

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

Commission file number: 001-31539

ST. MARY LAND & EXPLORATION COMPANY
(Exact name of registrant as specified in its charter)

Delaware 41-0518430
(State or other jurisdiction (I.R.S. Employer Identification No.)
of incorporation or organization)

1776 Lincoln Street, Suite 700, Denver, Colorado 80203
(Address of principal executive offices) (Zip Code)

(303) 861-8140
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [] No []

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

As of October 31, 2003, the registrant had 31,537,477 shares of common stock, \$0.01 par value, outstanding.

ST. MARY LAND & EXPLORATION COMPANY

INDEX

Part I. FINANCIAL INFORMATION	PAGE
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets - September 30, 2003 and December 31, 2002.....	3
Consolidated Statements of Operations - Three and Nine Months Ended September 30, 2003 and 2002.....	4
Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2003 and 2002.....	5
Consolidated Statements of Stockholders' Equity and Comprehensive Income - September 30, 2003 and December 31, 2002.....	7
Notes to Consolidated Financial Statements - September 30, 2003.....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	31
Item 4. Controls and Procedures.....	32
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings.....	32
Item 5. Other Information.....	33
Item 6. Exhibits and Reports on Form 8-K.....	34

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share amounts)

	September 30,	December 31,
ASSETS	2003	2002
Current assets:		
Cash and cash equivalents	\$ 7,114	\$ 11,154
Short term investments	2,519	1,933
Accounts receivable	58,745	35,399
Prepaid expenses and other	4,712	6,510
Accrued derivative asset	1,956	-
Refundable income taxes	2,395	1,031
Deferred income taxes	4,529	3,520
Total current assets	81,970	59,547

Property and equipment (successful efforts method), at cost:		
Proved oil and gas properties	831,642	683,752
Less accumulated depletion, depreciation and amortization	(296,543)	(263,436)
Unproved oil and gas properties, net of impairment allowance of \$11,720 in 2003 and \$8,865 in 2002	61,533	47,984
Other property and equipment, net of accumulated depreciation of \$4,351 in 2003 and \$3,586 in 2002	4,301	3,639
Total property and equipment	600,933	471,939
Other noncurrent assets	6,557	5,653
Total Assets	\$ 689,460	\$ 537,139

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	\$ 76,130	\$ 48,790
Accrued hedge liability	13,118	8,707
Total current liabilities	89,248	57,497
Noncurrent liabilities:		
Long-term credit facility	13,000	14,000
Convertible notes	99,672	99,601
Deferred income taxes	80,972	60,156
Asset retirement obligation liability	24,635	-
Other noncurrent liabilities	9,763	5,727
Total noncurrent liabilities	228,042	179,484
Commitments and contingencies		
Minority interest	602	645
Temporary equity (Note 9):		
Common stock subject to put and call options, \$0.01 par value issued and outstanding - 3,380,818 shares in 2003 and -0- shares in 2002	71,594	-
Note receivable from Flying J	(71,594)	-
Total Temporary Equity	-	-
Stockholders' equity:		
Common stock, \$0.01 par value: authorized - 100,000,000 shares; issued - 29,155,441 shares in 2003 and 28,983,110 shares in 2002; outstanding, net of treasury shares - 28,152,741 shares in 2003 and 27,973,210 shares in 2002	292	290
Additional paid-in capital	144,816	140,688
Treasury stock - at cost: 1,002,700 shares in 2003 and 1,009,900 shares in 2002	(16,057)	(16,210)
Retained earnings	251,839	182,512
Accumulated other comprehensive loss	(9,322)	(7,767)
Total stockholders' equity	371,568	299,513
Total Liabilities, Temporary Equity and Stockholders' Equity	\$ 689,460	\$ 537,139

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

-3-

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Operating revenues:				
Oil and gas production	\$ 86,414	\$ 45,121	\$ 278,236	\$ 132,411
Loss on sale of proved properties	(343)	(503)	(221)	(90)
Marketed gas system revenue	3,911	3,366	11,019	6,810
Other oil and gas revenue	481	185	2,521	932
Derivative gain	325	2,619	358	4,594
Other revenues	211	166	3,994	1,073
Total operating revenues	90,999	50,954	295,907	145,730
Operating expenses:				
Oil and gas production	23,914	12,392	68,304	37,953
Depletion, depreciation, amortization and abandonment liability accretion	20,765	12,836	61,251	39,169
Exploration	9,883	4,219	20,668	15,432
Abandonment and impairment of unproved properties	2,300	587	4,003	1,906
General and administrative	5,535	4,388	17,699	10,544
Marketed gas system operating expense	3,584	3,545	10,041	6,631
Minority interest and other	707	286	1,202	906
Total operating expenses	66,688	38,253	183,168	112,541
Income from operations	24,311	12,701	112,739	33,189
Nonoperating income (expense):				
Interest income	73	288	647	568
Interest expense	(1,833)	(1,110)	(6,416)	(2,580)
Income before income taxes and cumulative effect of change in accounting principle	22,551	11,879	106,970	31,177
Income tax expense	8,765	4,205	41,505	10,596
Income before cumulative effect of change in accounting principle	13,786	7,674	65,465	20,581
Cumulative effect of change in accounting principle, net	-	-	5,435	-
Net income	\$ 13,786	\$ 7,674	\$ 70,900	\$ 20,581
Basic earnings per common share:				
Income before cumulative effect of change in accounting principle	\$ 0.44	\$ 0.28	\$ 2.11	\$ 0.74
Cumulative effect of change in accounting principle	-	-	0.17	-

Basic net income per common share	\$ 0.44	\$ 0.28	\$ 2.28	\$ 0.74
Diluted earnings per common share:				
Income before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.27	\$ 1.93	\$ 0.72
Cumulative effect of change in accounting principle	-	-	0.15	-
Diluted net income per common share	\$ 0.41	\$ 0.27	\$ 2.08	\$ 0.72
Basic weighted average common shares outstanding	31,529	27,873	31,126	27,828
Diluted weighted average common shares outstanding	35,828	28,448	35,426	28,388
Cash dividends declared per common share	\$ -	\$ -	\$ 0.05	\$ 0.05

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

-4-

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the Nine Months Ended	
	September 30,	
	2003	2002
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 70,900	\$ 20,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of proved properties	221	90
Depletion, depreciation and amortization	61,251	39,169
Exploratory dry hole expense	7,497	7,293
Abandonment and impairment of unproved properties	4,003	1,906
Unrealized derivative gain	(358)	(4,594)
Mark to market of long-term net profit plans	2,406	860
Deferred income taxes	15,612	10,016
Minority interest and other	(1,324)	(2,904)
Cumulative effect of change in accounting principle, net of tax	(5,435)	-
	154,773	72,417
Changes in current assets and liabilities:		
Accounts receivable	(23,346)	12,962
Prepaid expenses and other	1,798	(1,442)
Refundable income taxes	1,943	9,215
Accounts payable and accrued expenses	15,746	13,000
Net cash provided by operating activities	150,914	106,152
Cash flows from investing activities:		
Proceeds from sale of oil and gas properties	2,717	166
Capital expenditures	(81,218)	(65,106)
Acquisition of oil and gas properties, including related \$71,594 loan to Flying J in 2003	(75,234)	(21,574)
Proceeds from distribution and sale of KMOC stock	-	3,114
Deposits to short term investments available-for-sale	(1,029)	(11,484)
Proceeds from short term investments available-for-sale	950	1,000
Other	166	26
Net cash used in investing activities	(153,648)	(93,858)
Cash flows from financing activities:		
Proceeds from credit facility	120,011	16,000
Repayment of credit facility	(122,020)	(80,000)
Proceeds (costs) from issuance of convertible notes	(78)	96,661
Proceeds from sale of common stock	2,354	1,390
Dividends paid	(1,573)	(1,391)
Net cash provided by (used in) financing activities	(1,306)	32,660
Net change in cash and cash equivalents	(4,040)	44,954
Cash and cash equivalents at beginning of period	11,154	4,116
Cash and cash equivalents at end of period	\$ 7,114	\$ 49,070

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

-5-

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Continued)

Supplemental schedule of additional cash flow information and noncash investing and financing activities:

	For the Nine Months Ended	
	September 30,	
	2003	2002
	(In thousands)	
Cash paid for interest, including amounts capitalized	\$ 7,245	\$ 284
Cash paid for income taxes	23,208	10,386

In January 2003 the Company issued 7,200 shares of common stock from treasury to its non-employee directors and recorded compensation expense of \$153,000.

In January 2003 the Company issued 3,380,818 restricted shares of common stock to Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. (collectively, "Flying J") and entered into a put and call option agreement with Flying J with respect to those shares in connection with the acquisition of oil and gas properties and related assets and liabilities.

In June 2002 the Company issued 800 shares of common stock to a non-employee director and recorded compensation expense of \$14,763.

In April 2002 the Company accepted 9,472,562 shares of common stock in Constellation Copper Corporation ("Constellation", formerly known as Summo Minerals Corporation) in lieu of cash payment for the relief of a

\$1,400,000 loan and \$15,311 in interest due to the Company.

In January 2002 the Company issued 7,200 shares of common stock to its non-employee directors and recorded compensation expense of \$129,683.

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

-6-

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)
(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances, December 31, 2001	28,779,808	\$ 288	\$ 137,384	(1,009,900)	\$ (16,210)	\$ 157,739	\$ 6,916	\$ 286,117
Comprehensive income:								
Net Income	-	-	-	-	-	27,560	-	27,560
Unrealized net loss on marketable equity securities available for sale	-	-	-	-	-	-	(725)	(725)
Change in derivative instrument fair value	-	-	-	-	-	-	(14,644)	(14,644)
Reclass to earnings	-	-	-	-	-	-	1,447	1,447
Minimum pension liability adjustment	-	-	-	-	-	-	(761)	(761)
Total comprehensive income								12,877
Cash dividends, \$ 0.10 per share	-	-	-	-	-	(2,787)	-	(2,787)
Issuance for Employee Stock Purchase Plan	18,217	-	344	-	-	-	-	344
ESPP disqualified distribution	-	-	21	-	-	-	-	21
Sale of common stock, including income tax benefit of stock option exercises	177,085	2	2,743	-	-	-	-	2,745
Accelerated vesting of retiring director option	-	-	52	-	-	-	-	52
Directors' stock compensation	8,000	-	144	-	-	-	-	144
Balances, December 31, 2002	28,983,110	\$ 290	\$ 140,688	(1,009,900)	\$ (16,210)	\$ 182,512	\$ (7,767)	\$ 299,513
Comprehensive income:								
Net Income	-	-	-	-	-	70,900	-	70,900
Unrealized net gain on marketable equity securities available for sale	-	-	-	-	-	-	716	716
Change in derivative instrument fair value	-	-	-	-	-	-	(14,248)	(14,248)
Reclass to earnings	-	-	-	-	-	-	11,977	11,977
Total comprehensive income								69,345
Cash dividends, \$ 0.05 per share	-	-	-	-	-	(1,573)	-	(1,573)
Issuance for Employee Stock Purchase Plan	10,018	-	213	-	-	-	-	213
Value of net option rights granted to Flying J	-	-	995	-	-	-	-	995
Sale of common stock, including income tax benefit of stock option exercises	162,313	2	2,920	-	-	-	-	2,922
Directors' stock compensation	-	-	-	7,200	153	-	-	153
Balances, September 30, 2003	29,155,441	\$ 292	\$ 144,816	(1,002,700)	\$ (16,057)	\$ 251,839	\$ (9,322)	\$ 371,568

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

-7-

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

September 30, 2003

Note 1 - The Company and Business

St. Mary Land & Exploration Company ("St. Mary" or the "Company") is an independent energy company engaged in the exploration, development, acquisition and production of natural gas and crude oil. The Company's operations are conducted entirely in the United States.

Note 2 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of St. Mary have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in St. Mary's Annual Report on Form 10-K for the year ended December 31, 2002. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in the Form 10-K for the year ended December 31, 2002. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in the Form 10-K.

Note 3 - Earnings Per Share

Basic net income per common share of stock is calculated by dividing net income by the weighted average of common shares outstanding during each period. During the first quarter of 2003, the Company issued 3,380,818 shares of common stock as part of an acquisition (see Note 9). These shares are considered outstanding for purposes of calculating basic and diluted net income per common share and are weighted accordingly in the calculation of common shares outstanding. These shares are included in the temporary equity section of the accompanying consolidated balance sheets. Following is a reconciliation of total

shares outstanding as of September 30, 2003.

Common shares outstanding in Stockholders' equity	28,152,741
Restricted common shares outstanding in Temporary equity	3,380,818
Total common shares outstanding	31,533,559

Diluted net income per common share of stock is calculated by dividing adjusted net income by the weighted average of common shares outstanding and other dilutive securities. Adjusted net income is used for the if-converted method discussed below and is derived by adding interest expense paid on the Company's 5.75% Senior Convertible Notes due 2022 (the "Convertible Notes") back to net income and then adjusting for nondiscretionary items including the related income tax effect. Potentially dilutive securities of the Company consist of in-the-money outstanding options to purchase the Company's common stock, shares into which the Convertible Notes may be converted, and any incremental shares that based on current market prices are assumed will be issued under the reverse-treasury method assumptions if the put option described in Note 9 is exercised.

-8-

The treasury stock method is used to measure the dilutive impact of stock options. The following table details the weighted-average dilutive and anti-dilutive securities related to stock options for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Dilutive	453,208	394,008	453,905	399,676
Anti-dilutive	794,455	1,163,790	673,807	843,936

Shares associated with the conversion feature of the Convertible Notes are accounted for using the if-converted method. Under the if-converted method, income used to calculate diluted earnings per share is adjusted for the interest charges and nondiscretionary adjustments based on income that would have changed had the Convertible Notes been converted at the beginning of the period. Potentially dilutive shares of 3,846,153 related to the Convertible Notes were included in the calculation of diluted net income per share for the three and nine months ended September 30, 2003. The Convertible Notes were issued in March 2002. Shares related to the put option that was granted on January 29, 2003 are accounted for using the reverse-treasury method. There is no dilutive effect for the put option in the current quarter or year to date as the average market value of the Company's stock exceeded the strike price of the put option.

Note 4 - Compensation Plans

The Company accounts for stock-based compensation using the intrinsic value recognition and measurement principles prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations. No stock-based employee compensation expense is reflected in net income as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation for the periods presented (in thousands, except per share amounts).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income				
As reported	\$13,786	\$ 7,674	\$70,900	\$20,581
Pro forma	12,096	6,355	66,606	17,078
Basic earnings per share				
As reported	\$ 0.44	\$ 0.28	\$ 2.28	\$ 0.74
Pro forma	0.38	0.23	2.14	0.61
Diluted earnings per share				
As reported	\$ 0.41	\$ 0.27	\$ 2.08	\$ 0.72
Pro forma	0.36	0.22	1.96	0.60

For purposes of pro forma disclosures, the estimated fair values of the options are amortized to expense over the options' vesting periods. The effects of applying SFAS No. 123 in the pro forma disclosure are not necessarily indicative of actual future amounts.

-9-

The fair value of options is measured at the date of grant using the Black-Scholes option-pricing model. The fair value of options granted in 2003 and 2002 were estimated using the following weighted-average assumptions.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Risk free interest rate	3.84%	2.68%	3.28%	4.02%
Dividend yield	0.39%	0.42%	0.39%	0.43%
Volatility factor of the expected market price of the Company's common stock	49.41%	49.81%	48.70%	47.32%
Expected life of the options (in years)	7.7	5.0	6.7	6.1

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions, are fully transferable, and are not subject to trading restrictions or black out periods. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Since the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is management's opinion that the existing models do not necessarily provide a reliable single measure of the fair value of St Mary's employee stock options.

In December 2002 the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure: an amendment of FASB Statement No. 123." This statement provided for transition methods for adopting the fair value accounting model of accounting for the issuance of stock options. The statement provides for three alternative adoption methods: (1) The retroactive method - where all prior periods are restated to reflect the expensing of all options granted on a retroactive basis, (2) The modified-prospective method-where a company begins expensing all prior and current option grants in the current year, and (3) The prospective method-where a company begins expensing all current period option grants in the current year. St. Mary is continuing to evaluate these adoption alternatives and current FASB discussions as well as considering the issuance of restricted stock for its equity component of employee compensation.

Note 5 - Income Taxes

Income tax expense for the three and nine months ended September 30, 2003 and 2002 differ from the amounts that would be provided by applying the statutory U.S. Federal income tax rate to income before income taxes primarily

due to the effect of state income taxes, percentage depletion, Internal Revenue Code Section 29 credits, valuation allowance adjustments against prior year credits, and changes in the composition of income tax rates. For the three and nine month periods ended September 30, 2003, the Company's current portion of income tax expense was \$4,038,000 and \$25,892,000 respectively, compared to a benefit of \$900,000 and expense of \$502,000 for the same respective periods in 2002.

-10-

Note 6 - Long-term Debt

In January 2003 the Company replaced its revolving credit facility with a new long-term revolving credit agreement with a group of banks. The new credit agreement specifies a maximum loan amount of \$300,000,000 and has a maturity date of January 27, 2006. Borrowings under the facility are secured by a pledge in favor of the lenders of collateral that includes certain oil and gas properties and the common stock of the material subsidiaries of the Company. A borrowing base of \$275,000,000 was determined by the bank group at the end of October 2003 under a normal semi-annual determination. The borrowing base determination process considers the value of St. Mary's oil and gas properties and other assets, as determined by the bank syndicate. We have elected an aggregate commitment amount of \$150,000,000. The Company must comply with certain financial and non-financial covenants. Interest and commitment fees are accrued based on the borrowing base utilization percentage table below. Eurodollar loans accrue interest at LIBOR plus the applicable margin from the utilization table, and Alternative Base Rate (ABR) loans accrue interest at Prime plus the applicable margin from the utilization table. Commitment fees are accrued on the unused portion of the aggregate commitment amount and are included in interest expense in the consolidated statements of operations.

Borrowing base utilization percentage	<50%	=>50%<75%	=>75%<90%	>90%
Eurodollar Loans	1.25%	1.50%	1.75%	2.00%
ABR Loans	0.00%	0.25%	0.50%	0.75%
Commitment Fee Rate	0.30%	0.38%	0.38%	0.50%

At September 30, 2003, the Company's borrowing base utilization percentage as defined under the credit agreement was 9%. The Company had \$13,000,000 in Eurodollar loans and no ABR loans outstanding under its revolving credit agreement as of September 30, 2003. Had the Company desired to incur additional borrowings to increase its current assets, it could have elected to borrow an amount necessary to ensure a net working capital position. As of November 5, 2003, the Company has repaid an additional \$8,000,000 of the credit facility resulting in an outstanding balance of \$5,000,000.

As of September 30, 2003, the Company also had \$100,000,000 in outstanding borrowings under the Convertible Notes. The Convertible Notes provide for the payment of contingent interest of up to an additional 0.5% during six-month interest periods based on the note trading price before the beginning of the particular six-month period. Under that provision, interest was accrued at a total rate of 6.25% for the quarter and nine-month periods ended September 30, 2003. Based on the trading price of the Convertible Notes over the determination period, the Company will be subject to the contingent interest payments for the period from September 16, 2003, to March 15, 2004.

On October 3, 2003, the Company entered into fixed to floating interest rate swaps for a total notional amount of \$50,000,000 through March 20, 2007. This date is the first date on which the Convertible Notes can be redeemed solely at St. Mary's option for 100% of the principal amount plus accrued and unpaid interest. Under the swaps St. Mary will be paid a fixed interest rate of 5.75% and will pay a variable interest rate of 235 basis points above the six month LIBOR rate as determined on the semi-annual settlement date. The 6-month LIBOR rate on October 3, 2003 was 1.16%. The payment dates of the swaps match exactly with the interest payment dates of the Convertible Notes.

The weighted average interest rates paid for the third quarter of 2003 and for the nine months ended September 30, 2003 were 7.0% and 6.1%, respectively, including commitment fees paid on the unused portion of the credit facility aggregate commitment, amortization of deferred financing costs, and amortization of the contingent interest embedded derivative. The impact of the commitment fees over a lower average outstanding balance results in a higher weighted average interest rate despite lower LIBOR interest rates than in previous quarters.

-11-

Note 7 - Derivative Financial Instruments

The Company recognized a net loss of \$19,284,000 from its derivative contracts for the nine months ended September 30, 2003, and a net gain of \$7,329,000 for the nine months ended September 30, 2002. Comparative amounts for the three months ended September 30, 2003 and 2002 were a net loss of \$4,216,000 and a net gain of \$1,868,000, respectively.

The Convertible Notes contain a provision for payment of contingent interest if certain conditions are met. Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," this provision is considered an embedded equity-related derivative that is not clearly and closely related to the fair value of an equity interest and therefore must be separately treated as a derivative instrument. The value of the derivative at issuance of the Convertible Notes in March 2002 was \$474,000. This amount was recorded as a decrease to the Convertible Notes payable in the consolidated balance sheets. Of this amount, \$71,000 and \$51,000 were amortized through interest expense for the nine-month periods ended September 30, 2003 and 2002, respectively. Interest expense for each of the three-month periods ended September 30, 2003 and 2002 includes \$24,000 of amortization. Derivative gain in the consolidated statements of operations for the nine-month periods ended September 30, 2003 and 2002 includes net gain of \$247,000 and a net loss of \$239,000, respectively, from mark-to-market adjustments for this derivative. Derivative gain for the three month periods ended September 30, 2003 and 2002 includes net gains of \$261,000 and \$83,000, respectively, from mark-to-market adjustments.

The Company's previous fixed-rate to floating-rate interest rate swap on \$50,000,000 of the Convertible Notes did not qualify for cash flow or fair value hedge accounting treatment under SFAS No. 133. This contract was entered into on March 25, 2002, and was closed out on December 3, 2002. Derivative gain in the consolidated statement of operations for the period ended September 30, 2002, includes \$4,838,000 of net unrealized mark-to-market gain from the interest rate swap contract.

The Company has in place derivative contracts for the sale of oil and natural gas. These contracts include traditional swap and collar arrangements. The Company attempts to qualify the majority of these instruments as cash flow hedges for accounting purposes.

The following table summarizes all derivative instrument activity (in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Gain (Loss)		Gain (Loss)	
Derivative contract settlements included in oil and gas production revenues	\$ (4,517)	\$ (727)	\$ (19,571)	\$ 2,786
Ineffective portion of hedges qualifying for hedge accounting included in derivative loss	28	(58)	75	(4)
Non-qualified derivative contracts included in derivative gain (loss)	297	2,677	283	4,598
Amortization of contingent interest derivative through interest expense	(24)	(24)	(71)	(51)

Total	\$ (4,216)	\$ 1,868	\$ (19,284)	\$ 7,329
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-12-

On September 30, 2003, St. Mary's remaining cash flow hedge positions resulted in a net pre-tax liability of \$14,157,000. The Company anticipates it will reclassify \$13,983,000 of this amount to gains or losses included in oil and gas production operating revenues as the hedged production quantity is produced. The remaining amount relates to an undesignated collar that will be marked to market through the consolidated statements of operations until it expires on December 31, 2003. Based on current prices the net amount of existing unrealized after-tax loss as of September 30, 2003, to be reclassified from accumulated other comprehensive income to oil and gas production operating revenues in the next twelve months would be \$6,831,000, net of deferred income taxes. The Company anticipates that all original forecasted transactions will occur by the end of the originally specified time periods.

Note 8 - Asset Retirement Obligations

Effective January 1, 2003, the Company adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. SFAS No. 143 requires the Company to recognize an estimated liability for costs associated with the abandonment of its oil and gas properties.

As of January 1, 2003, the Company recognized the future cost to abandon oil and gas properties over the estimated economic life of the oil and gas properties in accordance with the provisions of SFAS No. 143. A liability for the fair value of an asset retirement obligation with a corresponding increase to the carrying value of the related long-lived asset is recorded at the time a well is completed or acquired. The Company depletes the amount added to proved oil and gas property costs and recognizes accretion expense in connection with the discounted liability over the remaining life of the respective oil and gas properties. Prior to the adoption of SFAS No. 143 the Company had recognized an abandonment liability for its offshore wells. These offshore liabilities were reversed upon adoption of SFAS No. 143, and the methodology described above was used to determine the liability associated with abandoning all wells, including those offshore.

The estimated liability is based on historical experience in abandoning wells, estimated economic lives, external estimates as to the cost to abandon the wells in the future and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate of approximately 7.25%. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells.

Upon adoption of SFAS No. 143, the Company recorded a discounted liability of \$21,403,000, reversed the existing offshore abandonment liability of \$9,144,000, increased property and equipment by \$12,827,000, decreased accumulated Depreciation, Depletion and Amortization ("DD&A") by \$8,280,000 and recognized a one-time cumulative effect gain of \$5,435,000 (net of deferred tax benefit of \$3,414,000).

The Company estimates that the salvage value of equipment included in its oil and gas properties is \$43,934,000 as of September 30, 2003. This amount is excluded from the Company's DD&A calculation.

-13-

A reconciliation of the Company's liability for the three and nine months ended September 30, 2003, is as follows (in thousands).

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
Beginning Asset Retirement Obligation	\$ 24,603	\$ -
Liability from SFAS 143 adoption	-	21,403
Liabilities incurred	522	3,415
Liabilities settled	(925)	(1,456)
Accretion expense	435	1,273
Ending Asset Retirement Obligation	\$ 24,635	\$ 24,635

The following tables illustrate the pro forma effect on the asset retirement obligation liability, net income and earnings per share if the Company had adopted the provisions of SFAS No. 143 on January 1, 2002. The pro forma amounts of the liability are measured using current information, assumptions and interest rates as of January 1, 2003 (in thousands, except per share amounts).

	January 1, 2002	December 31, 2002
Asset retirement obligation liability	\$ 20,358	\$ 21,829
	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
Net Income		
As reported	\$ 7,674	\$ 20,581
Pro forma	\$ 7,435	\$ 19,872
Basic EPS		
As reported	\$ 0.28	\$ 0.74
Pro forma	\$ 0.27	\$ 0.71
Diluted EPS		
As reported	\$ 0.27	\$ 0.72
Pro forma	\$ 0.26	\$ 0.69

Note 9 - Flying J Acquisition

On January 29, 2003, the Company acquired oil and gas properties from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. (collectively, "Flying J"). St. Mary issued 3,380,818 restricted shares of its common stock to Flying J. In addition, St. Mary made a non-recourse loan to Flying J of \$71,594,000 at LIBOR plus 2% for up to a 39-month period. This loan is secured by a pledge of the shares of common stock issued to Flying J, with the final nine months of interest on that loan to be subject to recourse to Flying J. St. Mary also entered into a put and call option agreement with Flying J whereby during the 39-month loan period Flying J can elect to put their shares of St. Mary common stock to the Company for \$71,594,000 plus accrued interest on the loan during the first thirty months of the loan period, and St. Mary can elect to call the shares for \$97,447,000, with the proceeds from the exercise of either the put option or the call option to be applied to the repayment of the loan plus accrued and unpaid interest. The shares issued are restricted for a period

-14-

of two years, and Flying J may not resell the shares during that period. If neither Flying J nor St. Mary exercise their respective option rights, the loan

plus accrued interest will have to be repaid prior to the release of the security interest in the shares.

Final valuation determinations for accounting purposes were made in the third quarter of 2003 for this transaction. The net option with respect to Flying J's contractual rights to obtain additional value from any appreciation of the shares over the put amount up to the call amount was valued at \$995,000. For accounting purposes, the effect of the above arrangements is that we have acquired properties in exchange for \$71,594,000 of cash plus a net option to Flying J valued at \$995,000, resulting in a total valuation of \$72,589,000. The allocation of the purchase price for the net assets acquired was \$72,357,000 of proved reserves and unproved acreage, \$445,000 of other assets, a \$1,936,000 asset retirement liability, a \$2,012,000 hedge liability, and \$3,735,000 in net cash received for purchase price adjustments. The allocation is subject to change due to final determination of items such as the valuation of current assets, exercises of preferential rights on properties acquired or final settlements and adjustments to revenue and expenses relating to the period between the effective date of the acquisition agreement and the closing date. St. Mary expects to have the allocation finalized within the one year window allowed for purchase price allocation adjustments. The acquisition was accounted for using the purchase method of accounting. Operating results from the acquired properties have been included in the consolidated statements of operations only from the date of closing.

The shares of common stock that were issued in this transaction have been recorded as temporary equity since they are subject to the put option whereby the Company may be required to repurchase these shares. The shares of common stock are considered outstanding for basic and diluted earnings per share calculations. These shares could potentially become part of permanent stockholders' equity in the future. The loan arising from this transaction is considered a contra-temporary equity item on the consolidated balance sheets, as opposed to an asset, since the loan is non-recourse to Flying J except with respect to interest accrued after the first thirty months and is secured by the restricted common stock issued as part of this transaction. Interest is not being accrued for accounting purposes because of the non-recourse nature of the loan. Interest income will only be recorded during the last nine months of the loan period. Any interest amounts received related to the first thirty months of the loan period will be recorded as an increase to additional paid-in capital. For accounting purposes the net option is reflected in the equity section of our consolidated balance sheets as additional paid-in capital.

Note 10 - Recently Issued Accounting Standards

In May 2003 the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and requires that such financial instruments be classified as a liability (or as an asset in certain circumstances). SFAS No. 150 is effective for all freestanding instruments entered into or modified after May 31, 2003. Otherwise, it became effective for the Company as of July 1, 2003. St. Mary currently has no financial instruments that fall within the scope of this Statement.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses accounting and reporting for business combinations and is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 addresses the accounting and reporting for goodwill subsequent to acquisition and other intangible assets. The new standard eliminates the requirement to amortize acquired goodwill; instead, such goodwill is required to be reviewed at least annually for impairment. The new standard also requires that, at a minimum, all intangible assets be aggregated and presented as a separate line item in the balance sheet. The adoption of SFAS No. 141 and SFAS No. 142 had no impact on St. Mary's financial position or results of operations.

A reporting issue has arisen regarding the application of certain provisions of SFAS No. 141 and SFAS No. 142 to companies in the extractive industries, including oil and gas companies. The issue is whether SFAS No. 142 requires companies to classify the costs of mineral rights held under lease or other contractual arrangements associated with extracting oil and gas as intangible assets in the balance sheet, apart from other capitalized oil and gas

-15-

property costs, and provide specific footnote disclosures. Historically, St. Mary has included the costs of such mineral rights associated with extracting oil and gas as a component of oil and gas properties. If it is ultimately determined that SFAS No. 142 requires oil and gas companies to classify costs of mineral rights held under lease or other contractual arrangements associated with extracting oil and gas as a separate intangible assets line item on the balance sheet, St. Mary will reclassify these amounts out of oil and gas properties and into a separate intangible assets line item. St. Mary's cash flows and results of operations would not be affected since such intangible assets would continue to be depleted and assessed for impairment. Further, St. Mary does not believe the classification of the costs of mineral rights associated with extracting oil and gas as intangible assets would have any impact on compliance with covenants under its debt agreements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note About Forward - Looking Statements

This Quarterly Report on Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events or developments that St. Mary management expects, believes or anticipates will or may occur in the future are forward-looking statements. The words "will," "believe," "anticipate," "intend," "estimate," "expect," "project," and similar expressions are intended to identify forward - looking statements, although not all forward - looking statements contain such identifying words. Examples of forward-looking statements may include discussion of such matters as:

- o the amount and nature of future capital, development and exploration expenditures,
- o the drilling of wells,
- o reserve estimates and the estimates of both future net revenues and the present value of future net revenues that are included in their calculation,
- o future oil and gas production estimates,
- o repayment of debt,
- o business strategies,
- o expansion and growth of operations,
- o recent legal developments, and
- o other similar matters.

These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, including such factors as the volatility and level of oil and natural gas prices, unexpected drilling conditions and results, production rates and reserve replacement, reserve estimates, drilling and operating service availability and risks, uncertainties in cash flow, the financial strength of hedge contract counterparties, the availability of attractive exploration, development and property acquisition opportunities, financing requirements, expected acquisition benefits, competition, litigation, environmental matters, the potential impact of government regulations, and other matters discussed in the "Risk Factors" section of our 2002 Annual Report on Form 10-K. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those expressed or implied in the forward-looking

statements. Although we may from time to time voluntarily update our prior forward - looking statements, we disclaim any commitment to do so except as required by securities laws.

-16-

The Company and Business

St. Mary Land & Exploration Company is an independent energy company engaged in the exploration, development, acquisition and production of natural gas and crude oil. Principal drivers to St. Mary's business are its ability to replace oil and gas reserves, the rate at which it can produce oil and gas, the prices received for products and its ability to control costs. Our operations are conducted entirely in the United States.

Financial Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands, except per share data)			
Oil and gas production revenues	\$ 86,414	\$ 45,121	\$ 278,236	\$ 132,411
Net income	\$ 13,786	\$ 7,674	\$ 70,900	\$ 20,581
Net income per share - basic	\$ 0.44	\$ 0.28	\$ 2.28	\$ 0.74
Net income per share - diluted	\$ 0.41	\$ 0.27	\$ 2.08	\$ 0.72

Net Income

We generated net income of \$13.8 million or \$0.41 per diluted share for the third quarter of 2003 compared with net income of \$7.7 million or \$0.27 per diluted share for the same quarter of 2002. Comparing the nine months ended September 30, 2003 to the nine months ended September 30, 2002, net income and diluted earnings per share were \$70.9 million and \$2.08 per share versus \$20.6 million and \$0.72 per share, respectively. Included in net income for the nine months ended September 30, 2003, is a \$5.4 million gain, or \$0.15 per diluted share, associated with the cumulative effect of a change in accounting principle required upon the adoption of Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations." The increase in net income over the comparative prior-year periods is a result of higher production volumes associated with successful drilling results and the acquisition of the Burlington properties in December 2002 and the Flying J properties in January 2003 as well as increased oil and gas prices. We have had notable drilling success in the N.E. Mayfield area of western Oklahoma and in our ArkLaTex area, and we continue to integrate and evaluate the acreage and property obtained from Flying J in Wyoming and Montana.

-17-

Results of Operations

The following table sets forth selected operating data for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands, except volume and per volume data)			
Oil and gas production revenues (1):				
Gas production	\$ 56,134	\$ 27,103	\$ 187,715	\$ 80,837
Oil production	30,280	18,018	90,521	51,574
Total	\$ 86,414	\$ 45,121	\$ 278,236	\$ 132,411
Net production:				
Gas (MMcf)	12,378	9,111	37,696	28,283
Oil (MMbbls)	1,147	679	3,352	2,057
MMCFE	19,262	13,186	57,808	40,625
Net daily production:				
Gas (MMcf)	134.5	99.0	138.1	103.6
Oil (MMbbls)	12.5	7.4	12.3	7.5
MMCFE	209.4	143.3	211.8	148.8
Average realized sales price (1):				
Gas (per Mcf)	\$ 4.53	\$ 2.97	\$ 4.98	\$ 2.86
Oil (per Bbl)	\$ 26.39	\$ 26.54	\$ 27.01	\$ 25.07
Oil and gas production costs:				
Lease operating expense	\$ 16,282	\$ 9,021	\$ 45,302	\$ 27,647
Transportation costs	1,751	790	5,082	2,367
Production taxes	5,881	2,581	17,920	7,939
Total	\$ 23,914	\$ 12,392	\$ 68,304	\$ 37,953
Additional per MCFE data:				
Sales price	\$ 4.49	\$ 3.42	\$ 4.81	\$ 3.26
Lease operating expense	0.85	0.68	0.78	0.68
Transportation costs	0.09	0.06	0.09	0.06
Production taxes	0.31	0.20	0.31	0.19
Operating margin	\$ 3.24	\$ 2.48	\$ 3.63	\$ 2.33
Depletion, depreciation and amortization	\$ 1.08	\$ 0.97	\$ 1.06	\$ 0.96
General and administrative	\$ 0.29	\$ 0.33	\$ 0.31	\$ 0.26

(1) Includes the effects of St. Mary's hedging activities.

-18-

Three-Month Comparison

Oil and Gas Production Revenues. Our quarterly oil and gas production revenues increased \$41.3 million, or 92% to \$86.4 million for the three months ended September 30, 2003. The following table presents components of the increase in total production revenues between 2003 and 2002.

	Production % Change	Price \$ Change	Price % Change
Natural Gas	36%	\$1.56/Mcf	53%
Oil	69%	(\$0.15)/Bbl	(1%)

Following is our product mix.

	Percentage of Revenue		Percentage of Production	
	2003	2002	2003	2002
Three Months Ended September 30,				
Natural Gas	65%	60%	64%	69%
Oil	35%	40%	36%	31%

Average net daily production was 209.4 MMCFE for 2003 compared with 143.3

MMCFE in 2002, an increase of 46%. Included in our 2003 production volumes are 10.4 MMcf per day and 4.8 MBbls per day from the Burlington and Flying J acquisitions. Wells completed in 2002 and 2003 and properties acquired in the last quarter of 2002 and during 2003 have added revenue of \$32.9 million and average net daily production of 68.1 MMCFE in 2003 over the comparable 2002 period.

Projections of pricing for oil and natural gas for the remainder of the year lead us to believe that our average realized price for each product will be higher in 2003 than for comparable periods of 2002. The prices we receive reflect the impact of market forces, which are influenced by many factors including: political events, economic growth, supply, fuel demand, electricity demand, weather, Organization of Petroleum Exporting Countries policies and others.

Information regarding the current effects of oil and gas hedging activity is included in the table below, which reflects increased hedging of oil production as a result of our Burlington and Flying J acquisitions and a small component of discretionary hedging.

Three Months Ended September 30	2003	2002
o Percentage of oil production hedged	55%	55%
o Oil volumes hedged (MBbls)	636	376
o Decrease in oil revenue	(\$2.6 million)	(\$167,000)
o Average realized oil price per Bbl without hedging	\$28.66	\$26.78
o Percentage of gas production hedged	44%	47%
o Natural gas MMBtu hedged	6.0 million	4.8 million
o Decrease in gas revenue	(\$1.9 million)	(\$560,000)
o Average realized gas price per Mcf without hedging	\$4.69	\$3.04

Marketed Gas Revenue and Gas System Operating Expense. As a result of our acquisition of gas gathering system lines in Coal County, Oklahoma, in February 2002 we began taking title to and marketing natural gas for third parties. For the three months ended September 30, 2003, we received \$3.9 million from the sale of this natural gas compared to \$3.4 million for the same period in 2002. Operating costs associated with these revenues totaled \$3.6 million for the three months ended September 30, 2003 compared to \$3.5 million for the same period in 2002. The higher natural gas prices in 2003 are the primary reason the

-19-

revenues and costs are higher in 2003. Due to fluctuations in natural gas prices, cost inflation, the composition of distillates in the processed gas, and the variability of production from oil and gas wells, we may not always have a positive gross margin from gas marketing.

Oil and Gas Production Expenses. Oil and gas production costs consist of lease operating expense, production taxes and transportation expenses. Total production costs increased \$11.5 million or 93% to \$23.9 million for the three months ended September 30, 2003, from \$12.4 million in the same period of 2002. Our acquisition of properties from Burlington and Flying J added \$7.2 million of production costs, and wells completed in late 2002 and in 2003 added \$1.7 million of production costs in 2003 that were not reflected in 2002. Additionally, we experienced an increase in production taxes consistent with the increase in revenue from higher realized prices.

Total oil and gas production costs per MCFE increased \$0.31 to \$1.25 for the third quarter of 2003 compared with \$0.94 for the third quarter of 2002. This increase is comprised of the following:

- o An \$0.11 increase in production taxes due to higher realized per MCFE prices.
- o A \$0.03 increase due to rising transportation costs in our Rockies and Mid-Continent regions.
- o A \$0.02 increase in LOE relating to one-time workover charges for projects in our ArkLaTex region.
- o A \$0.19 increase in LOE that reflects our additions of higher cost oil production properties in our Rockies region through our acquisitions from Burlington and Flying J.
- o A \$0.04 decrease reflecting general decreases in LOE per MCFE in our other core areas.

The benefit to production from workover activity in the second and third quarters of 2003 is not expected to be realized until later in the year and early 2004. We believe that our LOE per MCFE will increase during the remainder of 2003 as a result of the impact of our acquisitions from Burlington and Flying J. These increases could be offset in part by decreases in production taxes due to possible decreases in oil and gas prices.

Depreciation, Depletion, Amortization and abandonment liability accretion. Depreciation, depletion and amortization expense ("DD&A") increased \$7.9 million or 62% to \$20.8 million for the three months ended September 30, 2003, from \$12.8 million in the same period of 2002. DD&A per MCFE increased by 11% to \$1.08 for the third quarter of 2003 compared with \$0.97 in 2002. The increase in expense is a result of both higher production volumes in 2003 and a higher per unit rate which reflects costs of acquisitions and higher finding costs associated with drilling results in 2002 and 2003.

Exploration. Exploration expense increased \$5.7 million or 134% to \$9.9 million for the three months ended September 30, 2003, compared with \$4.2 million in 2002. The most significant component of our increase to exploration expense was \$6.4 million for the unsuccessful exploratory Duchesne prospect. This amount does not include the \$1.4 million impairment of the associated nonproducing leasehold costs discussed below. The drilling results did not confirm the geologic exploration model used to evaluate the Duchesne prospect, and the well produced at below commercial rates. Also in 2003 we have increased exploration overhead due to increases in our geologic and exploration staff as a result of the acreage we have acquired in the Williston, Green River and Powder River basins. Components of total exploration expense are as follows (in thousands).

-20-

	Three Months Ended September 30,	
	2003	2002
o Geological and geophysical expenses	\$ 687	\$ 809
o Exploratory dry holes	6,355	1,160
o Overhead and other expenses	2,841	2,250
	\$ 9,883	\$ 4,219

Abandonment and Impairment of Unproved Properties. Abandonment and impairment of unproved properties increased \$1.7 million to \$2.3 million for the quarter ended September 30, 2003 compared to \$587,000 for the same quarter of 2002. The change includes our third quarter 2003 impairment of \$1.4 million relating to the Duchesne prospect described in exploration expense above.

General and Administrative. General and administrative expenses increased \$1.1 million or 26% to \$5.5 million for the three months ended September 30, 2003, compared with \$4.4 million in 2002. Approximately \$709,000 of the 2003 expense is accrued and relates to the mark-to-market effect of the Company's net profits interest bonus program. The decrease in cost on a per MCFE basis reflects the higher proportionate increase in production, 46%, than the percentage increase in G&A this quarter.

Our employee count increased by 22% from September 30, 2002, to September 30, 2003, due largely to the Burlington and Flying J property acquisitions. This

change has resulted in a general increase in G&A of \$1.0 million between the quarters ending on those dates. That increase plus a \$1.3 million increase in compensation expense associated with our incentive compensation plans and a \$111,000 increase in charitable contributions expense were offset by a \$1.4 million increase in COPAS overhead reimbursement from operations and G&A we allocated to exploration expense. COPAS overhead reimbursement from operations has increased as a result of an increase in the number of properties we operate in our Rockies region due to our Burlington and Flying J acquisitions. The increase in compensation expense associated with our incentive compensation plans reflects both the benefit we have received from the current price environment for past employee performance and the performance of our employees during the current year.

Interest Expense. Interest expense increased by \$723,000 to \$1.8 million for the quarter ended September 30, 2003 compared to \$1.1 million for the quarter ended September 30, 2002. This difference reflects the benefit of an interest rate swap on our 5.75% convertible notes in the third quarter of 2002 that reduced interest expense by \$393,000 in that period, the 0.5% contingent interest provision on our convertible notes which applied for all of the 2003 period but only for 15 days in the 2002 period, and increased borrowings under our credit facility in 2003. On October 3, 2003, we entered into fixed to floating interest rate swaps for a total notional amount of \$50,000,000 through March 20, 2007. This date is the first date on which we are entitled to redeem the convertible notes solely at our option for 100 percent of the principal amount plus accrued and unpaid interest. Under the swaps, St. Mary will receive payments at a fixed interest rate of 5.75% in exchange for making payments at a variable interest rate of 235 basis points above the six month LIBOR rate as determined on the semi-annual settlement date. The payment dates of the swaps match exactly with the interest payment dates of the convertible notes. The 6-month LIBOR rate on October 3, 2003 was 1.16%.

Income Taxes. Income tax expense totaled \$8.8 million for the three months ended September 30, 2003, and \$4.2 million in 2002, resulting in effective tax rates of 38.8% and 35.4%, respectively. The effective rate change from 2002 reflects an increase in our highest marginal federal tax rate, the expiration of the Section 29 tax credit, adjustments to valuation allowances to reflect the likelihood that prior Alternative Minimum Tax credits created by Section 29 credits will not be used, changes in the composition of the highest marginal

-21-

state tax rates as a result of our recent acquisitions and the 2002 adjustment to valuation allowances against state income taxes from net operating loss carryovers.

Nine-Month Comparison

Oil and Gas Production Revenues. We experienced an increase in oil and gas production revenues of \$145.8 million, or 110% to \$278.2 million for the nine months ended September 30, 2003, compared with \$132.4 million for the same period in 2002. The following table presents the components of increases or (decreases) between 2003 and 2002.

	Production % Change	Price \$ Change	Price % Change
Natural Gas	33%	\$2.12/Mcf	74%
Oil	63%	\$1.93/Bbl	8%

Following is our product mix.

Nine Months Ended September 30,	Percentage of Revenue		Percentage of Production	
	2003	2002	2003	2002
Natural Gas	67%	61%	65%	70%
Oil	33%	39%	35%	30%

Average net daily production increased 42% to 211.8 MMCFE for the first nine months of 2003 compared with 148.8 MMCFE in 2002. Included in our 2003 production volumes are 9.9 MMcf per day and 4.4 Mbbbls per day from the Burlington and Flying J acquisitions. Wells completed in 2002 and 2003 and properties acquired in the last two quarters of 2002 and during 2003 have added revenue of \$103.4 million and average net daily production of 71.2 MMCFE in the first nine months of 2003 over the comparable 2002 period.

Information regarding the current effects of oil and gas hedging activity is included in the table below, which reflects increased hedging of oil production as a result of our Burlington and Flying J acquisitions.

Nine Months Ended September 30	2003	2002
o Percentage of oil production hedged	57%	45%
o Oil volumes hedged (MMbbls)	1,898	917
o Increase (decrease) in oil revenue	(\$7.8 million)	\$2.4 million
o Average realized oil price per Bbl without hedging	\$29.33	\$23.89
o Percentage of gas production hedged	38%	44%
o Natural gas MMBtu hedged	15.7 million	13.8 million
o Increase (decrease) in gas revenue	(\$11.8 million)	\$344,000
o Average realized gas price per Mcf without hedging	\$5.29	\$2.85

Marketed Gas System Revenue and Gas System Operating Expense. For the nine months ended September 30, 2003, we received \$11.0 million from the sale of this natural gas compared to \$6.8 million in the same period of 2002. Operating costs associated with these revenues totaled \$10.0 million for the period ended September 30, 2003, compared to \$6.6 million for the same period in 2002. Our gas marketing activities for third parties began in February 2002. The increase in 2003 as compared to 2002 is a result of a full nine months of activity and higher average natural gas prices.

-22-

Oil and Gas Production Expenses. Total production costs increased \$30.4 million to \$68.3 million for the nine months ended September 30, 2003, from \$38.0 million in 2002. Our acquisition of properties from Burlington and Flying J added \$18.6 million of production costs, and wells completed in 2002 and 2003 added \$5.3 million of production costs in 2003 that were not reflected in 2002. Additionally, we experienced an increase in production taxes consistent with the increase in revenue from higher realized prices.

Total oil and gas production costs per MCFE increased \$0.25 to \$1.18 for the nine months ended September 30, 2003, compared with \$0.93 for 2002. This increase is comprised of the following:

- o A \$0.12 increase in production taxes due to higher realized per MCFE prices.
- o A \$0.03 increase due to rising transportation costs in our Rockies and Mid-Continent regions.
- o A \$0.04 increase in LOE relating to one-time workover charges for projects in our Gulf Coast, Rockies and ArkLaTex regions.
- o A \$0.14 increase in LOE that reflects our additions of higher cost oil properties in our Rockies region through our acquisitions from Burlington and Flying J.
- o A \$0.08 decrease reflecting general decreases in LOE per MCFE in our other core areas.

Depreciation, Depletion, Amortization and abandonment liability accretion. DD&A increased \$22.0 million or 56% to \$61.3 million for the nine months ended September 30, 2003, from \$39.2 million in 2002. DD&A per MCFE increased by 10% to \$1.06 for the nine months ended September 30, 2003 compared with \$0.96 in 2002. The increase in expense is a result of both higher production volumes in 2003 and a higher per unit rate which reflects the cost of

acquisitions and higher finding costs associated with drilling results in 2002 and 2003.

Exploration. Exploration expense increased \$5.2 million or 34% to \$20.7 million for the nine months ended September 30, 2003, compared with \$15.4 million in 2002. The most significant component of our increase to exploration expense was \$6.4 million for the unsuccessful exploratory Duchesne prospect. This amount does not include the \$1.4 million impairment of the associated nonproducing leasehold costs discussed below. The drilling results did not confirm the geologic exploration model used to evaluate the Duchesne prospect, and the well produced at below commercial rates. Also in 2003 we have increased exploration overhead due to increases in our geologic and exploration staff as a result of the acreage we have acquired in the Williston, Green River and Powder River basins. Components of total exploration expense are as follows (in millions).

	Nine Months Ended September 30,	
	2003	2002
o Geological and geophysical expenses	\$ 4.4	\$ 2.1
o Exploratory dry holes	7.5	7.3
o Overhead and other expenses	8.8	6.0
	<u>\$ 20.7</u>	<u>\$ 15.4</u>

Abandonment and Impairment of Unproved Properties. Abandonment and impairment of unproved properties increased \$2.1 million or 110% to \$4.0 million for the period ended September 30, 2003 compared to \$1.9 million for the same quarter of 2002. The change reflects our third quarter 2003 impairment of \$1.4 million relating to the Duchesne prospect described in exploration expense above.

General and Administrative. General and administrative expenses increased \$7.2 million or 68% to \$17.7 million for the nine months ended September 30, 2003, compared with \$10.5 million in 2002. Approximately \$2.4 million of the 2003 expense is non-cash and relates to the mark-to-market effect of St. Mary's

-23-

net profits interest bonus plan. The increase in cost on a per MCFE basis reflects a higher percentage increase in G&A, primarily due to an increase in our compensation expense, than the proportionate increase in production of 42% for the nine month period.

The increase in our employee count has resulted in a general increase in G&A of \$3.8 million between the nine-month periods ended on September 30, 2003 and September 30, 2002. That increase plus a \$7.3 million increase in expense associated with our incentive compensation plans, a \$776,000 increase in accrued charitable contributions expense and a \$365,000 increase in insurance and corporate governance costs were offset by a \$5.3 million increase in COPAS overhead reimbursement from operations and G&A we allocated to exploration expense. COPAS overhead reimbursement from operations has increased due to an increase in the number of properties we operate in our Rockies region as a result of our Burlington and Flying J acquisitions. The increase in expense associated with our incentive compensation plans reflects both the benefit we have received from the current price environment for past employee performance and the performance of our employees during the current year.

Interest Expense. Interest expense increased by \$3.8 million to \$6.4 million for the nine months ended September 30, 2003 compared to \$2.6 million for the period ended September 30, 2002. The increase reflects a full nine months of accrued interest in 2003 on our 5.75% convertible notes that were issued in March 2002, the benefit of an interest rate swap on those notes that reduced interest expense in 2002 by \$839,000, the 0.5% contingent interest provision on the notes which applied in all of 2003 but for only 15 days during the comparable period in 2002, and increased borrowings under our credit facility in 2003 relative to the prior years. We anticipate that interest expense for 2003 will be higher than the 2002 amount due to the termination of the interest rate swap in December 2002 and since we have increased borrowings under our credit facility in 2003. However, unless we access our credit facility to make an acquisition or interest rates increase dramatically, interest expense next year should decrease due to the fixed to floating interest rate swaps we entered into on October 3, 2003.

Income Taxes. Income tax expense totaled \$41.5 million for the nine months ended September 30, 2003, and \$10.6 million in 2002, resulting in effective tax rates of 38.8% and 34.0%, respectively. The effective rate change from 2002 reflects an increase in our highest marginal federal tax rate, the expiration of the Section 29 tax credit, adjustments to valuation allowances to reflect the likelihood that prior Alternative Minimum Tax credits created by Section 29 credits will not be used, changes in the composition of the highest marginal state tax rates as a result of our recent acquisitions and the 2002 adjustment to valuation allowances against state income taxes from net operating loss carryovers.

The current portion of the income tax expense in 2003 is \$25.9 million compared to \$502,000 in 2002. These amounts are 62% and 5% of the total tax for the respective periods. The difference results from increased taxable income caused by significantly higher oil and gas prices and production, and a reduction in the percentage of deductible intangible drilling costs relative to total income.

Cumulative Effect of Change in Accounting Principle, net. On January 1, 2003, we adopted SFAS No. 143. The impact of adoption resulted in income to us of \$8.8 million offset by the deferred income tax effect of \$3.4 million. See Note 8 of the Notes to Consolidated Financial Statements under Part I, Item 1 of this report.

Liquidity and Capital Resources

Our primary sources of liquidity are the cash provided by operating activities, debt financing, sales of non-strategic properties and access to the capital markets. All of these sources can be impacted by significant fluctuations in oil and gas prices and the availability of financing to oil and gas producers in the market. An unexpected decrease in oil and gas prices would reduce expected cash flow from operating activities, might reduce the borrowing base on our credit facility, could reduce the value of our properties and historically has limited our industry's access to the capital markets.

-24-

We use cash for the acquisition, exploration and development of oil and gas properties and for the payment of debt obligations, trade payables and stockholder dividends. Exploration and development programs are generally financed from internally generated cash flow, debt financing and cash and cash equivalents on hand. Cash use for the acquisition of oil and gas properties and the payment of stockholder dividends is discretionary and can be reduced or eliminated in the event of an unexpected decrease in oil and gas prices. At any given point in time we may be obligated to pay for commitments to explore for or develop oil and gas properties or incur trade payables. However, certain future obligations can be reduced or eliminated when necessary. We are currently only required to make interest payments on our debt obligations, although we have voluntarily been reducing our outstanding borrowings under our revolving credit facility. As of November 5, 2003, the outstanding balance under the revolving credit facility was \$5.0 million, representing an \$8.0 million reduction from the \$13.0 million outstanding balance at September 30, 2003. An unexpected increase in oil and gas prices would provide increased flexibility to modify our uses of cash flow. This year we have reduced our outstanding debt, paid \$81.3 million for property acquisitions and spent \$104.6 million on capital development using cash flows from operations. We have also used \$23.2 million of cash to make income tax payments during 2003.

We continually review our capital expenditure budget to reflect changes in current and projected cash flow, drilling and acquisition opportunities, debt requirements and other factors.

Cash Flow. Net cash provided by operating activities increased \$44.8 million or 42% to \$150.9 million for the nine months ended September 30, 2003 compared with \$106.2 million in 2002. Our \$50.3 million increase in net income between the two periods combined with a \$32.0 million increase in the effect of non-cash items were offset by a \$37.6 million change in current assets and liabilities relating to increased accounts receivable and income tax payments in 2003 offset by decreased prepaid expenses, increased accounts payable, and collections of refundable income taxes in 2002. We anticipate increased comparative cash flow from operations in 2003 as a result of higher oil and gas prices in 2003 and increased production attributable to our property acquisitions and drilling activities in late 2002 and early 2003.

Net cash used in investing activities increased \$59.8 million or 64% to \$153.6 million for the nine months ended September 30, 2003, compared with net cash used of \$93.9 million in 2002. This increase results from additional capital expenditures and acquisition costs. Total capital expenditures, including acquisitions of oil and gas properties, in the first nine months of 2003 increased \$69.8 million or 80% to \$156.5 million compared with \$86.7 million in the first nine months of 2002. This increase reflects the utilization of \$71.6 million in short term investments, cash equivalents and increased borrowings under our credit facility to provide a loan to Flying J as part of our acquisition of properties from Flying J in January 2003. This loan is secured by the shares of our common stock issued in the transaction.

Net cash used in financing activities was \$1.3 million for the nine months ended September 30, 2003, compared with net cash provided by financing activities of \$32.7 million in 2002. This decrease reflects the 2002 issuance of our 5.75% convertible notes and the use of proceeds to pay down our credit facility, partially offset by additional borrowing on our credit facility to fund our 2003 acquisitions.

St. Mary had \$7.1 million in cash and cash equivalents and had negative working capital of \$7.3 million as of September 30, 2003, compared with \$11.2 million in cash and cash equivalents and positive working capital of \$2.1 million at December 31, 2002. The negative working capital was a function of accelerated principal repayments of the credit facility, a short term increase in accounts payables and the payment of estimated income taxes in September. Had we wanted to incur additional borrowings to increase our current assets, we could have elected to borrow under our credit facility an amount necessary to ensure a net working capital position. Providing commodity pricing remains relatively consistent with current levels through the fourth quarter, we expect that working capital will be positive at December 31, 2003, and the remaining \$5.0 million outstanding under the credit facility will be completely repaid.

-25-

Senior Convertible Notes. In March 2002 we issued in a private placement a total of \$100.0 million of 5.75% senior convertible notes due 2022 with a 0.5 percent contingent interest provision. Interest payments are due on March 15 and September 15 of every year. We received net proceeds of \$96.8 million after deducting the initial purchasers' discount and offering expenses payable by us. The notes are general unsecured obligations and rank on a parity in right of payment with all our existing and future senior indebtedness and other general unsecured obligations, and are senior in right of payment with all our future subordinated indebtedness. The notes are convertible into our common stock at a conversion price of \$26.00 per share, subject to adjustment. We can redeem the notes with cash in whole or in part at a repurchase price of 100% of the principal amount plus accrued and unpaid interest including contingent interest beginning on March 20, 2007. The note holders have the option of requiring us to repurchase the notes for cash at 100% of the principal amount plus accrued and unpaid interest including contingent interest upon (1) a change in control of St. Mary or (2) on March 20, 2007, March 15, 2012 and March 15, 2017. If the note holders request repurchase on March 20, 2007, we may pay the repurchase price with cash, shares of our common stock valued at a discount to the market price at the time of repurchase or any combination of cash and our discounted common stock. We are not restricted from paying dividends, incurring debt, or issuing or repurchasing our securities under the indenture for the notes. There are no financial covenants in the indenture. We used a portion of the net proceeds from the notes to repay our credit facility balance and used the remaining net proceeds to fund a portion of our 2002 capital expenditures. On March 25, 2002, we entered into a five-year fixed-rate to floating-rate interest rate swap on a notional amount of \$50.0 million of the notes. The floating rate was determined as LIBOR plus 0.36%. We elected to terminate this swap on December 3, 2002, and received proceeds of \$4.0 million. On October 3, 2003 we executed new interest rate swaps on a notional amount of \$50.0 million of the notes which we expect will serve to lower interest expense in the fourth quarter of 2003.

Credit Facility. On January 29, 2003, we entered into a new \$300.0 million credit facility with Wachovia Bank as Administrative Agent and eight other participating banks. This new credit facility replaced our previous credit facility and has a maturity date of January 27, 2006. The calculated borrowing base was determined by the bank group to be \$275.0 million on October 28, 2003. We have elected a commitment amount of \$150.0 million under this facility, which results in lower commitment fees payable to the bank syndicate. We believe this commitment level is adequate for our near-term liquidity needs. We are required to comply with certain financial and non-financial covenants, and we are currently in compliance with all covenants under the credit facility. Interest and commitment fees are accrued based on the borrowing base utilization percentage table below. Eurodollar loans accrue interest at LIBOR plus the applicable margin from the utilization table, and Alternative Base Rate (ABR) loans accrue interest at prime plus the applicable margin from the utilization table. Commitment fees are accrued on the unused portion of the aggregate commitment amount and are included in interest expense in the consolidated statements of operations.

Borrowing base utilization percentage	<50%	=>50%<75%	=>75%<90%	>90%
Eurodollar Loans	1.25%	1.50%	1.75%	2.00%
ABR Loans	0.00%	0.25%	0.50%	0.75%
Commitment Fee Rate	0.30%	0.38%	0.38%	0.50%

Our loan balance of \$13.0 million at September 30, 2003 was comprised of LIBOR based tranches. Our weighted average interest rates paid for the third quarter of 2003 and for the nine months ended September 30, 2003 were 7.0% and 6.1%, respectively, including commitment fees paid on the unused portion of the credit facility borrowing base, amortization of deferred financing costs, and amortization of the contingent interest embedded derivative with respect to the convertible notes.

-26-

Schedule of Contractual Obligations. The following table summarizes our future estimated principal payments for the periods specified (in millions).

Contractual Obligations	Long-Term Debt	Operating Leases	Total Cash Obligation
Less than 1 year	\$ -	\$ 2.1	\$ 2.1
1-3 years	13.0	2.8	15.8
4-5 years	-	2.0	2.0
After 5 years	100.0	3.1	103.1
Total	\$ 113.0	\$ 10.0	\$ 123.0

In the period from 1-3 years, we have one lease of office space for our regional offices that will expire. An additional two leases for office space will expire in year 4. Estimated costs to replace these leases are not included in the table above. For purposes of the table we assume that the holders of our 5.75% convertible notes will not exercise the conversion or redemption features until final maturity.

Common Stock. On January 29, 2003, we issued a total of 3,380,818 restricted shares of our common stock to Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. for the acquisition of oil and gas properties, and we made a non-recourse loan to Flying J in the amount of \$71.6 million at LIBOR plus 2% for up to a 39-month period. We also entered into a put and call option agreement with Flying J whereby during the 39-month loan period Flying J can elect to put these shares to St. Mary for \$71.6 million plus accrued interest on the loan during the first thirty months of the loan period, and we can elect to call the shares for \$97.4 million, with the proceeds from the exercise of either the put option or the call option to be applied to repayment of the loan. The net option with respect to Flying J's net contractual rights to obtain additional value from any appreciation of the shares over the put amount up to the call amount has been valued at \$1.0 million for accounting purposes. Final valuation determinations were made in the third quarter of 2003. For accounting purposes the above arrangements have been treated as an acquisition of properties in exchange for \$71.6 million of cash plus the net option to Flying J valued at \$1.0 million, resulting in a total valuation of \$72.6 million. Operating results from the acquired properties have been included in the consolidated statements of operations only from the date of closing. The restricted shares issued are subject to contractual restrictions on transfer for a period of two years, and Flying J cannot increase their ownership percentage in St. Mary for a period of 30 months. For accounting purposes the net option is reflected in the equity section of our consolidated balance sheets as additional paid-in capital. The stock and the loan are reflected in the temporary equity section of our consolidated balance sheets. See Note 9 of the Notes to Consolidated Financial Statements under Part I, Item 1 of this report.

Capital and Exploration Expenditures Incurred. Expenditures for exploration and development of oil and gas properties and acquisitions are the primary use of our capital resources. The following table sets forth certain information regarding the costs incurred by us in our oil and gas activities during the periods indicated. These expenditures include the value of the stock and other consideration issued in the Flying J transaction.

-27-

	Nine Months Ended September	
	September 30,	
	2003	2002
	(In thousands)	
Development	\$ 78,155	\$ 52,584
Exploration:	26,416	12,704
Acquisitions:		
Proved	75,844	7,886
Unproved	5,476	10,582
Total	\$ 185,891	\$ 83,756

We continuously evaluate opportunities in the marketplace for oil and gas properties and, accordingly, may be a buyer or a seller of properties at various times. We will continue to emphasize acquisitions in our core areas utilizing St. Mary's technical expertise, financial flexibility and structuring experience. In addition, we are also actively seeking larger acquisitions of assets or companies that would afford opportunities to expand our existing core areas, to acquire additional geoscientists or to gain a significant acreage and production foothold in a new basin.

St. Mary's total costs incurred in the first nine months of 2003 increased \$102.1 million or 122% compared to the first nine months of 2002. We spent \$110.0 million in the first nine months of 2003 for unproved property acquisitions and domestic exploration and development compared to \$75.9 million for the comparable period in 2002.

We continue to evaluate the results of our two coalbed methane pilot programs located in the Hanging Woman Basin. On April 30, 2003, the Bureau of Land Management issued its record of decision approving the two environmental impact statements that considered coalbed methane development in northeast Wyoming and southeast Montana, and the BLM is now issuing drilling permits on federal acreage in Wyoming. We hope the two environmental impact statements will also open the door for new coalbed methane development on federal acreage in this area of Montana. Immediately after the decision was issued several environmental groups filed multiple challenges. These challenges and a previously reported environmental public interest group lawsuit by the Northern Plains Resource Council, Inc. affect 89,700 gross acres related to this project. See Legal Proceedings under Part II, Item 1 of this report.

Capital Expenditure Budget. We anticipate spending approximately \$235 million for capital and exploration expenditures in 2003 with \$92 million allocated for acquisitions, which includes the \$72.6 million acquisition of properties from Flying J in January 2003. Budgeted ongoing exploration and development expenditures in 2003 for each of our core areas is as follows (in millions).

o Mid-Continent region	\$ 62
o Rockies region	27
o ArkLaTex region	26
o Gulf Coast and Gulf of Mexico region	16
o Permian Basin	8
o Other	4
Total	\$ 143

-28-

We believe the amount not funded from our internally generated cash flow in 2003 can be funded from our existing cash and our credit facility. The amount and allocation of future capital and exploration expenditures will depend upon a number of factors including the number and size of available acquisition opportunities and our ability to assimilate these acquisitions. Also, the impact of oil and gas prices on investment opportunities, the availability of capital and borrowing capability, and the success of our development and exploratory activity could lead to funding requirements for further development. If additional development or attractive acquisition opportunities arise, we may consider other forms of financing, including the public offering or private placement of equity or debt securities.

Sale of Investment. Subsequent to September 30, 2003, we received \$1.5 million from the sale of our investment in Constellation Copper Corporation.

Derivatives. We seek to protect our rate of return on acquisitions of producing properties by hedging cash flow when the economic criteria from our evaluation and pricing model indicate it would be appropriate. Management's strategy is generally to hedge cash flows from acquisitions for up to 24 months in order to meet minimum rate-of-return criteria. Management reviews these hedging parameters on a quarterly basis. We may periodically hedge additional production when we view the price environment to be favorable for hedging. We generally limit our aggregate hedge position to no more than 50% of total production but will hedge larger percentages of total production in certain

circumstances. We seek to minimize basis risk and index the majority of oil hedges to NYMEX prices and the majority of gas hedges to various regional index prices associated with pipelines in proximity to our areas of gas production. Our policy requires that we diversify our hedge positions with various counterparties and requires that such counterparties have clear indications of financial strength. Including hedges entered into since September 30, 2003 we have the following swaps and collars in place:

Swaps				
Product	Average Volumes/month	Quantity Type	Average Fixed Contract Price	Duration
Natural Gas	1,845,000	MMBtu	\$4.49	10/03 - 12/03
Natural Gas	869,000	MMBtu	\$4.08	01/04 - 12/04
Oil	191,800	Bbls	\$25.20	10/03 - 12/03
Oil	144,500	Bbls	\$23.71	01/04 - 12/04

Collars				
Product	Average Volumes/month	Floor Price	Ceiling Price	Duration
Natural Gas	152,000 MMBtu	\$2.50	\$5.93	10/03 - 12/03

Other Derivatives. Our 5.75% convertible notes contain a provision for the payment of contingent interest if certain conditions are met. Under SFAS No. 133 this provision is considered an embedded equity-related derivative that is not clearly and closely related to the fair value of an equity interest and therefore must be separated and accounted for as a derivative instrument. The value of the derivative at issuance in March 2002 was \$474,000. This amount was recorded as a decrease to the 5.75% convertible notes payable in the consolidated balance sheets. Of this amount, \$71,000 has been amortized through interest expense in 2003. Derivative income in the consolidated statements of operations includes \$247,000 of net income from mark-to-market adjustments for this derivative at September 30, 2003, compared to a net loss of \$239,000 included in derivative loss at September 30, 2002.

-29-

Critical Accounting Policies and Estimates

We refer you to the corresponding section of our Annual Report on Form 10-K for the year ended December 31, 2002.

Accounting Matters

New Accounting Standards

In May 2003 the Financial Accounting Standards Board issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and requires that such financial instruments be classified as a liability (or as an asset in certain circumstances). SFAS No. 150 is effective for all freestanding instruments entered into or modified after May 31, 2003. Otherwise, it became effective for us as of July 1, 2003. We currently have no financial instruments that fall within the scope of this statement.

In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure: an amendment of FASB Statement No. 123." This statement provided for transition methods for adopting the fair value accounting model of accounting for the issuance of stock options. The statement provides for three alternative adoption methods: (1) The retroactive method - where all prior periods are restated to reflect the expensing of all options granted on a retroactive basis, (2) The modified-prospective method-where a company begins expensing all prior and current option grants in the current year, and (3) The prospective method-where a company begins expensing all current period option grants in the current year. We are continuing to evaluate these adoption alternatives and current FASB discussions as well as considering the issuance of restricted stock for its equity component of employee compensation.

Effective January 1, 2003, we adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." Upon adoption of SFAS No. 143, we recorded a discounted liability of \$21.4 million, reversed the existing offshore abandonment liability of \$9.1 million, increased net property and equipment by \$21.1 million and recognized a one-time cumulative effect gain of \$5.4 million (net of deferred tax benefit of \$3.4 million). We will deplete the amount added to property and equipment and recognize accretion expense in connection with the discounted liability over the remaining economic lives of the respective oil and gas properties. Prior to the adoption of SFAS No. 143, we assumed that salvage value approximated abandonment costs and therefore salvage value was not reflected in the DD&A calculation. As a result of adopting SFAS No. 143 and the discounting of the asset retirement obligation, the salvage value must now be reflected in the DD&A rate. Accordingly, \$13.7 million was reversed from accumulated DD&A and is included as a part of the increase in net property and equipment in the cumulative effect adjustment. This adjustment to accumulated DD&A relates to prior depletion of salvage value that would have been excluded from the DD&A calculation if the abandonment liability had been separately recognized. As of September 30, 2003, our capitalized proved oil and gas properties included \$44.0 million of estimated salvage value which is not included in our DD&A calculation.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses accounting and reporting for business combinations and is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 addresses the accounting and reporting for goodwill subsequent to acquisition and other intangible assets. The new standard eliminates the requirement to amortize acquired goodwill; instead, such goodwill is required to be reviewed at least annually for impairment. The new standard also requires that, at a minimum, all

-30-

intangible assets be aggregated and presented as a separate line item in the balance sheet. The adoption of SFAS No. 141 and SFAS No. 142 had no impact on our financial position or results of operations.

A reporting issue has arisen regarding the application of certain provisions of SFAS No. 141 and SFAS No. 142 to companies in the extractive industries, including oil and gas companies. The issue is whether SFAS No. 142 requires companies to classify the costs of mineral rights held under lease or other contractual arrangements associated with extracting oil and gas as intangible assets in the balance sheet, apart from other capitalized oil and gas property costs, and provide specific footnote disclosures. Historically, we have included the costs of such mineral rights associated with extracting oil and gas as a component of oil and gas properties. If it is ultimately determined that SFAS No. 142 requires oil and gas companies to classify costs of mineral rights held under lease or other contractual arrangements associated with extracting oil and gas as a separate intangible assets line item on the balance sheet, we will reclassify these amounts out of oil and gas properties and into a separate intangible assets line item. Our cash flows and results of operations would not be affected since such intangible assets would continue to be depleted and assessed for impairment. Further, we do not believe the classification of the costs of mineral rights associated with extracting oil and gas as intangible assets would have any impact on compliance with covenants under its debt agreements.

We hold derivative contracts and financial instruments that have cash flow and net income exposure to changes in commodity prices or interest rates. Financial and commodity based derivative contracts are used to limit the risks inherent in some crude oil and natural gas price changes that have an effect on us.

Our board of directors has adopted a policy regarding the use of derivative instruments. This policy requires every derivative used by St. Mary to relate to underlying offsetting positions, anticipated transactions or firm commitments. It prohibits the use of speculative, highly complex or leveraged derivatives. Under the policy, the Chief Executive Officer and Vice President - Finance must review and approve all risk management programs that use derivatives. The board of directors periodically reviews these programs.

Commodity Price Risk. We use various hedging arrangements to manage our exposure to price risk from natural gas and crude oil production. These hedging arrangements have the effect of locking in for specified periods, at predetermined prices or ranges of prices, the prices we will receive for the volumes to which the hedge relates. Consequently, while these hedging arrangements are structured to reduce our exposure to decreases in prices associated with the hedged commodity, they also limit the benefit we might otherwise receive from any price increases associated with the hedged commodity. The derivative gain or loss effectively offsets the loss or gain on the underlying commodity exposures that have been hedged. The fair value of the swaps are estimated based on quoted market prices of comparable contracts and approximate the net gains or losses that would have been realized if the contracts had been closed out at quarter-end. The fair value of the futures are based on quoted market prices obtained from the New York Mercantile Exchange and have been adjusted for our hedging of the basis differential accorded to the pipelines relative to our areas of production.

A hypothetical \$0.10 per MMBtu change in our quarter-end market prices for natural gas swaps and futures contracts on a notional amount of 16.4 million MMBtu would cause a potential \$1.3 million change in net income before income taxes over the remaining life of the contracts in place on September 30, 2003 and a potential \$354,000 change for the last three months of 2003. A hypothetical \$1.00 per Bbl change in our quarter-end market prices for crude oil swaps and future contracts on a notional amount of 2.3 million Bbls would cause a potential \$2.0 million change in net income before income taxes over the remaining life of the contracts in place on September 30, 2003 and a potential \$370,000 change for the last three months of 2003. These hypothetical changes

-31-

were discounted to present value using a 7.5% discount rate since the latest expected maturity date of certain swaps and futures contracts is greater than one year from the reporting date.

Interest Rate Risk. Market risk is estimated as the potential change in fair value resulting from an immediate hypothetical one percentage point parallel shift in the yield curve. A sensitivity analysis presents the hypothetical change in fair value of those financial instruments held by St. Mary at September 30, 2003, which are sensitive to changes in interest rates. For fixed-rate debt, interest rate changes affect the fair market value but do not impact results of operations or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future results of operations and cash flows assuming other factors are held constant. The carrying amount of our floating rate debt approximates its fair value. At September 30, 2003, we had floating rate debt of \$13.0 million under our revolving credit facility and \$100.0 million of fixed rate debt under the 5.75% Senior Convertible Notes, which provide for the payment of contingent interest of up to an additional 0.5% during six-month interest periods under certain circumstances. Assuming constant debt levels with respect to the debt instruments in effect as of September 30, 2003, the impact on results of operations and cash flows for the remainder of the year resulting from a one-percentage-point change in interest rates would be approximately \$32,500 before taxes.

On October 3, 2003, St. Mary entered into fixed to floating interest rate swaps on a notional amount of \$50 million, which represents 50% of the outstanding principal amount of our 5.75% Senior Convertible Notes. Under the swaps, St. Mary will receive payments at a fixed interest rate of 5.75% in exchange for making payments at a variable interest rate of 235 basis points plus the 6-month LIBOR rate. The 6-month LIBOR rate on October 3, 2003 was 1.16%. The swaps expire during March 2007, on the first date that St. Mary is entitled to redeem the notes at its option.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that are designed for the purposes of ensuring that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Vice-President - Finance, as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Vice-President - Finance, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and the Vice-President - Finance concluded that our disclosure controls and procedures are effective for the purposes discussed above as of the end of the period covered by this Quarterly Report on Form 10-Q. There was no significant change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The previously reported legal proceeding involving Nance Petroleum Corporation and the Northern Plains Resource Council, Inc. ("NPRC") in the U.S. District Court for the District of Montana had no significant developments during the quarterly period ended September 30, 2003. Both the Plaintiff, NPRC, and the Defendants have filed motions for summary judgment. The Magistrate assigned to this case has recommended that the Plaintiff's motion be denied and the Defendants' motion be granted. If the presiding judge accepts these recommendations, the case will be dismissed with a judgment rendered in favor of the majority of the Defendants including Nance Petroleum Corporation. For a

-32-

description of this proceeding, please see the "Legal Proceedings" section of St. Mary's Annual Report on Form 10-K for the year ended December 31, 2002.

As previously reported in St. Mary's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003, the Company received a copy of an Administrative Order (the "Order") by the U.S. Environmental Protection Agency (Docket No. CWA-06-2003-1995) on August 4, 2003, related to certain oil and gas properties in the Gulf of Mexico that are or were owned, operated or leased by St. Mary Energy Company. Interests in these properties were acquired by the Company through its acquisition of St. Mary Energy Company, formerly named King Ranch Energy, Inc., on December 17, 1999. The Order alleges violations of the Clean Water Act through certain violations of EPA reporting rules with respect to such properties under applicable EPA permits during reporting monitoring periods from July 1, 1998 to December 31, 1999. Based on our internal review, the Company believes that any reporting discrepancies were inadvertent and did not involve any improper discharge of pollutants into the environment, and the

Company has fully cooperated with the EPA to appropriately correct and remedy any reporting discrepancies. The reports in question have been corrected as necessary and were refilled during the course of the Show Cause Hearing held on September 30, 2003, at the Region VI office of EPA. We believe all issues raised in the Order were fully addressed. No final decision has been rendered by the Hearing Officer regarding matters raised by the Order. The Company cannot predict whether any monetary or other penalties will be imposed. However, the Company does not currently expect that such penalties, if any, will have a material effect on the Company's financial condition, results of operations or cash flows.

ITEM 5. Other Information

In July 2003 St. Mary's audit committee authorized in advance up to \$20,000 of certain non-audit services to be performed by Deloitte & Touche LLP, the Company's independent auditor. These services are limited to consultation regarding a state private revenue letter ruling.

-33-

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are furnished as part of this report:

Exhibit	Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
31.2*	Certification of Vice President - Finance pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
32.1*	Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

* Filed with this Form 10-Q.

(b) Reports on Form 8-K

St. Mary Land & Exploration Company filed the following current reports on Form 8-K during the quarter ended September 30, 2003:

- o On July 16, 2003, we filed a current report on Form 8-K reporting under Item 9 pursuant to Item 12 that we had issued a press release announcing an update of our operations for the second quarter of 2003.
- o On August 1, 2003, we filed a current report on Form 8-K reporting under Item 5 that we had issued a press release on July 25, 2003 announcing the retirement of Ronald D. Boone as an officer and employee and a press release on July 28, 2003 providing a status update on the testing of various zones in our Duchesne Deep Prospect.
- o On August 7, 2003, we filed a current report on Form 8-K reporting under Item 12 that we had issued a press release announcing our second quarter 2003 financial results and an updated forecast for our third quarter and full year of 2003.
- o On September 4, 2003, we filed a current report on Form 8-K reporting under Item 5 that we issued a press release announcing that drilling of our exploratory well in our Duchesne Deep Prospect was unsuccessful.
- o On September 16, 2003, we filed a current report on Form 8-K reporting under Item 5 that we issued a press release announcing the accrual of contingent interest on our 5.75% senior convertible notes.

-34-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ST. MARY LAND & EXPLORATION COMPANY

November 5, 2003 By: /s/ MARK A. HELLERSTEIN
Mark A. Hellerstein
President and Chief Executive Officer

November 5, 2003 By: /s/ DAVID W. HONEYFIELD
David W. Honeyfield
Vice President - Finance, Secretary
and Treasurer

November 5, 2003 By: /s/ GARRY A. WILKENING
Garry A. Wilkening
Vice President - Administration and
Controller

CERTIFICATION

I, Mark A. Hellerstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of St. Mary Land & Exploration Company;
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 statements 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 officer 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 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 officer 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 the 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 control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

A-1

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2003

/s/ MARK A. HELLERSTEIN

 Mark A. Hellerstein
 Chief Executive Officer

A-2

CERTIFICATION

I, David W. Honeyfield, certify that:

1. I have reviewed this quarterly report on Form 10-Q of St. Mary Land & Exploration Company;
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 statements 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 officer 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 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 officer 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 the 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 control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

A-1

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2003

/s/ DAVID W. HONEYFIELD

David W. Honeyfield
Vice President - Finance

A-2

CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of St. Mary Land & Exploration Company (the "Company") for the quarterly period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Mark A. Hellerstein, as Chief Executive Officer of the Company, and David W. Honeyfield, as Vice President - Finance of the Company, each hereby certifies, pursuant to and solely for the purpose of 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge and belief, that:

(1) 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 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.

/s/ MARK A. HELLERSTEIN

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Mark A. Hellerstein
Chief Executive Officer
November 5, 2003

/s/ DAVID W. HONEYFIELD

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David W. Honeyfield
Vice President - Finance
(principal financial officer)
November 5, 2003