectively, the “Authorizations”), the lack of which would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has maintained and kept in force and effect, and has applied in a timely manner for renewal of all such Authorizations. The Company is in compliance with all such Authorizations and any terms and conditions thereto except such non-compliance as would not, individually or in the aggregate, have a Material Adverse Effect. Each Authorization which is material to the business of the Company is valid and in full force and effect, and the Company has not received notice from any regulatory authority of its intention to revoke, suspend, condition or fail to renew any such Authorization, which would, individually or in the aggregate, have a Material Adverse Effect. No event has occurred, or facts and circumstances exist, which would be reasonably expected to allow, or after notice or lapse of time would reasonably be expected to allow, revocation, suspension, non-renewal or termination or result in any other material impairment of the Company’s rights under any of its Authorizations to the extent that such revocation, termination or impairment would have a Material Adverse Effect.

2.11 Use of Proceeds. The Company will use the net proceeds received by it from the sale of the Shares to redeem outstanding shares of preferred stock of the Company and for general corporate purposes, including but not to limited working capital, capital expenditures, acquisitions and oil and gas exploration activities.

3. REPRESENTATIONS AND WARRANTIES OF PURCHASERS

Each Purchaser severally, but not jointly, hereby represents and warrants to the Company as follows:

3.1 Organization. Each of Southpoint Fund and Southpoint Qualified Fund is a limited partnership duly organized and validly existing under the laws of the State of Delaware, Southpoint Offshore, is an exempt limited partnership duly organized and validly existing under the laws of the Cayman Islands, and each Purchaser has all requisite power and authority to own, lease and operate its properties and to conduct its business as presently conducted.

3.2 Authority. Each of the Purchasers has taken all action necessary for the authorization, execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by each of the Purchasers and constitutes the legal, valid and binding obligation of each of the Purchasers, enforceable in accordance with its terms, except to the extent limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general application related to the enforcement of creditors’ rights generally and (b) general principles of equity, and except that enforcement of rights to indemnification contained herein may be limited by applicable federal or state laws or the public policy underlying such laws, regardless of whether enforcement is considered in a proceeding in equity or at law.

3.3 Investment. Each of the Purchasers is acquiring the Shares for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof. Each of the Purchasers understands that the Shares have not been registered under the Securities Act and are being issued pursuant to an exemption from the registration requirements of the Securities Act. Each of the Purchasers has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. Each of the Purchasers understands that it must bear the economic risk of this investment indefinitely unless the Shares are registered pursuant to the Securities Act, or an exemption from registration is available. Each of the Purchasers represents that by reason of its, or of its management's, business or financial experience, the Purchaser has the capacity to protect its own interests in connection with the transactions contemplated in the Transaction Agreements.

3.4 Accredited Investor Status. Each of the Purchasers is an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act.

3.5 Restricted Securities. Each of the Purchasers understand that the Shares are restricted securities under the Securities Act insofar as they are being acquired from the Company in a transaction not involving a public offering and that under the Securities Act and applicable regulations promulgated thereunder the Shares may be resold without registration under the Securities Act only in certain limited circumstances. Each of the Purchasers is familiar with Rule 144 promulgated by the SEC, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

3.6 Information. Each of the Purchasers has received and reviewed the SEC Documents, the Company's Restated Certificate of Incorporation and Bylaws, as amended, and other information provided to it by the Company in the course of the Purchaser's due diligence. Each of the Purchasers acknowledge that it is satisfied with the information that it has received. Each of the Purchasers has had an opportunity to ask questions of and receive information and answers from the Company concerning the Company and the Common Stock and to assess and evaluate any information supplied to the Purchaser by the Company, and all such questions have been answered and all such information has been provided to the full satisfaction of such Purchaser.

4. CONDITIONS PRECEDENT TO CLOSING

4.1 Conditions to Obligations of the Purchaser. The Purchasers' obligation to purchase the Shares pursuant to this Agreement is subject to the satisfaction or waiver, at or prior to the Closing Date, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company under Section 2 of this Agreement shall be true, complete and correct on and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of such date and the Company's Chief Executive Officer shall have certified to such effect to the Purchasers in writing.

(b) No Proceeding Pending. No proceeding challenging the Transaction Agreements, or the transactions contemplated thereby, or seeking to prohibit, alter, prevent or materially delay the Closing, shall have been instituted before any court, arbitrator or governmental authority or official or shall be pending against or involving the Company.

(c) Legal Compliance. The sale of the Shares to the Purchasers shall not be prohibited by any law, rule, governmental order or regulation. All necessary consents, approvals, licenses, permits, orders and authorizations of, or registrations, declarations and filings with, any governmental authority or of or with any other person with respect to any of the transactions contemplated hereby shall have been duly obtained or made to the extent required on or before the date hereof and, when made, shall be in full force and effect.

(d) Delivery of Stock Certificates. The Company shall have delivered or cause to be delivered a stock certificate or stock certificates representing the Shares.

(e) Agreements, Conditions and Covenants. The Company shall have performed or complied in all material respects with all agreements, conditions and covenants required by this Agreement to be performed or complied with by it on or before the Closing Date and the Company's Chief Executive Officer shall have certified to such effect to the Purchasers in writing.

(f) Registration Rights Agreement. The Company shall have executed and delivered a registration rights agreement in the form attached hereto as Exhibit A (the "**Registration Rights Agreement**").

(g) Material Adverse Effect. There shall have been no event or events which has occurred which, taken individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

4.2 Conditions to Obligations of the Company. The Company's obligation to sell and transfer the Shares pursuant to this Agreement is subject to the satisfaction or waiver at or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Purchasers under Section 3 of this Agreement shall be true, complete and correct on and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of such date.

(b) No Proceeding Pending. No proceeding challenging the Transaction Agreements, or the transactions contemplated thereby, or seeking to prohibit, alter, prevent or materially delay the Closing, shall have been instituted before any court, arbitrator or governmental authority or official or shall be pending against or involving the Company.

(c) Agreements, Conditions and Covenants. The Purchaser shall have performed or complied in all material respects with all agreements, conditions and covenants required by this Agreement to be formed or complied with by it on or before the Closing Date.

(d) Registration Rights Agreement. The Purchaser shall have executed and delivered the Registration Rights Agreement.

5. MISCELLANEOUS

5.1 Waiver, Amendment. Neither this Agreement nor any provisions hereof shall be waived, modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, modification, change, discharge or termination is sought.

5.2 Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by either the Company or the Purchaser, without the prior written consent of each other party.

5.3 Section and Other Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

5.4 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to principles of conflicts of laws thereof.

5.5 Counterparts. This Agreement may be executed in any number of counterparts (which shall include signatures by facsimile), each of which when so executed and delivered shall be deemed to be an original and all of which together shall be deemed to be one and the same agreement.

5.6 Notices. All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally, one business day after deposit with a nationally recognized overnight courier service, or five business days after deposit with the U.S. Postal Service if sent by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

(a) if to the Purchasers:

Southpoint Capital Advisors LP
237 Park Avenue, Suite 900
New York, NY 10017
Attn: Rob Butts

(b) if to the Company:

Michael Moore
Gulfport Energy Corporation
14313 North May Avenue, Suite 100
Oklahoma City, Oklahoma 73134
405-848-8807 ext 108

with copy to (which copy shall not constitute notice):

Seth R. Molay, P.C.
Akin Gump Strauss Hauer & Feld LLP
1700 Pacific Avenue
Suite 4100
Dallas, Texas 75201
214-969-4780

5.7 Binding Effect. The provisions of this Agreement shall be binding upon and accrue to the benefit of the parties hereto and their respective heirs, legal representatives, permitted successors and assigns.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company and the Purchasers have executed this Agreement as of the date first written above.

COMPANY:
GULFPORT ENERGY CORPORATION

By: _____
Name: _____
Title: _____

PURCHASERS:

SOUTHPOINT FUND LP

By: Southpoint GP, LP, its general partner
By: Southpoint GP, LLC, its general partner

By:

John S. Clark II
Managing Member

By:

Robert W. Butts
Managing Member

SOUTHPOINT QUALIFIED FUND LP

By: Southpoint GP, LP, its general partner
By: Southpoint GP, LLC, its general partner

By:

John S. Clark II
Managing Member

By:

Robert W. Butts
Managing Member

SOUTHPOINT QUALIFIED FUND LPSOUTHPOINT OFFSHORE
OPERATING FUND LP

By: Southpoint GP, LP, its general partner
By: Southpoint GP, LLC, its general partner

By:

John S. Clark II
Managing Member

By:

Robert W. Butts
Managing Member

Exhibit A

Registration Rights Agreement

Schedule I

Purchasers

	<u>Number of Shares</u>	<u>Consideration</u>
Southpoint Fund LP	200,372	\$ 701,302.00
Southpoint Qualified Fund LP	825,457	\$ 2,889,099.50
Southpoint Offshore Operating Fund, LP	<u>974,171</u>	<u>\$ 3,409,598.50</u>
Total	<u>2,000,000</u>	<u>\$ 7,000,000</u>

GULFPORT ENERGY CORPORATION

General Philosophy

The honesty, integrity and sound judgment of Gulfport Energy Corporation's ("Gulfport") Senior Financial Officers is fundamental to our reputation and success.

Applicability

This Code of Ethics shall apply to Gulfport's Senior Financial Officers. "Senior Financial Officers" shall include the principal executive officer, the principal financial officer, the principal accounting officer or controller, or persons performing similar functions, including Gulfport's President and Chief Executive Officer, Chief Financial Officer, and Vice President - Accounting and Controller. In the event of the change of an officer's title or designation as a principal officer, or the addition of an officer to the foregoing definition, any officer performing a similar function shall be included.

Standards of Conduct

To the best of their knowledge and ability, the Senior Financial Officers shall:

- act with honesty and integrity, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- provide full, fair, accurate, timely and understandable disclosure in reports and documents that Gulfport files with, or submits to, the Securities and Exchange Commission ("Commission") and in other public communications made by Gulfport;
- promote the prompt internal reporting of violations of this Code of Ethics to the chair of the Audit Committee of the board of directors and to the appropriate person or persons identified in Gulfport's Code of Business Conduct;
- respect the confidentiality of information acquired in the course of employment;
- maintain the skills necessary and relevant to Gulfport's needs;
- promote, as appropriate, contact by employees with the Business Integrity Office or the chair of the Audit Committee of the board of directors for any issues concerning improper accounting or financial reporting or Gulfport without fear of retaliation; and
- proactively promote ethical and honest behavior within Gulfport and its consolidated subsidiaries.

All Senior Financial Officers are expected to adhere to both the Gulfport Energy Corporation Code of Business Conduct and this Code of Ethics. Any violation of this Code of Ethics will be subject to appropriate discipline, up to and including dismissal from the Company and prosecution under the law. The board of directors shall have the sole and absolute discretionary authority to approve any deviation or waiver from this Code of Ethics for Senior Financial Officers. Any change in or waiver from and the grounds for such change or waiver of this Code of Ethics for Senior Financial Officers shall be promptly disclosed through a filing with the Commission on Form 8-K.

Subsidiaries of the Registrant

None

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 25, 2005, accompanying the financial statements included in the Annual Report of Gulfport Energy Corporation on Form 10-KSB for the year ended December 31, 2004. We hereby consent to the incorporation by reference of said report in the Registration Statement of Gulfport Energy Corporation on Form S-8 (File No. 333-55738, effective February 16, 2001).

/s/ GRANT THORNTON LLP

Oklahoma City, Oklahoma
March 25, 2005

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 filed on February 16, 2001 (File No. 333-55738) of Gulfport Energy Corporation of our report dated April 14, 2004 relating to the audit of the statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2003, which appears in this Form 10-KSB.

/s/ Hogan & Slovacek

Oklahoma City, Oklahoma
April 14, 2004

CERTIFICATION

I, Mike Liddell, Chief Executive Officer of Gulfport Energy Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Gulfport Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 31, 2005

By: /s/ Mike Liddell

Mike Liddell
Chief Executive Officer

CERTIFICATION

I, Michael G. Moore, Chief Financial Officer of Gulfport Energy Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Gulfport Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 31, 2005

By: /s/ Mike Moore

Mike Moore
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, Mike Liddell, Chief Executive Officer of Gulfport Energy Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-QSB of the Company for the quarterly period ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2005

By: /s/ Mike Liddell

Mike Liddell
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF PERIODIC REPORT

I, Michael G. Moore, Chief Financial Officer of Gulfport Energy Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-QSB of the Company for the quarterly period ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2005

By: /s/ Mike Moore

Mike Moore
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.