FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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TIPPERARY CORP

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

X --- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 1996

OR

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

For the transition period from _____ to _____
Commission file number 1-7796

TIPPERARY CORPORATION
(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	75-1236955 (I.R.S. employer identification no.)
633 Seventeenth Street, Suite 1550 Denver, Colorado (Address of principal executive offices)	80202 (Zip Code)

Registrant's telephone number, including area code (303) 293-9379

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, $.02 par value	American Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 X --- No ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K X ---.

Aggregate market value of voting stock held by non-affiliates of the registrant as of December 2, 1996, was $37,173,000.

Shares of the registrant's Common Stock outstanding as of December 2, 1996: 13,050,271 shares.

Documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated: Definitive Proxy Statement for the 1997 Annual Meeting of Shareholders filed within 120 days after the fiscal year ended September 30, 1996 (Part III).

PART I

ITEMS 1 AND 2. DESCRIPTION OF BUSINESS AND PROPERTIES

GENERAL

Tipperary Corporation and its subsidiaries (the "Company") are principally engaged in the exploration for and development and production of crude oil and natural gas. The Company was organized as a Texas corporation in January 1967, and its executive offices are located at 633 Seventeenth Street, Suite 1550, Denver, Colorado 80202. The Company's major areas of operations are in the

Permian Basin, the Rocky Mountain and Mid-Continent areas of the United States, and in Queensland, Australia, where it is involved in a coalbed methane project.

The Company's capital expenditures during the fiscal years ended 1994, 1995 and 1996 were primarily directed to the exploration and development projects discussed herein, as opposed to the producing property acquisition strategy employed during fiscal 1992 and 1993. During fiscal 1996, the Company increased its exploitation efforts involving the Company's existing wells and increased its ownership interest in the Comet Ridge coalbed methane project in Queensland, Australia, from 30% to 45.75%. Subsequent to September 30, 1996, the Company acquired and then exercised an option to purchase an additional 5% interest in this project and anticipates closing the transaction in January 1997.

STRATEGY

In fiscal 1994, the Company redirected its domestic strategy from acquiring producing properties to acquiring undeveloped leasehold acreage with the intent of identifying exploratory prospects through the utilization of three-dimensional ("3-D") seismic surveys. Numerous prospects were identified in fiscal 1995 and 1996, and in fiscal 1996 the Company secured funding for one of its two major projects through the sale of partial interests to two industry partners which will participate in the exploration activities. In addition to these efforts, during fiscal 1996 the Company continued a modest amount of development
drilling and increased its involvement in exploitation projects on its existing producing wells. These activities were carried out at relatively low costs and more quickly than new projects in an effort to increase daily production volumes and mitigate natural production declines. The exploitation activities on existing wells involved efforts to enhance value through various techniques such as recompletion, deepening and stimulation projects. These projects, as well as exploratory and development drilling opportunities, are evaluated based upon estimated rates of return as well as estimated potential reserves and associated risk levels. In fiscal 1996, exploitation projects have resulted in incremental production volumes which have offset a substantial portion of natural production declines.

Since fiscal 1992, the Company's international exploration efforts have been focused on the Comet Ridge coalbed methane project. Commencing in fiscal 1996, the Company's strategy was to increase its ownership interest in the project, together with its co-venturers initiate gas contract negotiations, identify parties interested in constructing a connecting pipeline and begin the process of requesting project financing proposals.

EXPLORATION ACTIVITIES

INTERNATIONAL - COMET RIDGE COALBED METHANE PROJECT. In April 1992, the Company acquired a non-operating interest in the Comet Ridge coalbed methane project in the Bowen Basin located in Queensland, Australia. As of September 30, 1996, the co-venturers conducting the project (the "Group") had acquired from the Queensland government an Authority to Prospect ("ATP") covering approximately 1,365,000 acres. The holder of the ATP may be granted petroleum leases upon establishing to the satisfaction of the Queensland government that commercial deposits of petroleum have been discovered. During fiscal 1996, the Group was granted petroleum leases covering approximately 167,000 acres in the area known as "Fairview," which is in the southern portion of the ATP. In October 1996, the Group filed for a four-year renewal of the ATP, and proposed to voluntarily relinquish approximately 20% of its acreage along the western border of the ATP, which the Group considers to be of only marginal interest. The ATP was renewed, effective November 1, 1996, for a four-year period. The Group's renewed ATP covers approximately 1,088,000 acres, of which approximately 167,000 acres are already covered by petroleum leases. The new ATP requires certain minimum expenditures, based on current exchange rates, of approximately $248,000 in year one, $448,000 in years two and three, and $800,000 in year four. The Company would be responsible for its pro rata share of these expenditures.

Gas contained in coal deposits has become a significant source of United States natural gas reserves and is expected to be a significant gas source worldwide as well. Commercial production of coalbed methane in large quantities began in the 1980's. The success of coalbed methane production in the United States has generated increasing interest in coalbed methane exploration worldwide. Coal is formed from buried deposits of organic material, and the depositional environment and composition of the coal affect the quantity and quality of the coal gas. Frequently, natural coal fractures are initially filled with water, which must be removed in order to lower the reservoir pressure sufficiently to allow the release of gas from the coal into the fractures. A coalbed deposit must exhibit the following properties in order to be commercially viable: sufficient coal reserves (seam thickness and areal extent); sufficient gas content in the coal; and an adequate fracture system to obtain commercial gas

flow rates. The Company believes the coals drilled to date in the Comet Ridge project exhibit these commercial characteristics. Two-dimensional seismic surveys conducted in the Fairview area indicate the continued presence of coal in the area surveyed, which covers over 300 square kilometers.

Drilling operations in the Comet Ridge project commenced in November 1993 when one noncommercial well was drilled on adjacent farmout acreage that has since been relinquished. During fiscal 1994, two wells were drilled and, in fiscal 1995, an additional 14 wells were drilled, all within the Group's original ATP. No additional wells were drilled in fiscal 1996. All fifteen of the wells in the Fairview area have been completed. Twelve wells were in the de-watering phase and two wells which produce gas with no water were shut-in as of September 30, 1996. One additional well shut-in as of September 30, 1996, was subsequently placed on production and is currently de-watering. Natural gas has been produced for several months and continued de-watering is expected to further increase production rates. The gas is being flared pending construction of a pipeline, gathering lines and compression facilities. During fiscal 1996, 14 of the wells in a core area were tested extensively for the purpose of gathering data relative to gas and water production rates and estimated recoverable gas reserves. Reservoir modeling, combined with evaluation of actual production performance data, has allowed independent reservoir engineers to assign technically recoverable reserve volumes to the 14 core Fairview area wells. Although the Company has not included these reserves in its proved reserves due to the present lack of a sales contract and marketing facilities, the Company believes the property is commercially productive. However, the availability of sufficient capital resources may affect the Company's timing for future development of the project and there can be no assurance that the project will be developed as presently contemplated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

In June 1996, the Company increased its ownership in the Comet Ridge project from 30% to 45.75% with the acquisition of an additional 15.75% capital-bearing interest for approximately $6,100,000. The purchase was financed through the issuance of 1,400,000 shares of the Company's common stock in a private placement. The Company's interest bears 45.75% of capital costs and 42.891% of operating expenses and its net revenue interest is 38.6016% prior to project payout. Subsequent to project payout, the Company's interest bears 36.6% of capital and operating expenses and its net revenue interest is 32.94%.

Subsequent to September 30, 1996, the Company acquired and then exercised an option to purchase an additional 5% non-operating interest in the project from co-venturers for approximately $2,300,000. The Company will finance this acquisition through a bridge loan from an affiliate of its largest shareholder.

During fiscal 1996, the Group began negotiations regarding a gas contract with a Brisbane-based gas utility. The general terms of discussions contemplate the delivery of approximately 57 petajoules, or roughly 57 billion cubic feet of gas over 15 years beginning as soon as a pipeline is constructed over the 17 miles from the Fairview area to the PGT Queensland Gas Pipeline, which runs from Wallumbilla to Gladstone, or approximately 300 miles. The PGT Queensland Gas pipeline was acquired for approximately US $125 million during fiscal 1996 by PGT Australia, a subsidiary of Pacific Gas Transmission, a Portland, Oregon-based gas transmission company. PGT Australia has also announced plans for investment in the construction of a new pipeline originating near the Group's ATP area and running approximately 275 miles southeast into the Brisbane market area. PGT has estimated preliminarily that its cost to build the pipeline will be approximately US $100 million and that completion of the pipeline is expected in 1999.

PGT Australia has recently informed the Group that it intends to construct the 17-mile pipeline to connect the Fairview area wells to the PGT Queensland Gas Pipeline, and that it plans to operate the line as a part of its pipeline system. PGT has filed an application for a pipeline license with the Queensland Department of Mines and Energy, and more recently has submitted its Environmental Management Plan to the Department. Construction of the pipeline is expected to take approximately three to four months, and PGT is expecting to begin after clearance is received from the Department of Mines and Energy. The Company anticipates that governmental approval will be received by the end of the first quarter

of calendar 1997 and no significant problems are anticipated at this time. Connection to the PGT Queensland Gas Pipeline will provide access on the PGT system to markets north of the ATP in Gladstone and Rockhampton, and the possibility of "backhauls" south on other pipelines into the Brisbane market. Upon completion of PGT's proposed new pipeline from the ATP area into the Brisbane area, the Group's gas could be transported to both the Gladstone and Brisbane market areas on the PGT system.

In November 1996, the Company retained an international corporate finance firm which will serve as the Company's agent in seeking capital for the Comet Ridge project. This firm has agreed to identify equity and debt financing sources in Australia, the United States and Europe, with proceeds to be used to develop the project. There can be no assurance that additional funding commitments will be secured or, if secured, that capital will be obtained on terms acceptable to the Company or on a basis that meets the Company's objectives. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

DOMESTIC - MISSOURI RIVER PROJECT. The Company owns an 87.5% undivided interest in approximately 45,000 acres in its Missouri River project area in the Williston Basin of Montana. During fiscal 1995, a 3-D seismic survey was conducted over approximately 30% of the project area, resulting in the identification of several prospects. The Company drilled a dry hole on the first prospect in February 1996. As of September 30, 1995, the Company's investment in the project totaled approximately $1,815,000. An additional $605,000, principally the cost of the unsuccessful well, was incurred during fiscal 1996, bringing the total investment to $2,420,000 as of September 30, 1996. The Company's plans include efforts to sell an interest in the project to an industry partner for cash and/or a commitment to fund seismic and possibly drilling expenditures. Discussions are currently being held with third parties interested in such an arrangement.

DIVIDE PROJECT. During fiscal 1996, the Company assembled a 30,000 acre leasehold position in Divide County, North Dakota, and subsequently entered into exploration agreements with two industry partners. The agreements included the sale of a total of 75% of the Company's working interest for $975,000 in cash and $256,000 in "carried" capital costs, and provide for the three parties to jointly pursue exploration activities over the acreage, including the acquisition of 3-D seismic data and exploratory drilling. The parties have identified numerous prospects within the Divide Project area, which is located in a multi-pay area of the Williston Basin. Seismic data acquisition commenced in November 1996 and initial drilling is expected to begin in the first half of fiscal 1997.

OTHER WILLISTON BASIN PROSPECTS. In different areas of the Williston Basin, the Company has identified several individual prospects and has acquired leasehold acreage with the intent to conduct 3-D seismic surveys and, if warranted, commence additional exploratory drilling.

DRILLING ACTIVITIES

Information concerning the number of gross and net wells drilled by the Company during fiscal 1996, 1995, and 1994 is as follows:

	1996		1995		1994	
	Gross	Net	Gross	Net	Gross	Net
Exploratory						
United States						
Productive	2	0.07	2	.21	-	-
Dry	2	0.95	6	1.37	-	-
Australia						
Productive	-	-	1(1)	.30(1)	2(1)	0.60(1)
Dry	-	-	-	-	1	0.30
Development						
United States						
Productive	5	0.36	10	.91	13	1.41
Dry	-	-	-	-	1	0.06
Australia						
Productive	-	-	13(1)	3.90(1)	-	-
Dry	-	-	-	-	-	-
Total						
Productive	7	0.43	26	5.32	15	2.01
Dry	2	0.95	6	1.37	2	0.36

(1) See above for a discussion of Australia drilling activities in -

"Exploration Activities - International."

MAJOR PRODUCING PROPERTIES

The following is a brief description of the Company's major producing areas:

WILLISTON BASIN. From fiscal 1991 to 1993, the Company expended over $14 million for the acquisition of producing properties in the Williston Basin of North Dakota and Montana where it now operates 44 wells. Subsequent to these acquisitions, the Company has established additional reserves through recompletions in different formations in existing wellbores and continues to evaluate these properties for further behind-pipe and in-fill development potential. With discounted future net revenues of approximately $10,240,000, the Company's Williston Basin assets comprise approximately 26% of the Company's total reserve value at September 30, 1996, and account for 37% of the Company's daily oil production and 17% of its daily gas production volumes. During fiscal 1996, the Company successfully completed five exploitation projects in this area which resulted in additional proved reserves of 186,000 barrels of oil equivalent ("BOE") with a discounted future net revenue value of $972,000 as of September 30, 1996. The Company believes additional exploitation potential exists and is currently reviewing other projects on its Williston Basin producing properties.

POWDER RIVER BASIN. The Powder River Basin in northeastern Wyoming has been an area of interest for the Company since October 1991, when it joined with three other companies to acquire both producing properties and undeveloped acreage. The Company's Powder River Basin reserves as of September 30, 1996, had discounted future net revenues of $8,208,000, or 21% of the Company's total reserve value. The Company's total acquisition cost in the area over the past five fiscal years is approximately $4 million and additional capital has been invested in development drilling projects. Net production from the Powder River Basin accounts for approximately 22% of the Company's daily oil production. The Company owns non-operating interests in seven waterflood projects in this area.

EAST TEXAS. The West Buna Field in Jasper and Hardin Counties represents a significant percentage of the Company's Texas reserves. The Company's non-operating interest in this field was acquired in 1993. Total discounted future net

revenues from the property were $6,601,000, approximately 17% of the Company's total, as of September 30, 1996. Of this total, $3,096,000 was attributable to proved undeveloped reserves. Both oil and gas volumes and discounted future net revenues applicable to proved undeveloped reserves and proved developed nonproducing reserves were reduced significantly as of September 30, 1994, based upon water encroachment into a producing wellbore during fiscal 1994. No further reserve reductions of a similar nature were necessary as of September 30, 1995 or 1996. During fiscal 1996, net oil and gas production from this field was approximately 4% and 9%, respectively, of the Company's total production volumes.

PERMIAN BASIN. The Company commenced oil and gas operations in Lea County, New Mexico in 1969 when it first acquired interests in the North Bagley Field. After purchasing additional interests throughout the field in 1984, North Bagley became and today remains the Company's largest single concentration of operated properties. As of September 30, 1996, the Company's North Bagley properties had discounted future net revenues of $3,674,000, representing approximately 9% of the Company's total reserve value. The Company's current net daily production from the North Bagley Field is distributed among 40 wells operated by the Company, and represents approximately 10% and 27%, respectively, of the Company's total daily oil and gas production volumes. During fiscal 1996 the Company initiated exploitation activities in this area which resulted in the addition of 118,000 BOE of proved reserves and $953,000 of discounted future net revenues. In addition to North Bagley, the Company owns and operates properties in several other Lea County fields, including the Mescalero and Shipp fields.

PRODUCTION

The Company's net oil and gas production for fiscal 1996, 1995 and 1994 was as follows:

	Oil (Bbl)	Gas (MCF)
1996	470,000	1,550,000
1995	565,000	2,061,000
1994	646,000	2,500,000

AVERAGE PRICES AND AVERAGE LIFTING COSTS

The following table presents certain average price and lifting cost information for each of the years in the three-year period ended September 30, 1996:

	Average price		Price range				
			Oil		Gas		Average lifting
	Oil (Bbl)	Gas (MCF)	High	Low	High	Low	cost per Equivalent Bbl
1996	$17.76	$1.68	$20.45	$14.57	$1.91	$1.35	$7.30
1995	$15.43	$1.43	$17.70	$12.23	$1.64	$1.14	$6.14
1994	$14.70	$1.65	$16.02	$13.03	$1.74	$1.51	$5.70

PRODUCING WELLS AND ACREAGE

The following table sets forth information with respect to the Company's producing wells and acreage as of September 30, 1996:

	Producing wells				Acreage			
	Oil		Gas		Producing		Undeveloped	
State/Country	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alabama	11	0.75	-	-	2,647	179	1,758	490
Alaska(1)	-	-	-	-	-	-	3,783	173
Colorado	54	2.08	-	-	3,390	241	63,561	62,775
Indiana	-	-	-	-	-	-	9,548	835
Louisiana	2	0.03	7	0.60	3,893	413	-	-
Montana	46	5.68	-	-	8,291	1,449	87,319	76,054
Nebraska	8	1.70	-	-	1,719	365	640	123
New Mexico	74	44.00	219	8.96	15,369	4,727	4,879	907
North Dakota	71	18.93	-	-	15,778	3,861	36,675	10,163
Oklahoma	8	2.40	18	1.11	6,940	1,596	215	79
Texas	40	4.52	37	6.95	15,660	2,488	1,326	383
Wyoming	50	5.05	-	-	15,240	1,335	19,741	3,098
Australia(2)	-	-	15	6.86	5,000	2,145	162,000	69,842
Total	364	85.14	296	24.48	93,927	18,799	391,445	224,922

(1) The Company owns 129 net working interest acres (173 net acres including additional overriding royalty interests) in the Point Thomson Unit located on the Alaska North Slope. The Company's interest represents less than 1% of the total unit, which is operated by a major oil and gas company. Although engineering studies and production tests of wells drilled within the unit boundaries have confirmed the existence of substantial oil and gas reserves, the Company has excluded these reserves from its proved reserves reflected in Note 10 to the Company's Consolidated Financial Statements due to the lack of a current market and/or pipeline facilities. Working interest owners continue to evaluate the economics of the property and periodically file updated "Plans of Development" with the State of Alaska, but it is not known when, if ever, market conditions will justify the economics of constructing pipeline facilities to the property.

(2) As of September 30, 1996, the Company owned a non-operating interest in an ATP covering approximately 1,365,000 acres in the Bowen Basin of Queensland, Australia. See the discussion of the November 1996 contraction of the ATP to approximately 1,088,000 acres, above in - "Exploration Activities - International."

The Company's domestic undeveloped leases have various primary terms ranging from one to ten years. The expiration of any leasehold interest or interests would not have a material adverse financial effect on the Company.

Substantially all of the Company's domestic oil and gas properties either have been or may be pledged as security for bank debt. While mortgages have not been filed against many of the properties, additional mortgages will be filed as the Company's bank requires. See Note 5 to the Company's Consolidated Financial Statements.

SALES CONTRACTS

The Company sells its domestic oil and gas production to numerous purchasers, generally under short-term contracts. While certain gas sales are dedicated to gas processing plants for longer terms, a substantial portion of residue gas and plant liquids are typically sold by the plants on a short-term basis. Since numerous purchasers compete to purchase both oil and gas from the Company's properties, the Company does not believe that the loss of any single existing purchaser would have a material adverse effect on its financial condition or results of operations. The Company is not obligated to provide a fixed and determinable quantity of oil or gas in the future under existing contracts and agreements. In Australia, no contracts have been entered into, although during fiscal 1996, the Group began negotiations regarding a gas contract with a Brisbane-based gas utility. See the discussion above in - "Exploration Activities - International."

PRICING

Of the Company's total fiscal 1996 oil and gas revenues, approximately 77% was attributable to crude oil sales. Both oil and natural gas prices are subject to significant fluctuations. Natural gas prices fluctuate based primarily upon weather patterns and regional supply and demand, and crude oil prices fluctuate based primarily on worldwide supply and demand. The majority of the Company's gas sales are through "percentage of proceeds" contracts with gas processing plant owners, whereby the Company receives various percentages of both residue gas and plant liquids sales proceeds. Residue gas sold by the respective gas processing plant owner under these contracts may be sold at "spot" prices or longer term contract prices. The Company has in recent years hedged significant portions of its crude oil and gas sales through both "swap" and put option agreements with financial institutions and direct contracts in the New York Mercantile Exchange ("NYMEX"). Under swap agreements, the Company usually receives a floor price, but retains 50% of price increases above the floor. Under put option agreements, the Company has the right, but not the obligation, to exercise the option and receive the strike price for the volume of oil subject to the option agreement. See the discussion of hedging activities in - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," and Note 1 to the Company's Consolidated Financial Statements.

COMPETITION AND OTHER RISKS

The Company competes for available leasehold acreage with companies which are substantially larger and may have greater financial resources. Notwithstanding such competition, the Company believes that its current leasehold position, in combination with leasing in new areas currently being pursued, will provide an adequate inventory of prospects for the exploratory activity the Company expects to carry on for the next two to three years.

This report contains certain statements of future business plans and objectives and statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations," which may be considered forward looking. These forward looking statements are subject to risks and uncertainties. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. The operations of the Company, both domestically and internationally, are subject to risks including, but not limited to, all of the risks that are encountered in the drilling and completing of wells, along with standard risks of oil and gas operations, uninsured hazards, volatile prices and uncertain markets and governmental regulation. Also, operations in Australia will be subject to the development of adequate pipeline facilities, the timing and adequacy of which will be determined by other parties over whom the Company has no control. In addition, efforts to finance the Company's operations in Australia will be subject to the uncertainties set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations." For a discussion of these and other risks which relate to the forward looking statements contained herein, please see "Risk Factors" in the Company's Registration Statement on Form S-3, SEC File No. 333-5653, which discussion is incorporated herein by reference, along with other cautionary statements in this report.

OTHER BUSINESS PROPERTIES

NGL FRACTIONATING PLANT INVESTMENT. The Alabama natural gas liquids ("NGL") fractionating plant, which the Company and joint venture partners constructed in fiscal 1994 and 1995, began operations in late November 1995 and is now operating near full capacity. After disappointing results from initial operations, the Company and its co-owners commissioned a study by a third-party chemical engineering consultant who concluded that the plant is capable of operating and performing as designed. Certain of the mechanical inefficiencies have been corrected and a new plant operator was appointed in November 1996.

During fiscal 1996, the Company acquired the interest of one of the co-owners and increased its 45% interest in plant profits prior to payout and 27% interest thereafter, to a 55% interest prior to payout and 47% thereafter. This restructuring followed certain cost overruns and construction delays requiring the Company to increase its investment. See Note 4 to the Company's Consolidated Financial Statements.

OTHER. In addition to these primary business activities, the Company owns rights to an interest in a prospect-generating joint venture in China; an option to acquire licensing rights to oil spill cleanup technology; a royalty interest in an Australia bauxite deposit; and a discovered but undeveloped oil and gas property in Alaska. None of these assets currently generates revenues and management anticipates the Company will not be devoting any significant efforts or expenditures on these projects during fiscal 1997.

PROVED OIL AND GAS RESERVES

Information concerning the Company's estimated proved oil and gas reserves and discounted future net cash flows applicable thereto for fiscal 1996, 1995 and 1994 is included in Note 10 to the Company's Consolidated Financial Statements. In fiscal 1996, information concerning portions of the Company's estimated proved oil and gas reserves was also provided to the U.S. Department of Energy.

SEGMENT INFORMATION AND MAJOR CUSTOMERS

The Company has one business segment: Oil and Gas Exploration, Production and Development. The Company had sales in excess of 10% of total revenues to three unaffiliated oil and gas customers during fiscal 1996 totaling 42%, three unaffiliated oil and gas customers during fiscal 1995 totaling 40% and two unaffiliated oil and gas customers during fiscal 1994 totaling 22%. The Company does not believe that the loss of any existing purchaser would have a material adverse effect on its financial condition or results of operations.

UNITED STATES REGULATIONS

GENERAL. The production, transmission and sale of crude oil and natural gas in the United States is affected by numerous state and federal regulations with respect to allowable well spacing, rates of production, bonding, environmental matters and reporting. Future regulations may change allowable rates of production or the manner in which oil and gas operations may be lawfully conducted. Although oil and gas may currently be sold at unregulated prices, such sales prices have been regulated in the past by the federal government and may be again in the future.

NATURAL GAS PRICING. Historically, the Natural Gas Policy Act of 1978 ("NGPA") established maximum prices for certain categories of natural gas sold in either interstate or intrastate commerce and was designed to effect deregulation of the sales price for certain categories of natural gas. Substantially all of the Company's natural gas production falls into categories of gas which were deregulated under the NGPA, so that the NGPA's ceiling prices were largely inapplicable. The Natural Gas Wellhead Decontrol Act of 1989 provided for the elimination of all price regulation under the NGPA effective January 1, 1993. During fiscal 1992, the Federal Energy Regulatory Commission ("FERC") issued FERC Order No. 636 and subsequent related Orders (the "Order"), which is intended to ensure that pipelines provide transportation service that is equal in quality for all gas supplies, whether the customer purchases the gas from the pipeline or from a different supplier.

STATE REGULATION. Oil and gas operations are subject to a wide variety of state regulations. Administrative agencies in such jurisdictions may promulgate and enforce rules and regulations relating to virtually all aspects of the oil and gas business.

ENVIRONMENTAL MATTERS. The Company's business activities are subject to changing federal, state and local environmental laws and regulations. The existence of such regulations has had no material effect on the Company's operations and the cost of such compliance has not been material to date. Recently adopted regulations have, however, resulted in the Company's election to expend additional funds in its continuing effort to comply in all respects with applicable environmental legislation and regulations. During fiscal 1994, the Company voluntarily converted its Lea County, New Mexico saltwater disposal system from surface disposal to subsurface disposal. The state-authorized discharge and safety monitoring system discharged produced formation water into a naturally occurring surface playa lake. Although the Company was not cited for any violations, it was aware that the Environmental Protection Agency had initiated efforts to eliminate surface disposal of produced saltwater in certain instances. The Company incurred approximately $271,000 in costs to effect the conversion. During fiscal 1995 and 1996, the Company incurred approximately $44,000 and $6,000, respectively, in further costs for remediation of previously

used facilities. Although the Company expects to incur environmental clean-up expenditures in the future, at this time it is not aware of any such expenditures that would have a material adverse effect on its financial condition or results of operations.

AUSTRALIA REGULATIONS

COMMONWEALTH OF AUSTRALIA REGULATIONS. The regulation of the petroleum industry in Australia is similar to that of the United States, in that regulatory controls are imposed at both the state and commonwealth level. Specific

commonwealth regulations impose environmental, cultural heritage and native title restrictions on accessing resources in Australia. These regulations are in addition to any state level regulations.

STATE OF QUEENSLAND REGULATIONS. The regulation of exploration and recovery of petroleum resources within a state is governed by state level legislation. This legislation regulates access to the resource, construction of pipelines and the royalties payable. There is also specific legislation governing cultural heritage, native title and environmental issues. Environmental matters are highly regulated at the state level, with most states having in place comprehensive pollution and conservation regulations. In particular, petroleum operations in Queensland must comply with the new Environmental Protection Act and associated Environmental Protection Policy from mining and any tenure condition requiring compliance with the Australian Petroleum Production and Exploration Association Code of Practice. The cost to comply with the foregoing regulations cannot be estimated at this time, although management believes that costs will not significantly hinder or delay the Company's plans in Australia.

AUSTRALIA CRUDE OIL AND GAS MARKETS. The Australia and Queensland onshore crude oil and gas markets are deregulated, with prices being determined exclusively by market forces. At present, the Company does not intend to market its production of natural gas in locations offshore of Australia.

OFFICE FACILITIES

The principal executive offices of the Company are located at 633 Seventeenth Street, Suite 1550, Denver, Colorado 80202, where it leases approximately 11,000 square feet of office space from an unaffiliated party.

EMPLOYEES

At September 30, 1996, the Company employed a total of 20 persons, including its officers. None of the Company's employees are represented by unions. The Company considers its relationship with its employees to be excellent.

ITEM 3. LEGAL PROCEEDINGS

Information concerning legal proceedings involving the Company is included in Note 8 to the Company's Consolidated Financial Statements.

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

The Company did not submit any matter to a vote of its security holders during the fourth quarter of its fiscal year ended September 30, 1996.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed and has been trading on the American Stock Exchange since April 16, 1992. As of December 2, 1996, there were approximately 3,000 holders of record of the Company's common stock. The table below sets forth the high and low closing prices for the common stock of the Company for the periods indicated:

	Fiscal 1996		Fiscal 1995	
Quarter ended	High	Low	High	Low

December 31	$5.25	$3.75	$4.19	$2.44
March 31	$6.63	$4.38	$7.13	$3.38
June 30	$5.75	$4.00	$7.63	$4.81
September 30	$4.75	$3.63	$5.75	$4.06

The Company has not paid any cash dividends on its common stock and does not expect to pay any dividends in the foreseeable future. The Company's bank credit facility provides that dividends may not be paid by the Company without the prior approval of the bank. The Company intends to retain its earnings to provide funds for operations and expansion of its business.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data (in thousands, except per share data) for each of the years in the five-year period ended September 30, 1996 is as follows:

<TABLE>

	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Revenues from continuing operations	$11,136	$11,837	$13,884	$ 9,499	$ 7,553
Income (loss) from:					
Continuing operations	$ (790)	$(1,284)	$(1,638)(1)	$ 1,308	$ 1,402
Discontinued operations	-	-	(214)	675	8,269(3)
Extraordinary items(4)	-	-	-	881	4,973
Cumulative effect of accounting change	-	-	3,000 (2)	-	-
Net income (loss)	$ (790)	$(1,284)	$ 1,148	$ 2,864	$14,644
Primary income (loss) per common share:					
Continuing operations	$ (.07)	$ (.11)	$ (.15)	$ .13	$ .15
Discontinued operations	-	-	(.02)	.07	.90
Extraordinary items	-	-	-	.09	.54
Cumulative effect of accounting change	-	-	.27	-	-
Net income (loss)	$ (.07)	$ (.11)	$ .10	$ .29	$ 1.59
Weighted average shares outstanding	11,807	11,190	11,311	9,982	9,228
Total assets	$52,098	$47,044	$48,253	$48,862	$23,000
Total long-term debt	$13,994	$15,746	$15,746	$17,696	$ 4,189
Working capital	$ 4,011	$ 5,455	$ 4,965	$ 4,081	$ 7,854
Working capital provided by operations	$ 3,285	$ 3,917	$ 5,097	$ 5,050	$16,378
Stockholders' equity	$36,016	$29,818	$31,031	$29,678	$17,623

</TABLE>

(1) Includes $2,021 write-down of oil and gas properties.
(2) Change in method of accounting for income taxes.
(3) Includes gain on settlement of litigation of $14,800, offset by income tax expense of $4,952 and other expenses.
(4) Amounts for fiscal 1993 and 1992 represent tax benefit of net operating loss carryforwards.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

During the past three fiscal years, the Company's primary focus has been directed toward exploratory and development drilling activities. During fiscal 1996, the Company increased activities on domestic exploitation projects involving its existing properties in order to maximize production from existing wellbores. In June 1996, the Company also increased its investment in the Comet Ridge coalbed methane project in Queensland, Australia. Subsequent to September 30, 1996, the Company acquired and then exercised an option to purchase an additional 5% interest in this project and anticipates closing the transaction in January 1997.

During fiscal 1996, the Company entered into exploration agreements with two industry partners, which included the sale of a total of 75% of the Company's working interest in a 30,000 acre project in Divide County, North Dakota. The proceeds from this sale, along with a portion of proceeds from the exercise of common stock warrants, the Company's exchange of its preferred stock in United States Exploration Inc. ("USXP") for cash and other securities, and miscellaneous property sales were used to reduce bank debt by approximately $1,752,000.

Proved oil reserves increased from 3,419,000 barrels as of September 30, 1995, to 4,042,000 barrels as of September 30, 1996. Proved gas reserves remained relatively unchanged at 13.06 Bcf as of September 30, 1995, versus 13.05 Bcf as of September 30, 1996. The increase in oil reserve volumes is primarily attributable to revisions of previous quantity estimates, which is principally due to the higher oil price as of September 30, 1996, compared to September 30, 1995. Total discounted future net revenues increased from $24,200,000 as of September 30, 1995, to $37,937,000 as of September 30, 1996. The increase was attributable to higher oil and gas prices at September 30, 1996, compared to September 30, 1995. See Note 10 to the Company's Consolidated Financial Statements.

The Company's domestic development drilling and other exploitation activities during fiscal 1996 were directed primarily toward properties previously acquired. The Company has established additional proved reserves through both recompletions in different formations in existing wellbores and the drilling of additional wells. These additions partially offset production declines that will occur over the well lives. The Company's international activities in the Comet Ridge project were directed toward settlement of previously existing litigation, increasing ownership through acquisition of additional interests, and securing a pipeline connection, initial gas markets and financing.

The Company's activities on its international and domestic exploration projects during fiscal 1996 is summarized below:

INTERNATIONAL EXPLORATION. In April 1992, the Company acquired a non-operating interest in the Comet Ridge coalbed methane project in the Bowen Basin located in Queensland, Australia. As of September 30, 1996, the co-venturers conducting the project (the "Group") held an Authority to Prospect ("ATP") granted by the Queensland government covering approximately 1,365,000 acres. The holder of an ATP may be granted petroleum leases upon establishing to the satisfaction of the Queensland government that commercial deposits of petroleum have been discovered. During fiscal 1996, the Group was granted petroleum leases covering approximately 167,000 acres in the area known as "Fairview," which is in the southern portion of the ATP. In October 1996, the Group filed for a four-year renewal, and proposed to voluntarily relinquish approximately 20% of its acreage along the western border of the ATP, which it considers to be of only marginal interest. The ATP was renewed, effective November 1, 1996, for a four-year period. The Group's renewed ATP covers approximately 1,088,000 acres, of which 167,000 acres are already covered by petroleum leases. The new ATP requires certain minimum expenditures, based on current exchange rates, of approximately $248,000 in year one, $448,000 in years two and three, and $800,000 in year four. The Company would be responsible for its pro rata share of these expenditures.

Drilling operations in the Comet Ridge project commenced in November 1993 when one noncommercial well was drilled on adjacent farmout acreage that has since been relinquished. During fiscal 1994, two wells were drilled and, in fiscal 1995, an additional 14 wells were drilled, all within the Group's original ATP. No additional wells were drilled in fiscal 1996. All fifteen of the wells in the Fairview area have been completed. Twelve wells were in the de-watering phase and two wells which produce gas with no water were shut-in as of September 30, 1996. One additional well shut-in as of

September 30, 1996, was subsequently placed on production and is currently de-watering. Natural gas has been produced for several months and continued de-watering is expected to further

increase production rates. The gas is being flared pending construction of a pipeline, gathering lines and compression facilities. During fiscal 1996, 14 of the wells in a core area were tested extensively for the purpose of gathering data relative to gas and water production rates and estimated recoverable gas reserves. Reservoir modeling, combined with evaluation of actual production performance data, has allowed independent reservoir engineers to assign technically recoverable reserve volumes to the 14 core Fairview area wells. Although the Company has not included these reserves in its proved reserves due to the present lack of a sales contract and marketing facilities, the Company believes the property is commercially productive. However, the availability of sufficient capital resources may affect the Company's timing for future development of the project and there can be no assurance that the project will be developed as presently contemplated.

In June 1996, the Company increased its ownership in the Comet Ridge project from 30% to 45.75% with the acquisition of an additional 15.75% capital-bearing interest for approximately $6,100,000. The purchase was financed through the issuance of 1,400,000 shares of the Company's common stock in a private placement. The Company's interest bears 45.75% of capital costs and 42.891% of operating expenses and its net revenue interest is 38.6016% prior to project payout. Subsequent to project payout, the Company's interest bears 36.6% of capital and operating expenses and its net revenue interest is 32.94%.

Subsequent to fiscal 1996, the Company acquired and then exercised an option to purchase an additional 5% non-operating interest in the project from co-venturers for approximately $2,300,000. The Company will finance this acquisition through a bridge loan from an affiliate of its largest shareholder.

Although the Company cannot predict future capital requirements, in November 1996 it retained an international corporate finance firm which will serve as the Company's agent in seeking equity and debt financing sources in Australia, the United States and Europe, with proceeds to be used to develop the project. There can be no assurance that sufficient capital will be obtained or, if capital is obtained, that it will be on terms acceptable to the Company or on a basis that meets the Company's objectives.

DOMESTIC EXPLORATION. MISSOURI RIVER PROJECT. The Company owns an 87.5% undivided interest in approximately 45,000 acres in its Missouri River project area in the Williston Basin of Montana. During fiscal 1995, a three-dimensional ("3-D") seismic survey was conducted over approximately 30% of the project area, resulting in the identification of several prospects. The Company drilled a dry hole on the first prospect tested in February 1996. As of September 30, 1995, the Company's investment in the project totaled approximately $1,815,000. An additional $605,000, principally the cost of the unsuccessful well, was incurred during fiscal 1996, bringing the total investment to $2,420,000 as of September 30, 1996. The Company's plans include efforts to sell an interest in the project to an industry partner for cash and/or a commitment to fund seismic or drilling expenditures. Discussions are currently being held with third parties interested in such an arrangement.

DIVIDE PROJECT. During fiscal 1996, the Company assembled a 30,000 acre leasehold position in Divide County, North Dakota, and subsequently entered into exploration agreements with two industry partners. The agreements included the sale of a total of 75% of the Company's working interest for $975,000 in cash and $256,000 in "carried" capital costs and provide for the three parties to jointly pursue exploration activities over the acreage, including the acquisition of 3-D seismic data and exploratory drilling. The parties have identified numerous prospects in the Divide Project area, which is located in a multi-pay area of the Williston Basin. Seismic data acquisition commenced in November, 1996 and initial drilling is expected to begin in the first half of fiscal 1997.

The Alabama natural gas liquids ("NGL") fractionating plant, which the Company and joint venture partners constructed in fiscal 1994 and 1995, began operations in late November 1995 and is now operating near full capacity. The results of the plant operations for fiscal 1996 were disappointing due to both mechanical inefficiencies and weak product margins during the summer months. The Company and its co-owners commissioned a study by a third party chemical engineering consultant who concluded that the plant is capable of operating and performing as designed. Certain of the mechanical inefficiencies have now been corrected

and a new plant operator was appointed during November 1996. During fiscal 1996, the Company acquired the interest of one of the co-owners and increased its interest in plant profits from 45% prior to payout and 27% interest thereafter to a 55% interest prior to payout and 47% thereafter. This restructuring followed certain cost overruns and construction delays, requiring the Company to increase its investment. See Note 4 to the Company's consolidated financial statements. As of September 30, 1996, the Company had invested $2,474,000, which investment increased from $1,454,000 as of September 30, 1995. The investment at September 30,

1996, is net of a distribution of $77,000 and includes a net loss of $75,000, which represents the Company's share of the net loss from the Plant's operations from start-up through September 30, 1996. Before depreciation and amortization, the Company's share of income was $110,000.

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"). SFAS 121 requires the write-down to recoverable value of certain long-lived assets. The Company must apply SFAS 121 in fiscal 1997 to all of its long-lived assets other than oil and gas properties, which will continue to be accounted for using the full cost method. The Company has determined that, given current facts and circumstances, the adoption of SFAS 121 would have no impact on its financial condition or results of operations.

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 encourages, but does not require, companies to adopt a method of accounting for stock compensation awards based on the estimated fair value at the date the awards were granted. Companies may decide not to adopt the fair value method but rather to disclose in the notes to the financial statements the pro forma effect on net income and earnings per share had the fair value method been adopted. The Company expects that upon adoption in fiscal 1997, it will elect to continue to measure compensation cost using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," and will make pro forma disclosures of net income as if the fair value based method of accounting as defined in SFAS No. 123 had been applied.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1996, the Company had cash and short-term investments totaling $3,575,000 and total long-term debt of $13,994,000. The Company's current cash position coupled with current monthly operating cash flows will be utilized to fund a modest amount of oil and gas exploration, development and exploitation activities in the near term. In November 1996, the Company retained an international corporate finance firm to serve as an agent of the Company in seeking additional capital. This firm has agreed to identify potential equity and debt financing sources in Australia, the United States and Europe, with the proceeds to be used to develop the Comet Ridge project and repay the bridge loan anticipated from an affiliate of the Company's largest shareholder.

For the three years ended September 30, 1996, 1995 and 1994, cash flows from operating activities were $3,955,000, $5,158,000 and $4,392,000, respectively. During fiscal 1996, the Company received $6,988,000 from the issuance of common stock, of which approximately $6,091,000 was from the sale of common stock to two institutional investors. See Note 6 to the Consolidated Financial Statements. Proceeds from other issuances of stock of approximately $897,000 were pursuant to the exercise of warrants and options. In Divide County, North Dakota, the Company sold 75% of its working interest in approximately 30,000 leasehold acres for approximately $1,231,000; the Company received $975,000 in cash at closing and will have $256,000 applied to its share of capital expenditures in the project. Sales of noncore oil and gas properties generated proceeds of $372,000. In connection with the disposition of convertible preferred stock in USXP on September 30, 1996, the Company received approximately $796,000. The $6,091,000 proceeds from the sale of common stock were used to acquire from an unaffiliated interest holder an additional 15.75% working interest in the Comet Ridge coalbed methane project in Queensland, Australia. The remaining cash proceeds, along with cash on hand and cash flows from operating activities, were used to retire $1,752,000 of bank debt, invest $1,095,000 in the Alabama NGL fractionating plant and fund other capital expenditures of $5,013,000, of which $774,000 was expended on the acquisition of undeveloped acreage in the Williston Basin, $2,134,000 was incurred in exploration costs, including $1,507,000 in Australia, and $2,105,000 was expended on development drilling, exploitation projects and other capital items.

During fiscal 1995, the Company sold producing oil and gas properties in two

separate transactions generating net cash sales proceeds of approximately $5,100,000. These funds in combination with cash flows from operations were utilized primarily to fund capital expenditures of approximately $7,253,000. Of this total, $4,312,000 was expended on the Company's Australia coalbed methane project, $807,000 on the Missouri River project and $1,138,000 was invested in the Alabama NGL fractionating plant, with the balance attributable primarily to development drilling.

During fiscal 1994, proceeds from the sale of noncore oil and gas properties totaled $1,725,000. Capital expenditures totaled $4,208,000, of which $646,000 was attributable to the Company's Australia coalbed methane exploration project

and $1,008,000 was attributable to the Company's Williston Basin 3-D seismic project. The balance was expended primarily on various development drilling activities and minor producing property acquisitions. The Company expended $1,950,000 in repayment of bank debt and $71,000 for the repurchase of its common stock on the open market. See Notes 5 and 6 to the Company's Consolidated Financial Statements.

The Company's bank credit agreement (the "agreement") provides a maximum loan facility of $40,000,000 subject to borrowing base limitations described below. The agreement contains provisions for both fixed rate and variable rate borrowings. At the Company's option, interest on the revolver is payable at either the London Interbank Offered Rate ("LIBOR") plus 1.5% or the bank's Base Rate. The LIBOR-based option may be selected for periods not exceeding 90 days. The total outstanding loan balance at September 30, 1996, was $13,994,000 (1995 - $15,746,000); $10,000,000 (1995 - $10,000,000) under a fixed rate loan and $3,994,000 (1995 - $5,746,000) under a LIBOR/Base Rate loan. At September 30, 1996, the weighted average interest rate for LIBOR/Base Rate loans under the revolver was 6.96% (1995 - 7.66%).

The fixed rate loan of $10,000,000, with interest at 5.92% payable monthly, matured on September 30, 1996. Under the provisions of the agreement, the fixed rate loan converted to a LIBOR/Base Rate loan under the terms of the revolver with interest payable at LIBOR plus 1.5%. The weighted average interest rate is 7.01% for the four month period through January 1997. Upon expiration of the revolver on October 7, 1997, the principal balance is scheduled to convert to a four-year term loan, although such conversion may be extended by the bank. Certain of the Company's domestic oil and gas properties have been pledged as security for the bank loan, and the bank has the option to place additional liens on other unencumbered properties. The maximum borrowing base is determined solely by the bank and is based upon its assessment of the value of the Company's properties. This bank valuation is based upon the bank's assumptions about reserve quantities, oil and gas prices, operating expenses and other assumptions, all of which may change from time to time and which may differ from the Company's assumptions. At September 30, 1996, the borrowing base was $16,000,000, and was reset at $14,500,000 in November 1996. Should the outstanding loan balance ever exceed the borrowing base, the Company is required to either make a cash payment to the bank equal to or greater than such excess or provide additional collateral to the bank to increase the borrowing base by the amount of the deficit. In the event oil prices or natural gas prices were to decline by a significant amount, the Company's borrowing base could be reduced to an amount less than the loan balance, resulting in the Company having to fulfill the foregoing requirements. The Company is obligated to pay a commitment fee of 3/8% per annum on the difference between the average outstanding loan balance and the borrowing base. The agreement provides that the Company may not pay dividends or incur additional debt without the prior approval of the bank.

The Company currently has minimal remaining unused borrowing capacity. The Company anticipates that in order to complete its capital projects and sustain growth, internal cash flow will have to be supplemented with project financing and/or additional corporate debt or equity offerings. The Company anticipates using cash on hand and existing cash flows to pursue a modest level of its domestic and international exploratory activity. Subsequent to fiscal 1996, the Company acquired and exercised an option to purchase an additional 5% interest in the Comet Ridge project for approximately $2,300,000. The Company will borrow the funds necessary to purchase the interest from an affiliate of its largest shareholder.

During fiscal 1997, the Company intends to focus its efforts primarily on its major domestic and international projects previously discussed. By utilizing a portion of projected fiscal 1997 cash flows, the Company hopes to establish new proved oil and gas reserves and additional cash flow. In addition to these sources of capital, the Company will seek to raise capital to fund the activities on the Comet Ridge project and repay the bridge loan anticipated from an affiliate of its largest shareholder. There can be no assurance that additional funding commitments will be secured or, if secured, that capital will

be obtained on terms beneficial to the Company or on a basis that meets the Company's objectives. If not, the Company may consider sales of existing assets or the issuance of common stock that would dilute the ownership of existing stockholders.

Adverse events such as product price decreases will negatively impact the Company's cash flows and reserve base. The Company typically uses hedging techniques to reduce the effects of price decreases. The Company periodically hedges a portion of its crude oil and gas production through several methods. The Company has in recent years hedged significant portions of its crude oil and gas sales through both "swap" and put option agreements with financial institutions and, to a lesser extent, direct contracts in the New York Mercantile Exchange ("NYMEX"). Under swap agreements, the Company usually receives a floor price, but retains 50% of price increases above the floor. Under put

option agreements, the Company has the right, but not the obligation, to exercise the option and receive the strike price for the volume of oil subject to the option agreement. During fiscal 1996, the Company hedged an average of 14,167 barrels per month (approximately 36%) of its oil production. The difference between the Company's actual price received at the wellhead and the NYMEX price varies according to location and quality of oil sold. During fiscal 1996, the wellhead price averaged $1.84 per barrel below the NYMEX price. None of the Company's gas production was hedged during fiscal 1996 or is currently hedged for periods subsequent to September 30, 1996. Net receipts (payments) pursuant to the Company's hedging activities for fiscal 1996, 1995 and 1994 were $(387,000), $(183,000) and $182,000, respectively.

The Company has entered into two swap agreements and two put option agreements to hedge approximately 37% of its estimated fiscal 1997 oil production. The swap agreements cover 10,000 barrels of oil per month and provide for the Company to receive an average NYMEX floor price of $17.71 per barrel plus 50% of price increases above $17.71. The two put option agreements cover 5,000 barrels of oil per month from October 1996 through March 1997, and 5,000 barrels of oil per month from November 1996 through March 1997, at a NYMEX option strike price of $20.00 per barrel. The difference between the Company's net price received at the wellhead and the NYMEX price will continue to vary based on location and quality of oil sold. Payments made by the Company subsequent to September 30, 1996 for the two put option agreements totaled approximately $31,000, with no additional payments required.

Notwithstanding the Company's hedging positions, decreases in oil and gas prices subsequent to September 30, 1996, could cause a significant reduction in cash flows available for exploratory and development drilling and bank debt service and could negatively impact the Company's efforts to secure new financing sources.

The Company does not expect to pay significant federal income tax in the near term due to its net operating loss ("NOL") carryforwards. The utilization of these carryforwards reduces the Company's effective federal tax rate from approximately 35% to approximately 2%. The carryforwards total approximately $45,773,000 as of September 30, 1996, and expire over the period from fiscal 1998 through fiscal 2011. These carryforwards would be subjected to a significant annual limitation should there be a change of over 50% in the stock ownership of the Company during any three-year period. The Company adopted SFAS 109 effective October 1, 1993. Because of the Company's significant NOL and other carryforwards, the Company recorded a deferred tax asset for the carryforwards under SFAS 109. Since the Company's profitability is not assured, the deferred tax asset was reduced by a valuation allowance. After valuation, the net deferred tax asset recorded on the October 1, 1993, balance sheet was $3,000,000. This amount was reflected in net income as the cumulative effect of the change in method of accounting for income taxes. The realization of the asset will have the effect of reducing future earnings through a charge in lieu of income taxes. During fiscal 1994, the Company recognized a net benefit of $191,000 due to adjustments to the net deferred tax asset. Fiscal 1995 and 1996 results include neither a deferred income tax expense nor benefit. The Company will continue to review income trends and utilization of projected NOL carryforwards in order to refine the calculation of the net amount of the deferred tax asset to be recorded under SFAS 109.

The Company does not believe that inflation has had a material adverse effect on its operations during the last three years.

RESULTS OF OPERATIONS

COMPARISON OF THE FISCAL YEARS ENDED SEPTEMBER 30, 1996 AND 1995

The Company reported a net loss of $790,000 in fiscal 1996 versus a net loss of

$1,284,000 in fiscal 1995. Following are detailed comparisons of the components for the respective periods.

Operating revenues decreased $701,000, or 6%, to $11,136,000 in fiscal 1996 from $11,837,000 in fiscal 1995. Oil volumes decreased 17% to 470,000 barrels in fiscal 1996 from 565,000 barrels in fiscal 1995, resulting in a $1,466,000 revenue decrease. Gas volumes decreased 25% to 1,550,000 Mcf in fiscal 1996 from 2,061,000 Mcf in fiscal 1995, resulting in a $731,000 revenue decrease. These volume decreases are attributable to both the sale of producing properties and to natural declines in oil and gas production rates. The average oil price increased 15% to $17.76 in fiscal 1996 from $15.43 in fiscal 1995, resulting in a revenue increase of $1,095,000. The average gas price increased 17% to $1.68 in fiscal 1996 from $1.43 in fiscal 1995, resulting in a $388,000 revenue increase. Changes in other revenues accounted for an additional $13,000 increase in total revenues.

Operating expenses decreased $289,000, or 5%, to $5,547,000 in fiscal 1996 from $5,836,000 in fiscal 1995. The decrease was primarily attributable to the sale of producing properties. The Company's average lifting cost per equivalent barrel produced, however, increased 19% to $7.30 in fiscal 1996 from $6.14 in fiscal 1995. This increase was attributable primarily to declining production rates and maintenance work performed on mature properties. In addition, certain gas properties with low lifting costs were sold in fiscal 1995, resulting in higher average lifting costs on the remaining properties in fiscal 1996.

General and administrative expenses increased $364,000, or 28%, to $1,661,000 in fiscal 1996 from $1,297,000 in fiscal 1995, primarily due to a $324,000 charge associated with the exercise of warrants by a former officer of the Company.

Depreciation, depletion and amortization ("DD&A") expense decreased $1,470,000, or 28%, to $3,727,000 in fiscal 1996 from $5,197,000 in fiscal 1995, primarily due to the sale of producing properties and to lower production volumes.

Interest income increased $56,000, or 35%, to $216,000 in fiscal 1996 from $160,000 in fiscal 1995. This increase was due to an increase in the average balance of cash and cash equivalents during fiscal 1996 as compared to fiscal 1995.

Interest expense decreased $45,000, or 5%, to $931,000 in fiscal 1996 from $976,000 in fiscal 1995. When capitalized interest is included, interest expense decreased by $41,000. The decrease is primarily attributable to reductions in long-term debt. See Note 5 to the Company's Consolidated Financial Statements.

Other income (expense) for fiscal 1996 included a noncash charge of $273,000 on the disposition of preferred stock of USXP. See Note 4 to the Company's Consolidated Financial Statements.

During fiscal 1996, research and development expenses incurred by the Company pursuant to its agreement with Texas Tech University decreased $17,000 to $23,000 from $40,000 in fiscal 1995 because the Company fulfilled its contractual funding commitment during the fourth quarter of fiscal 1994. Expenditures incurred since such fulfillment have been voluntary.

Income tax expense decreased $30,000, or 125%, to a benefit of $6,000 in fiscal 1996 from an expense of $24,000 in fiscal 1995. This decrease is due to gains from property sales in fiscal 1995 and losses from property sales in fiscal 1996.

Net income for fiscal 1996 includes a loss of $75,000 representing the Company's equity interest in the net loss of the Alabama NGL fractionating plant. No such income or loss was included in fiscal 1995 net income.

COMPARISON OF THE FISCAL YEARS ENDED SEPTEMBER 30, 1995 AND 1994

The Company reported a net loss of $1,284,000 in fiscal 1995 versus net income of $1,148,000 in fiscal 1994. If the effects of a change in method of accounting, discontinued operations and a write-down of the book value of oil and gas properties were excluded from fiscal 1994 numbers, the Company would have reported net income of $383,000. Following are detailed comparisons of the components of the respective periods.

Operating revenues decreased $2,047,000, or 15%, to $11,837,000 in fiscal 1995 from $13,884,000 in fiscal 1994. Oil volumes decreased 13% to 565,000 barrels in fiscal 1995 from 646,000 barrels in fiscal 1994, resulting in a $1,191,000 revenue decrease. Gas volumes decreased 18% to 2,061,000 Mcf in fiscal 1995 from 2,500,000 Mcf in fiscal 1994, resulting in a $724,000 revenue decrease. These volume decreases are attributable to both the sale of producing properties and to natural declines in oil and gas production rates. The average oil price increased 5% to $15.43 in fiscal 1995 from $14.70 in fiscal 1994, resulting in a revenue increase of $412,000. The average gas price decreased 13% to $1.43 in

fiscal 1995 from $1.65 in fiscal 1994, resulting in a $453,000 revenue decrease. Changes in other revenues accounted for an additional $91,000 decrease in total revenues.

Operating expenses decreased $425,000, or 7%, to $5,836,000 in fiscal 1995 from $6,261,000 in fiscal 1994. The decrease was primarily attributable to the sale of producing properties. The Company's average lifting cost per equivalent barrel produced, however, increased 8% to $6.14 in fiscal 1995 from $5.70 in fiscal 1994. This increase was attributable primarily to declining production rates and maintenance work performed on mature properties.

Costs and expenses for fiscal 1994 included a write-down of the book value of the Company's oil and gas properties pursuant to full cost ceiling test rules. No write-down was required for fiscal 1995 since the ceiling test value as of September 30, 1995 exceeded the book value. See Note 3 to the Company's Consolidated Financial Statements.

General and administrative expenses remained relatively flat, decreasing $21,000, or 2%, to $1,297,000 in fiscal 1995 from $1,318,000 in fiscal 1994.

DD&A expense increased $75,000, or 1%, to $5,197,000 in fiscal 1995 from $5,122,000 in fiscal 1994, primarily due to an increase in the rate per equivalent barrel. The DD&A rate per equivalent barrel increased due to the calculation of fiscal 1995 reserves using a lower oil price than that used for fiscal 1994 reserves, thus decreasing economically recoverable reserves, and to the significant reduction in proved reserves as of September 30, 1994.

Interest expense remained virtually unchanged with a decrease of only $1,000 to $976,000 in fiscal 1995 from $977,000 in fiscal 1994. When capitalized interest is included, interest expense increased by $79,000. The increase was primarily attributable to general increases in interest rates.

During fiscal 1995, research and development expenses incurred by the Company pursuant to its agreement with Texas Tech University decreased $72,000 to $40,000 from $112,000 in fiscal 1994 because the Company fulfilled its contractual funding commitment during the fourth quarter of fiscal 1994. Expenditures incurred since such fulfillment have been voluntary and of lesser amounts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Financial Statements and supplementary financial data follow page 23 and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

The Company hereby undertakes on or before 120 days after September 30, 1996, to file with the Commission a Definitive Proxy Statement pursuant to Regulation 14A with respect to the Company's Annual Meeting of Shareholders, which Proxy Statement will contain the information required by Part III. Such information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of the report:

For a list of financial statements and financial statement schedules, see "Index to Consolidated Financial Statements" which is part of the Financial Statements and Supplementary Data which follow page 23 and is incorporated herein by reference.

(b) During the last quarter of the Company's fiscal year ended September 30, 1996, the Company filed no reports on Form 8-K.

(c) Exhibits:

For a list of exhibits, see "Exhibits" which follows page 20 and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIPPERARY CORPORATION

Date December 23, 1996 By /s/ David L. Bradshaw
David L. Bradshaw, President,
Chief Executive Officer and
Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ David L. Bradshaw David L. Bradshaw	President, Chief Executive Officer and Chairman of the Board of Directors	December 23, 1996
/s/ Paul C. Slevin Paul C. Slevin	Chief Financial Officer	December 23, 1996
/s/ Wayne W. Kahmeyer Wayne W. Kahmeyer	Controller and Principal Accounting Officer	December 23, 1996
/s/ Kenneth L. Ancell Kenneth L. Ancell	Director	December 23, 1996
/s/ Eugene I. Davis Eugene I. Davis	Director	December 23, 1996
/s/ Douglas Kramer Douglas Kramer	Director	December 23, 1996
/s/ Marshall D. Lees Marshall D. Lees	Director	December 23, 1996

Number	Description
3.9	Restated Articles of Incorporation of Tipperary Corporation adopted May 6, 1993, filed as Exhibit 3.9 to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on June 29, 1993, and incorporated herein by reference.
3.10	Restated Corporate Bylaws of Tipperary Corporation adopted June 28, 1993, filed as Exhibit 3.10 to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on June 29, 1993, and incorporated herein by reference.
4.37	Second Amendment to Credit Agreement dated September 27, 1991, by and between Tipperary Petroleum Company and Central Bank, National Association, formerly Central Bank of Denver, National Association,

filed as Exhibit 4.37 to Form 10-K dated September 30, 1991, and incorporated herein by reference.

4.39 Revolving Credit and Term Loan Agreement dated March 30, 1992, by and between Central Bank, N.A. and Tipperary Petroleum Company, Tipperary Corporation and Tipperary Oil & Gas Corporation, filed as Exhibit 4.39 to Form 10-Q dated March 31, 1992, and incorporated herein by reference.

4.40 Third Amended and Restated Mortgage, Deed of Trust, Assignment of Proceeds, Security Agreement and Financing Statement from Tipperary Petroleum Company and Tipperary Oil and Gas Corporation to Central Bank, N.A. dated March 30, 1992, filed as Exhibit 4.40 to Form 10-Q dated March 31, 1992, and incorporated herein by reference.

4.41 Revolving Note dated March 30, 1992, in the amount of $40,000,000 between Tipperary Petroleum Company, Tipperary Corporation and Tipperary Oil and Gas Corporation (makers) and Central Bank, N.A., filed as Exhibit 4.41 to Form 10-Q dated March 31, 1992, and incorporated herein by reference.

4.42 Term Note dated March 30, 1992, in the amount of $40,000,000 between Tipperary Petroleum Company, Tipperary Corporation and Tipperary Oil and Gas Corporation (makers) and Central Bank, N.A., filed as Exhibit 4.42 to Form 10-Q dated March 31, 1992, and incorporated herein by reference.

4.43 Amendment of Revolving Credit and Term Loan Agreement dated September 30, 1993, between Tipperary Corporation, Tipperary Oil & Gas Corporation and Colorado National Bank, filed as Exhibit 4.43 to Form 10-K dated September 30, 1993, and incorporated herein by reference.

4.44 Second Amendment of Revolving Credit and Term Loan Agreement dated March 31, 1994, by and among Colorado National Bank f/k/a/ Central Bank, N.A., Tipperary Corporation and Tipperary Oil & Gas Corporation, filed as Exhibit 4.44 to Form 10-Q dated March 31, 1994, and incorporated herein by reference.

4.45 Negative Pledge Agreement dated March 31, 1994, by and among Colorado National Bank, Tipperary Corporation and Tipperary Oil & Gas Corporation, filed as Exhibit 4.45 to Form 10-Q dated March 31, 1994, and incorporated herein by reference.

4.46 Third Amendment of Revolving Credit and Term Loan Agreement dated March 31, 1995, by and among Colorado National Bank f/k/a Central Bank, N.A., Tipperary Corporation and Tipperary Oil & Gas Corporation filed as Exhibit 4.46 to Form 10-Q dated March 31, 1995, and incorporated herein by reference.

4.47 Fourth Amendment of Revolving Credit and Term Loan Agreement dated as of March 31, 1996, by and among Tipperary Corporation, and Tipperary Oil & Gas Corporation, and Colorado National Bank, successor in interest to Central Bank National Association, filed as Exhibit 4.47 to Form 10-Q dated March 31, 1996, and incorporated herein by reference.

Number	Description

10.13 Warrant to purchase the Registrant's common stock dated October 29, 1990, issued to James A. McAuley, filed as Exhibit 10.13 to Form 10-K dated September 30, 1990, and incorporated herein by reference.

10.20 Unit Operating Agreement dated March 1, 1977, effecting the Point Thomson Unit Area, Alaska, filed as Exhibit 10.20 to Form 8 dated August 12, 1992, and incorporated herein by reference.

10.21 Amendment to Point Thomson Unit Area Operating Agreement dated June 9, 1977, filed as Exhibit 10.21 to Form 8 dated August 12, 1992, and incorporated herein by reference.

10.22 Amendment to Point Thomson Unit Area Operating Agreement dated February 16, 1982, filed as Exhibit 10.22 to Form 8 dated August 12, 1992, and incorporated herein by reference.

10.23 Competitive Oil and Gas lease dated April 1, 1990, by and between the State of Alaska and Tipperary Land and Exploration Corporation,

effecting the Point Thomson Unit, Alaska, filed as Exhibit 10.19 to Form 8 dated August 12, 1992, and incorporated herein by reference.

10.36 Warrant to Purchase the Registrant's common stock dated April 26, 1994, issued to Eugene I. Davis, filed as Exhibit 10.36 to Form 10-Q dated March 31, 1994, and incorporated herein by reference.

10.37 United States Exploration, Inc. 1994 Series A Convertible Preferred Stock and 1994 Series B Convertible Preferred Stock Purchase Agreement by United States Exploration, Inc. and Tipperary Corporation, dated July 18, 1994, and Exhibits filed as Exhibit 10.37 to Form 10-Q dated June 30, 1994, and incorporated herein by reference.

10.38 Operating Agreement of Frisco City Fractionating, L.L.C. dated August 19, 1994, among Flahive Oil & Gas LLC, O'Neal Resources Corporation, Gunsmoke Gas Processing Company, Tipperary Corporation and Milmac Operating Company filed as Exhibit 10.38 to Form 10-K dated December 14, 1994, and incorporated herein by reference.

10.39 Amended Warrant to Purchase the Registrant's common stock dated February 1, 1995, issued to James A. McAuley filed as Exhibit 10.39 to Form 10-Q dated March 31, 1995, and incorporated herein by reference.

10.40 Warrant to Purchase the Registrant's common stock dated April 1, 1996, issued to David L. Bradshaw, filed herewith.

10.41 Warrant to Purchase the Registrant's common stock dated July 11, 1996, issued to Kenneth L. Ancell, filed herewith.

10.42 Agreement for Conversion of Preferred Stock, Sale of Common Stock and Settlement of Preferred Stock Dividends, by and among the Registrant, United States Exploration, Inc., Dale Jensen, Jerome N. Fenna and Betty A. Fenna dated September 30, 1996, filed herewith.

10.43 Agreement for Sale of Membership Interest in D-Gas, L.L.C., between Registrant and Hamilton Refining, Company, dated November 14, 1995, filed herewith.

10.44 Agreement regarding restructuring of Frisco City Fractionating, L.L.C. by and among Registrant, Anbay, Ltd., O'Neal Resources Corporation, Gunsmoke Gas Processing Company and Milmac Operating Company dated May 14, 1996, filed herewith.

10.45 Divide Exploration Agreement entered into August 22, 1996, between Tipperary Oil & Gas Corporation and Lyco Energy Corporation, filed herewith.

Number	Description

10.46 Purchase and Sale Agreement between Cavell Energy (U.S.) Corporation and Tipperary Oil & Gas Corporation dated September 19, 1996, filed herewith.

10.47 Agreement concerning the addition of Cavell Energy (U.S.) Corporation as a party to the Exploration Agreement and Operating Agreement and certain amendments to such agreements by and among Tipperary Oil & Gas Corporation, Cavell Energy (U.S.) Corporation and Lyco Energy Corporation, dated September 19, 1996, filed herewith.

10.48 Purchase and Sale Agreement dated June 28, 1996, between Tipperary Oil & Gas Corporation and Clovelly Oil Co., Inc., filed herewith.

11.1 Calculation of per share earnings, filed herewith.

21.1 List of subsidiaries, filed herewith.

27 Financial Data Schedule.

TIPPERARY CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Tipperary Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Tipperary Corporation and its subsidiaries at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

PRICE WATERHOUSE LLP

Denver, Colorado
December 2, 1996

TIPPERARY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet
September 30, 1996 and 1995
(in thousands)

<TABLE>

ASSETS	1996	1995
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 3,575	$ 4,193
Receivables	2,154	2,355
Inventory	190	190
Current portion of deferred income taxes, net	57	21
Other current assets	123	176
Total current assets	6,099	6,935
Property, plant and equipment, at cost:		
Oil and gas properties, full cost method	122,360	113,188
Other property and equipment	2,336	1,998

	124,696	115,186
Less accumulated depreciation, depletion and amortization	(85,215)	(81,527)
Property, plant and equipment, net	39,481	33,659
Noncurrent portion of deferred income taxes, net	3,134	3,170
Investment in NGL fractionating plant	2,474	1,454
Investment in stock	707	1,770
Other noncurrent assets	203	56
	$ 52,098	$ 47,044
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ -	$ -
Accounts payable	1,539	775
Accrued liabilities	215	194
Production taxes payable	186	257
Royalties payable	148	212
Income taxes payable	-	42
Total current liabilities	2,088	1,480
Long-term debt	13,994	15,746
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock; par value $.02; 20,000,000 shares authorized; 13,078,071 issued and 13,050,271 outstanding in 1996; 11,237,404 issued and 11,209,604 outstanding in 1995	262	225
Capital in excess of par value	105,375	98,424
Accumulated deficit	(69,550)	(68,760)
Treasury stock, at cost; 27,800 shares	(71)	(71)
Total stockholders' equity	36,016	29,818
	$ 52,098	$ 47,044

</TABLE>

See accompanying notes to consolidated financial statements.

TIPPERARY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Operations
Years ended September 30, 1996, 1995 and 1994
(in thousands, except per share data)

<TABLE>

	1996	1995	1994
<S>	<C>	<C>	<C>
From continuing operations:			
Revenues	$11,136	$11,837	$13,884
Costs and expenses:			
Operating	5,547	5,836	6,261
General and administrative	1,661	1,297	1,318
Depreciation, depletion and amortization	3,727	5,197	5,122
Write-down of oil and gas properties	-	-	2,021
Total costs and expenses	10,935	12,330	14,722
Operating income (loss)	201	(493)	(838)
Other income (expense):			
Interest income	216	160	53
Dividend income	89	89	18

Interest expense	(931)	(976)	(977)
Loss on disposition of USXP preferred stock	(273)	-	-
Research and development expense	(23)	(40)	(112)
Total other expense	(922)	(767)	(1,018)
Loss from continuing operations before income taxes	(721)	(1,260)	(1,856)
Current income tax benefit (expense)	6	(24)	27
Deferred income tax benefit	-	-	191
Loss before equity in loss of NGL fractionating plant	(715)	(1,284)	(1,638)
Equity in loss of NGL fractionating plant	(75)	-	-
Loss from continuing operations	(790)	(1,284)	(1,638)
From discontinued operations:			
Loss from discontinued gas transmission operations, including litigation expenses of $210, net of income tax expense of $0	-	-	(214)
Loss before cumulative effect of change in method of accounting for income taxes	(790)	(1,284)	(1,852)
Cumulative effect of change in method of accounting for income taxes	-	-	3,000
Net income (loss)	$ (790)	$(1,284)	$ 1,148

</TABLE>

(Continued)

See accompanying notes to consolidated financial statements.

TIPPERARY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Operations - Continued
Years ended September 30, 1996, 1995 and 1994
(in thousands, except per share data)

<TABLE>

	1996	1995	1994
<S>	<C>	<C>	<C>
Primary income (loss) per share:			
From continuing operations	$ (.07)	$ (.11)	$ (.15)
From discontinued operations	-	-	(.02)
Income before cumulative effect of change in accounting principle	(.07)	(.11)	(.17)
Cumulative effect of change in accounting principle	-	-	.27
Net income (loss)	$ (.07)	$ (.11)	$ .10
Weighted average shares outstanding	11,807	11,190	11,311

</TABLE>

The accompanying notes to consolidated financial statements.

TIPPERARY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
Years ended September 30, 1996, 1995 and 1994
(in thousands)

<TABLE>

	Common Stock		Capital in excess of	Accumulated	Treasury Stock		
	Shares	Amount	par value	deficit	Shares	Amount	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance September 30, 1993	11,053	$ 221	$ 98,081	$ (68,624)	-	$ -	$ 29,678
Net income	-	-	-	1,148	-	-	1,148
Exercise of stock options and warrants	163	3	266	-	-	-	269
Acquisition of treasury stock	(28)	-	-	-	28	(71)	(71)
Tax benefit of non-qualified stock option exercise		-	7	-	-	-	7
Balance September 30, 1994	11,188	224	98,354	(67,476)	28	(71)	31,031
Net loss	-	-	-	(1,284)	-	-	(1,284)
Exercise of stock options and warrants	22	1	59	-	-	-	60
Tax benefit of non-qualified stock option exercise	-	-	11	-	-	-	11
Balance September 30, 1995	11,210	225	98,424	(68,760)	28	(71)	29,818
Net loss	-	-	-	(790)	-	-	(790)
Common stock issuance	1,400	28	6,063	-	-	-	6,091
Exercise of stock options and warrants	440	9	888	-	-	-	897
Balance September 30, 1996	13,050	$ 262	$ 105,375	$ (69,550)	28	$(71)	$ 36,016

</TABLE>

See accompanying notes to consolidated financial statements.

TIPPERARY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Years ended September 30, 1996, 1995 and 1994
(in thousands)

<TABLE>

	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	$ (790)	$(1,284)	$ 1,148
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	3,727	5,197	5,122
Income tax effect of stock option exercise	-	11	7
Deferred income tax benefit	-	-	(191)
Cumulative effect of accounting change	-	-	(3,000)
Write-down of oil and gas properties	-	-	2,021
Equity in loss of NGL fractionating plant	75	-	-
Loss on disposition of USXP preferred stock	273	-	-
Deferred lease obligation and other	-	(7)	(10)
Change in assets and liabilities, net of effects from property acquisitions:			
(Increase) decrease in receivables	201	984	(587)
Decrease in other current assets	53	212	71
Increase (decrease) in accounts payable, accrued liabilities and income taxes payable	743	117	(507)

Increase (decrease) in royalties payable	(64)	(76)	218
Increase (decrease) in production taxes payable	(71)	(30)	287
Other	(192)	34	(187)
Total adjustments	4,745	6,442	3,244
Net cash provided by operating activities	3,955	5,158	4,392
Cash flows from investing activities:			
Proceeds from sale of assets	1,603	5,058	1,725
Proceeds from sale of common stock in USXP	796	-	-
Capital expenditures	(11,113)	(7,253)	(3,892)
Investment in NGL fractionating plant	(1,095)	(1,138)	(316)
Net cash used in investing activities	(9,809)	(3,333)	(2,483)
Cash flows from financing activities:			
Principal repayments	(1,752)	-	(1,950)
Proceeds from issuance of stock	6,988	60	269
Acquisition of treasury stock	-	-	(71)
Net cash provided by (used in) financing activities	5,236	60	(1,752)
Net increase (decrease) in cash and cash equivalents	(618)	1,885	157
Cash and cash equivalents at beginning of year	4,193	2,308	2,151
Cash and cash equivalents at end of year	$ 3,575	$ 4,193	$ 2,308

</TABLE>

(Continued)

See accompanying notes to consolidated financial statements.

TIPPERARY CORPORATION AND SUBSIDIARIES
Consolidated Statement of Cash Flows - Continued
Years ended September 30, 1996, 1995 and 1994
(in thousands)

<TABLE>

	1996	1995	1994
<S>	<C>	<C>	<C>
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$942	$1,056	$1,003
Income taxes	$ 23	$ -	$41
Supplemental disclosure of non-cash investing and financing activities:			
Sale of refinery property in exchange for preferred stock (see Note 4)	$ -	$ -	$1,770

</TABLE>

See accompanying notes to consolidated financial statements.

TIPPERARY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 1996, 1995 and 1994

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Tipperary Corporation and its subsidiaries (the "Company") are principally engaged in the exploration for and development and production of crude oil and natural gas. The Company was organized as a Texas corporation in January 1967. The Company entered the oil and gas business in 1969 when it acquired its Permian Basin oil and gas properties located in Lea County, New Mexico. The Company has since expanded its activities to other areas of the United States, predominantly the Rocky Mountain and Mid-Continent areas, and also to Queensland, Australia, where it is involved in exploration for and development of coalbed methane gas.

USE OF ESTIMATES AND SIGNIFICANT RISKS

The Company is subject to a number of risks and uncertainties inherent in the oil and gas industry. Among these are risks related to fluctuating oil and gas prices, uncertainties related to the estimation of oil and gas reserves and the value of such reserves, effects of competition and extensive environmental regulation, risks associated with the search for and the development of oil and gas reserves, uncertainties related to foreign operations, and many other factors, many of which are necessarily beyond the Company's control. The Company's financial condition and results of operations depend significantly upon the prices received for crude oil and natural gas. These prices are subject to fluctuations in response to changes in supply, market uncertainty and a variety of additional factors that are beyond the control of the Company.

PARTNERSHIPS AND OTHER EQUITY INVESTMENTS

The consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues and expenses of its oil and gas partnership interests. The Company's investments in limited liability companies, over which it exercises significant influence, are accounted for under the equity method.

RECLASSIFICATION

Certain amounts reported for prior fiscal years have been reclassified to correspond to the fiscal year 1996 presentation.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

CONCENTRATIONS OF CREDIT RISK

The Company maintains demand deposit accounts with one bank in Denver, Colorado and invests cash in bank money market accounts and other money market funds which the Company believes have minimal risk of loss.

As an operator of jointly owned oil and gas properties, the Company sells oil and gas production to numerous oil and gas purchasers and pays vendors for oil and gas services. The risk of non-payment by the purchasers is considered minimal and the Company does not obtain collateral for sales to them. Joint interest receivables are subject to collection under the terms of operating agreements which provide lien rights, and the Company considers the risk of loss likewise to be minimal.

FAIR VALUE OF FINANCIAL INSTRUMENTS

CASH AND SHORT-TERM INVESTMENTS

The carrying amount approximates fair value because of the short maturity of these instruments.

INVESTMENT IN COMMON STOCK

The carrying value of the common stock in United States Exploration, Inc. ("USXP") approximates fair market value as evidenced by quoted market prices.

INVENTORY

Inventory is composed of tubular goods and supplies and is valued at the lower of average cost or market.

PROPERTY, PLANT AND EQUIPMENT

The Company follows the full cost method to account for its oil and gas exploration and development activities. Under the full cost method, all costs incurred which are directly related to oil and gas exploration and development are capitalized and subjected to depreciation and depletion. Depletable costs also include estimates of future development costs of proved reserves. Costs related to undeveloped oil and gas properties may be excluded from depletable costs until such properties are evaluated as either proved or unproved. The net capitalized costs are subject to a ceiling limitation. See Note 3. Gains or losses upon disposition of oil and gas properties are treated as adjustments to capitalized costs, unless the disposition represents a significant portion of the Company's proved reserves. A separate cost center is maintained for expenditures applicable to each country in which the Company conducts exploration and/or production activities.

Repairs and maintenance are expensed; renewals and betterments are capitalized. Certain indirect costs, including general and administrative expense, have been capitalized to property, plant and equipment.

Interest costs for the construction of certain long term assets and for the investment in significant unproved properties and development projects are capitalized and amortized over the related assets' estimated useful life. The Company capitalized $84,000 of interest costs in fiscal 1996.

Upon sale or retirement of property, plant and equipment other than oil and gas properties, the applicable costs and accumulated depreciation are removed from the accounts and gain or loss is recognized.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation and depletion of oil and gas properties is provided using the units-of-production method computed using proved oil and gas reserves.

Depreciation of other property, plant and equipment is provided using the straight-line method computed over estimated useful lives ranging from three to fifteen years.

INCOME TAXES

The Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes," effective October 1, 1993. SFAS 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between financial statement carrying amounts and tax bases of existing assets and liabilities based on currently enacted tax rates.

CRUDE OIL AND NATURAL GAS HEDGING

The Company periodically hedges a portion of its crude oil and gas production through several methods. In cases where direct investments are made in futures contracts, gains or losses on the hedges are deferred and recognized in income as the hedged commodity is produced. The Company has in recent years hedged significant portions of its crude oil and gas sales primarily through both "swap" and put option agreements with financial institutions based upon prices quoted by the New York Mercantile Exchange ("NYMEX"). Under swap agreements, the Company usually receives a floor price but retains 50% of price increases above the floor. Under put option agreements, the Company has the right, but not the obligation, to exercise the option and receive the strike price for the volume of oil subject to the option agreement. During fiscal 1996, the Company hedged an average of 14,167 barrels per month (approximately 36%) of its oil production. The Company's actual price received at the wellhead averaged $1.84 per barrel below NYMEX prices during fiscal 1996, due to differences in location and quality of oil sold. None of the Company's gas production was hedged during fiscal 1996 or is currently hedged for periods subsequent to September 30, 1996. Net receipts (payments) pursuant to the Company's hedging activities for fiscal 1996, 1995 and 1994 were $(387,000), $(183,000) and $182,000, respectively.

The Company has entered into two swap agreements and two put option agreements to hedge approximately 37% of its estimated fiscal 1997 oil production. The swap agreements cover 10,000 barrels of oil per month and provide for the Company to receive an average NYMEX floor price of $17.71 per barrel plus 50% of price increases above $17.71. The two put option agreements cover 5,000 barrels

of oil per month from October 1996 through March 1997, and 5,000 barrels of oil per month from November 1996 through March 1997, at a NYMEX option strike price of $20.00 per barrel. The difference between the Company's net price received at the wellhead and the NYMEX price will continue to vary based on location and quality of oil sold. Payments by the Company subsequent to September 30, 1996, for the two put option agreements totaled approximately $31,000, with no additional payments required.

RESEARCH AND DEVELOPMENT EXPENSE

The Company has funded a research project conducted by Texas Tech University ("Texas Tech") for development of a clean-up technology designed to biodegrade absorbent materials used in the clean-up of contaminants, including oil. An environmental research team, which was retained by the Company to determine commercial applications for the process, has reported that the commercialization opportunities are likely greater with respect to removal of contaminants other than oil. Subject to a 10% sales royalty to be paid to Texas Tech, the Company may acquire licensing rights to the technology. Costs incurred pursuant to this arrangement are expensed as incurred. The Company paid $23,000, $40,000 and $112,000 pursuant to the agreement in fiscal 1996, 1995 and 1994, respectively. Prior to fiscal 1994, the Company had expended $233,000 on the project.

EARNINGS (LOSS) PER SHARE

Primary earnings (loss) per share has been computed based on the weighted average number of common and common equivalent shares outstanding during each of the applicable periods using the treasury stock method. Effect has been given to common stock warrants and options when their effect would be dilutive.

SIGNIFICANT CUSTOMERS

The Company had sales in excess of 10% of total revenues to three unaffiliated oil and gas customers during fiscal 1996 totaling 42%, three unaffiliated oil and gas customers during fiscal 1995 totaling 40%, and two unaffiliated oil and gas customers during fiscal 1994 totaling 22%.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"). SFAS 121 requires the write-down to fair value of certain long-lived assets. The Company must apply SFAS 121 in fiscal 1997 to all of its long-lived assets other than oil and gas properties, which will continue to be accounted for using the full

cost method. The Company has determined that, given current facts and circumstances, the adoption of SFAS 121 would have no impact on its financial condition or results of operations.

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 encourages, but does not require, companies to adopt a method of accounting for stock compensation awards based on the estimated fair value at the date the awards were granted. Companies may decide not to adopt the fair value method but rather to disclose in the notes to the financial statements the pro forma effect on net income and earnings per share had the fair value method been adopted. The Company expects that upon adoption in fiscal 1997, it will elect to continue to measure compensation cost using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," and will make pro forma disclosures of net income as if the fair value based method of accounting as defined in SFAS No. 123 had been applied.

NOTE 2 - RELATED PARTY TRANSACTIONS

During fiscal 1994, James A. McAuley, who served on the Company's Board of Directors until July 1996, personally acquired an interest in a Utah limited liability company of which the Company is also a member. The limited liability company was formed for the purpose of constructing a natural gas liquids ("NGL") fractionating plant in Alabama. Mr. McAuley negotiated and contracted independently with third parties, as did the Company. Subsequent to September 30, 1996, a corporation which Mr. McAuley controls became the operator of the plant pursuant to a vote of the co-owners of the plant.

NOTE 3 - OIL AND GAS FULL COST POOLS

UNITED STATES

The Company's domestic full cost pool includes capital costs incurred in domestic property acquisition, exploration and development. The total book value of the United States full cost pool as of September 30, 1996, was $25,717,000. Included in this total are $2,589,000 of acquisition costs attributable to nonproducing oil and gas leases in the Williston Basin that have been excluded from depletable costs pending further evaluation. Under the full cost method of accounting, capitalized oil and gas property costs, less accumulated amortization and related deferred income taxes, may not exceed the present value of future net revenues from proved reserves, plus the lower of cost or market value of unproved properties, less related income tax effects. This "ceiling test" must be performed on a quarterly basis.

At September 30, 1996, using prices in effect at such time and a discount rate of 10% as prescribed by Securities and Exchange Commission rules, proved oil reserves increased by 623,000 barrels from September 30, 1995, reserves calculated using prices in effect then. Proved gas reserves remained relatively unchanged at 13.06 Bcf as of September 30, 1995, versus 13.05 Bcf as of September 30, 1996. Total discounted future net revenues increased from $24,200,000 as of September 30, 1995, to $37,937,000 as of September 30, 1996. The majority of the increase in oil reserve volumes is attributable to revisions of previous estimates which is primarily due to higher oil prices as of September 30, 1996, compared to September 30, 1995. The increase in total discounted future net revenues is primarily attributable to higher oil and gas prices at September 30, 1996, compared to September 30, 1995.

MISSOURI RIVER PROJECT. The Company owns an 87.5% undivided interest in approximately 45,000 acres in its Missouri River project area in the Williston Basin of Montana. During fiscal 1995, a three-dimensional ("3-D") seismic survey was conducted over approximately 30% of the project area, resulting in the identification of several drillable prospects. The Company drilled a dry hole on the first prospect tested in February 1996. As of September 30, 1995, the Company's investment in the project totaled approximately $1,815,000. An additional $605,000 was incurred during fiscal 1996, bringing the total investment to $2,420,000 as of September 30, 1996.

DIVIDE PROJECT. During fiscal 1996, the Company assembled a 30,000 acre leasehold position in Divide County, North Dakota, and subsequently entered into exploration agreements with two industry partners. The agreements included the sale of a total of 75% of the Company's working interest for $975,000 in cash and $256,000 in "carried" capital costs and

provide for the three parties to jointly pursue exploration activities over the acreage, including the acquisition of 3-D seismic data and exploratory drilling. The parties have identified numerous prospects in the Divide Project area, which is located in a multi-pay area of the Williston Basin. Seismic data acquisition commenced in November 1996.

OTHER WILLISTON BASIN PROSPECTS. In different areas of the Williston Basin, the Company has identified other individual prospects and has acquired leasehold acreage with the intent to conduct 3-D seismic surveys and commence additional exploratory drilling. As of September 30, 1996, the Company had acquired approximately 1,000 net acres and had invested approximately $83,000 in this leasehold acreage.

AUSTRALIA

In April 1992, the Company acquired a non-operating interest in the Comet Ridge coalbed methane project in Queensland, Australia. The Company increased its ownership interest in the project from 30% to 45.75% in June 1996 with the acquisition of an additional 15.75% capital-bearing interest for approximately $6,100,000. The Company owns a 45.75% non-operating interest in the project. The Company's interest bears 45.75% of capital costs and 42.891% of operating expenses and its net revenue interest is 38.6016% prior to project payout. Subsequent to project payout, the Company's interest will bear 36.6% of capital and operating expenses and its net revenue interest will be 32.94%. Subsequent to fiscal 1996, the Company acquired and then exercised an option to purchase an additional 5% non-operating interest in the project from co-venturers for approximately $2,300,000. The Company will finance this acquisition through a bridge loan from an affiliate of its largest shareholder.

The co-venturers in the project (the "Group") hold an Authority to Prospect

("ATP") that covered approximately 1,365,000 acres as of September 1996. The holder of the ATP may apply for petroleum leases upon establishing to the satisfaction of the Queensland government that commercial deposits of petroleum have been discovered. During fiscal 1996, the Group was granted 34-year petroleum leases covering approximately 167,000 acres in the southern portion of the ATP. The balance of the acreage under the ATP was subject to relinquishment or renewal upon expiration of the ATP on November 1, 1996. In October 1996, the Group filed for a four-year renewal and proposed to voluntarily relinquish approximately 20% of its ATP acreage along the western border of the ATP which is considered of only marginal interest. Effective November 1, 1996, the renewal application was approved by the Queensland Minister of Mines and Energy. The Group's ATP now covers approximately 1,088,000 acres, of which 167,000 acres are covered by the 34-year petroleum leases.

As of September 1996, the Group had drilled a total of 16 wells on the ATP. One well, located on the northern portion of the ATP, is awaiting further completion procedures. Fifteen of the wells located in the Fairview area of the southern portion of the ATP have been completed and have been production tested to varying degrees. Fourteen of the wells in a core area have been tested extensively during the fiscal year for the purpose of gathering data relative to gas and water production rates and estimated recoverable gas reserves. Volumes being flared at year end were approximately 4.2 million cubic feet of gas per day. No wells were drilled in fiscal 1996; however, the Group has commenced the drilling of three additional wells in the Fairview area subsequent to September 30, 1996. Reservoir modeling, combined with evaluation of actual production performance data, has allowed independent reservoir engineers to assign technically recoverable reserve volumes to the 14 wells in the core Fairview area. Although the Company has not included these reserves in its proved reserves due to the lack of a sales contract and marketing facilities, the Company believes the property will be commercially productive based upon existing data.

During fiscal 1996, the Group began negotiations regarding a gas contract with a Brisbane-based utility. The general terms of discussions contemplate the delivery of approximately 57 petajoules, or roughly 57 billion cubic feet of gas, over 15 years beginning as soon as a pipeline connection can be made. PGT Australia has informed the Group that it intends to construct the 17-mile pipeline to connect the Fairview area wells to the PGT Queensland Gas Pipeline, and that it plans to operate the line as a part of its pipeline system. PGT has filed an application for a pipeline license with the Queensland Department of Mines and Energy, and more recently has submitted its Environmental Management Plan to the Department.

The Company's Australia full cost pool includes costs incurred in the acquisition, drilling and completion costs, seismic and de-watering costs. As of September 30, 1996, the capitalized cost applicable to the Australia full cost pool was $12,724,000. All of the costs are classified as unevaluated and therefore not currently subject to depletion.

CHINA

In fiscal 1993, the Company entered into a joint venture agreement with unrelated parties to identify low cost exploration prospects for oil and gas reserves in China through April 30, 1995. The operator has conducted preliminary operations necessary to develop and obtain land information and geological, geophysical and other related data for the purpose of initiating and conducting exploration and development projects. The Company contributed $38,000 to the joint venture prior to fiscal 1995 and no amounts thereafter pursuant to a maximum commitment of $102,000 and will have the option to participate for up to 15% of the joint venture's participation in any prospect. Management anticipates that the venture will attempt to prospect for coalbed methane in China, although no projects have been initiated to date and the venture is currently dormant.

NOTE 4 - OTHER INVESTMENTS

STOCK IN USXP. Under the terms of an agreement dated September 30, 1996, the Company acquired 150,000 shares of common stock of United States Exploration, Inc. ("USXP") and approximately $796,000 in cash, in exchange for its 354,000 shares of convertible preferred stock of USXP. Upon the disposition of the preferred stock, the Company recognized a loss of approximately $273,000. The agreement contained provisions for payment in common stock of USXP of approximately $190,000 of dividends which had accrued on the preferred stock investment prior to the exchange. Subsequent to September 30, 1996, the Company received 40,587 unregistered shares of USXP common stock in payment of the accrued dividend. The Company had acquired the convertible preferred stock on

July 18, 1994, in exchange for its Ingleside, Texas refinery property.

NGL FRACTIONATING PLANT. On August 19, 1994, the Company entered into an agreement with three other parties to form a Utah limited liability company ("LLC") for the purpose of constructing a natural gas liquids ("NGL") fractionating facility (the "Plant") in Alabama. The LLC simultaneously entered into an agreement with two other parties to form an Alabama limited liability company to construct and operate the Plant. The Company committed to contribute $1,148,000 in cash in return for a 45% interest in Plant profits prior to payout of its investment and a 27% interest thereafter. During fiscal 1996, as a result of cost overruns and construction delays, the Company increased its investment and also acquired the interest of one of the co-owners thereby increasing its interest in plant profits prior to payout of its investment to 55% and to 47% thereafter.

The Plant began operations in late November 1995 and is now operating near full capacity. As of September 30, 1996, the Company had an investment of $2,474,000 (1995 - $1,454,000) in the Plant, net of a distribution of $77,000 and a net loss of $75,000, which represents the Company's share of the net loss from Plant operations for the period from start-up through September 30, 1996.

NOTE 5 - LONG-TERM DEBT

The Company's bank credit agreement (the "agreement") provides a maximum loan facility of $40,000,000 subject to borrowing base limitations described below. The agreement contains provisions for both fixed rate and variable rate borrowings. At the Company's option, interest on the revolver is payable at either the London Interbank Offered Rate ("LIBOR") plus 1.5% or the bank's Base Rate. The LIBOR-based option may be selected for periods not exceeding 90 days. The total outstanding loan balance at September 30, 1996, was $13,994,000 (1995 - $15,746,000); $10,000,000 (1995 - $10,000,000) under a fixed rate loan and $3,994,000 (1995 - $5,746,000) under a LIBOR/Base Rate loan. At September 30, 1996, the weighted average interest rate for LIBOR/Base Rate loans under the revolver was 6.96% (1995 -7.66%). The fixed rate loan of $10,000,000, with interest at 5.92% payable monthly, matured on September 30, 1996.

Under the provisions of the agreement, the fixed rate loan converted to a LIBOR/Base Rate loan under the terms of the revolver with interest payable at LIBOR plus 1.5%. The weighted average interest rate is 7.01% for the four month period

through January 1997. Upon expiration of the revolver on October 7, 1997, the principal balance is scheduled to convert to a four-year term loan. Certain of the Company's domestic oil and gas properties have been pledged as security for the bank loan, and the bank has the option to place additional liens on other unencumbered properties. The maximum borrowing base is determined solely by the bank and is based upon its assessment of the value of the Company's properties. This bank valuation is based upon the bank's assumptions about reserve quantities, oil and gas prices, operating expenses and other assumptions, all of which may change from time to time and which may differ from the Company's assumptions. At September 30, 1996, the borrowing base was $16,000,000, and was reset at $14,500,000 in November 1996. Should the outstanding loan balance ever exceed the borrowing base, the Company is required to either make a cash payment to the bank equal to or greater than such excess or provide additional collateral to the bank to increase the borrowing base by the amount of the deficit. The Company is obligated to pay a commitment fee of 3/8% per annum on the difference between the average outstanding loan balance and the borrowing base. The credit agreement provides that the Company may not pay dividends or obtain additional debt financing without the prior approval of the bank.

Pursuant to the terms of the loan agreement, projected maturities of long-term debt at September 30, 1996 are as follows: fiscal 1998 - $3,498,500; fiscal 1999 - $3,498,500; fiscal 2000 - $3,498,500; fiscal 2001 - $3,498,500.

NOTE 6 - STOCKHOLDERS' EQUITY

Stockholders' equity at September 30, 1996, and 1995 consisted of the following (in thousands, except number of shares):

	1996	1995
Preferred stock:		
Cumulative, $1.00 par value. Authorized 10,000,000 shares; none issued	$ -	$ -
Non-cumulative, $1.00 par value. Authorized 10,000,000 shares; none issued	-	-
Common stock, $.02 par value. Authorized 20,000,000 shares; 13,078,071 issued and 13,050,271 outstanding as of September 30, 1996; 11,237,404 issued and 11,209,604 outstanding as of September 30, 1995	262	225
Capital in excess of par value	105,375	98,424
Accumulated deficit	(69,550)	(68,760)
Treasury stock, at cost; 27,800 shares	(71)	(71)
Total stockholders' equity	$ 36,016	$ 29,818

COMMON STOCK ISSUANCES

During fiscal 1994, the Company issued 162,666 shares of common stock to former officers and directors pursuant to the exercise of warrants and options; 112,666 shares were issued at $1.50 per share and 50,000 shares were issued at $2.00 per share. Net proceeds to the Company were approximately $269,000. During fiscal 1995, the Company issued 21,600 shares of common stock at $2.75 per share to employees pursuant to the exercise of incentive stock options. Net proceeds to the Company were approximately $60,000. During fiscal 1996, the Company issued 1,400,000 shares of common stock to two institutional investors. The proceeds of $6,091,000 were used to acquire an additional 15.75% interest in the Comet Ridge coalbed methane project in Queensland, Australia. See Note 3. The Company issued 420,000 and 16,667 shares at $2.00 and $2.75 per share, respectively, to a former officer pursuant to the exercise of warrants. In addition, 4,000 shares of common stock at $2.75 per share were issued to an employee pursuant to the exercise of incentive stock options. Net proceeds to the Company from the exercise of stock options and warrants were approximately $897,000.

TREASURY STOCK

On May 13, 1994, the Company's Board of Directors approved the repurchase of up to 100,000 shares of the Company's common stock on the open market. During fiscal 1994, the Company acquired 27,800 shares at a total cost of $71,000.

1987 EMPLOYEE STOCK OPTION PLAN

The Company established the 1987 Employee Stock Option Plan (the "Plan") in order that options granted pursuant to the Plan would qualify as "incentive stock options," as defined by the Internal Revenue Code of 1986. Options, having a term of ten years, have been granted under the Plan to employees of the Company for the purchase of common stock. The number of shares of common stock which may be issued under the Plan was increased to 383,000 pursuant to a shareholder vote on an amendment to the Plan. The Plan requires that the exercise price must be equal to or greater than the fair market value of the stock on the date of grant.

The following table represents a summary of stock option transactions for the three years ended September 30, 1996:

	Shares	Price Range per Share
As of September 30, 1993	16,250	$3.52 to $5.13

Granted in fiscal 1994	251,000	2.75
Forfeited in fiscal 1994	(1,000)	2.75
Exercised in fiscal 1994	-	-
As of September 30, 1994	266,250	2.75 to 5.13
Granted in fiscal 1995	15,000	3.69
Forfeited in fiscal 1995	-	-
Exercised in fiscal 1995	(21,600)	2.75
As of September 30, 1995	259,650	2.75 to 5.13
Granted in fiscal 1996	111,000	4.63 to 4.75
Forfeited in fiscal 1996	(100,000)	2.75
Exercised in fiscal 1996	(4,000)	2.75
As of September 30, 1996	266,650	2.75 to 5.13
Exercisable as of September 30, 1996	89,650	$2.75 to $5.13

Options vest ratably over three years, except for options at an exercise price of $5.13, which vest ratably over five years.

NONQUALIFIED STOCK OPTIONS AND WARRANTS

Nonqualified option and warrant transactions for the three years ended September 30, 1996 are as follows:

	Shares	Price Range per Share
As of September 30, 1993	1,179,108	$1.50 to $8.54
Granted in fiscal 1994	100,000	2.75
Expired in fiscal 1994	(241,442)	8.54
Exercised in fiscal 1994	(162,666)	1.50 to 2.00
As of September 30, 1994	875,000	2.00 to 6.00
Granted in fiscal 1995	-	-
Expired in fiscal 1995	-	-
Exercised in fiscal 1995	-	-
As of September 30, 1995	875,000	2.00 to 6.00
Granted in fiscal 1996	100,000	4.31 to 4.63
Expired in fiscal 1996	(133,333)	2.75 to 6.00
Exercised in fiscal 1996	(436,667)	2.00 to 2.75
As of September 30, 1996	405,000	2.00 to 4.63
Exercisable as of September 30, 1996	288,334	$2.00 to $2.75

NOTE 7 - INCOME TAXES

The Company adopted SFAS 109 effective October 1, 1993. Because of the Company's significant net operating loss ("NOL") and other carryforwards, it recorded a deferred tax asset for the carryforwards under SFAS 109. Since the Company's profitability is not assured, a substantial valuation allowance was deducted from the value of the asset. The net deferred tax asset recorded on the October 1, 1993 balance sheet was $3,000,000. This amount was reflected in net income as the cumulative effect of a change in method of accounting for income taxes. The realization of this asset will have the effect of reducing future earnings through a charge in lieu of income taxes. During the year ended September 30, 1994, the Company also recognized a net benefit of $191,000 due to adjustments to the net deferred tax asset. No deferred tax expense or benefit was recognized during the fiscal years ended September 30, 1995 and 1996. The Company will continue to review income trends and projected NOL utilizations and

will from time to time adjust the valuation allowance accordingly.

Income tax expense (benefit) is different than the expected amount computed using the applicable federal statutory income tax rates of 35%. The reasons for and effects of such differences (in thousands) are as follows:

	1996	1995	1994
Expected amount(1)	$ (279)	$ (441)	$ (724)
Increase (decrease) from:			
Increase (decrease) in valuation allowance	(446)	846	546
Adjustments to and expiration of carryforwards	817	(285)	-
Permanent differences between financial statement income and taxable income	(84)	(92)	(13)
State taxes net of federal benefit, and other	(14)	(4)	(27)
Total income tax expense (benefit)	$ (6)	$ 24	$ (218)

(1) Includes expected amounts due by applying the statutory tax rate to the sum of loss from continuing operations and loss from discontinued operations, and excludes cumulative effect of accounting change.

The net deferred tax asset is comprised of the following at September 30, 1996 and 1995:

	1996	1995
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 16,913	$ 16,028
Statutory depletion carryforwards	2,559	2,815
Property, plant and equipment	1,570	1,994
Investment tax credit carryforwards	917	1,550
Other	208	226
Gross deferred tax assets	22,167	22,613
Valuation allowance	(18,976)	(19,422)
	$ 3,191	$ 3,191

The principal differences between recognition of taxable income (loss) for federal income tax and financial reporting purposes relate to intangible drilling costs, dry hole and abandonment costs, accelerated depreciation and asset write-downs.

The Company has the following carryforwards (in thousands) at September 30, 1996:

	Federal Income Tax	Alternative Minimum Tax
Net operating loss	$ 45,773	$ 44,515
Investment tax credit	$ 917	N/A
Statutory depletion	$ 7,313	N/A
Minimum tax credit	$ 206	N/A

The net operating loss carryforwards expire at various dates from fiscal 1998 through fiscal 2011 (subject to certain limitations) and the investment tax credit carryforwards are expiring currently. Statutory depletion and minimum tax credit carryforwards do not expire.

The Company's net operating loss carryforwards would be subjected to an annual limitation should there be a change of over 50% in the stock ownership of the Company during any three-year period after 1986. As of September 30, 1996, no such ownership change had occurred.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Company is a Defendant in a lawsuit filed on September 20, 1991 styled VALERO TRANSMISSION, L.P. V. J. L. DAVIS V. TIPPERARY CORPORATION, Cause No. 91-09-00357-CVF, in the 81st Judicial District, Frio County, Texas. The case involves gas purchase contracts between Valero and Davis. The Company previously owned 50% of Davis' interest in the contracts. Valero claimed it had overpaid Davis under the contracts and requested damages for breach of contract from Davis. Davis thereafter filed a third-party petition against the Company requesting that the Company reimburse Davis for 50% of any amounts paid to Valero on account of the claims made by Valero in its original petition. Valero and Davis have now settled the claims between themselves, and Davis has requested that the Company reimburse Davis for 50% of such settlement to the extent that the settlement covers time periods in which Davis and the Company each owned a 50% interest in the contracts. The Company has answered the lawsuit, denying the claims of Davis, and the Company intends to vigorously defend all claims made in the suit. The Company does not anticipate that this matter will have a material adverse effect on its financial condition or results of operations.

On October 7, 1996, the Company filed a Motion to Intervene as a plaintiff in the proceeding APACHE OIL CORPORATION AND SNYDER OIL CORPORATION V. MDU RESOURCES GROUP, INC., AND WILLISTON BASIN INTERSTATE PIPELINE COMPANY, INC., in the District Court, McKenzie County, North Dakota. The case involves the production and sale of natural gas by the Company's predecessors in the McKenzie Gas Processing Plant in North Dakota. The Company claims that its predecessors sold gas through a contract to the defendants, and defendants breached those contracts. The Company believes that it is entitled to receive part of the resulting damages. The Company is among a group of gas producers that filed the Motion to Intervene. The Motion has recently been denied, but the Company anticipates joining the other producers and filing a new action against the defendants.

The Company entered into an amendment to its office lease agreement in Denver, Colorado effective September 1, 1993. The amended lease covers 11,000 square feet for a term of five years. During the term of the lease, rent is payable in the amount of $116,000 base rent per year, plus expense recovery amounts. During the fiscal years ended September 30, 1996, 1995 and 1994, the Company paid approximately $116,000, $116,000 and $119,000, respectively, in office rent.

The Company is subject to various possible contingencies which arise primarily from interpretation of federal and state laws and regulations affecting the oil and gas industry. Although management believes it has complied with the various laws and regulations, administrative rulings and interpretations thereof, adjustment could be required as new interpretations and regulations are issued.

NOTE 9 - DISCONTINUED OPERATIONS

The Company and a former employee of its discontinued gas transmission business settled litigation related to an employment agreement on December 31, 1993. The Company's payment of $210,000 pursuant to this settlement and other minor income and expenses attributable to this business are reported in the financial statements under Discontinued Operations.

NOTE 10 - SUPPLEMENTARY INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED)

Certain historical costs and operating information relating to the Company's oil and gas producing activities for fiscal 1996, 1995 and 1994 (in thousands) are as follows:

	1996	1995	1994
Capitalized costs:			
Proved properties:			
United States	$ 100,882	$ 100,082	$ 103,375
Unproved properties:			
United States	8,716	7,943	6,977
Australia	12,724	5,125	813
China	38	38	38

Total unproved properties	21,478	13,106	7,828
Total proved and unproved	122,360	113,188	111,203
Less accumulated depletion:			
United States	(83,881)	(80,338)	(75,306)
Total	$ 38,479	$ 32,850	$ 35,897
Costs incurred:			
Property acquisition costs:			
Proved properties:			
United States	$ 13	$ 207	$ 323
Unproved properties:			
United States	774	992	920
Australia	6,092	300	187
China	-	-	13
	6,866	1,292	1,120
Exploration costs:			
United States	627	330	-
Australia	1,507	133	459
	2,134	463	459
Development costs:			
United States	1,763	1,202	1,760
Australia	-	3,879	-
	1,763	5,081	1,760
Total costs incurred	$ 10,776	$ 7,043	$ 3,662

Depletion rates per equivalent barrel of production for the years ended September 30, 1996, 1995 and 1994 were $4.87, $5.54 and $4.72, respectively. Costs of $2,589, $1,815 and $1,008 related to domestic unproved oil and gas properties were excluded from depletable costs in fiscal 1996, fiscal 1995 and fiscal 1994, respectively.

The results of operations for petroleum producing activities, excluding corporate overhead and interest costs, for each of the three years in the period ended September 30, 1996, (in thousands) are as follows:

	1996	1995	1994
Revenue from sale of oil and gas	$10,965	$11,673	$13,623
Production costs	(5,463)	(5,726)	(6,210)
Depreciation, depletion and amortization including impairment	(3,543)	(5,032)	(7,038)
Income tax expense	(39)	(18)	(17)
Results of operations	$ 1,920	$ 897	$ 358

Revenues of $171, $164 and $261 were not included above for 1996, 1995 and 1994, respectively, which represent revenues received primarily for saltwater disposal. Production costs of $144, $144 and $153 were included above for 1996, 1995 and 1994, respectively, which represent costs paid or payable to other affiliates in the consolidated group. Costs associated with the saltwater disposal revenue and other costs of $228, $254 and $204 were not included above for 1996, 1995 and 1994, respectively. Income tax expense is computed using the Company's overall effective tax rate for each respective year.

The following tables set forth information (in thousands) for fiscal 1996, 1995

and 1994 with respect to changes in the Company's proved reserves (all of which are in the United States) as estimated by several independent petroleum engineers, predominantly Heinle & Associates, Inc. and Forrest A. Garb & Associates, Inc.:

<TABLE>

	1996		1995		1994	
	Oil Bbls	Gas MCF	Oil Bbls	Gas MCF	Oil Bbls	Gas MCF
<S>	<C>	<C>	<C>	<C>	<C>	<C>
TOTAL PROVED RESERVES:						
Beginning of year	3,419	13,061	3,685	15,645	5,532	26,852
Revisions of previous estimates	835	1,556	(31)	1,361	(860)	(8,437)
Extensions, discoveries and other additions	288	193	343	723	3	126
Purchases of reserves in place	12	18	24	15	73	134
Sale of reserves in place	(42)	(226)	(37)	(2,622)	(417)	(530)
Production	(470)	(1,550)	(565)	(2,061)	(646)	(2,500)
End of year	4,042	13,052	3,419	13,061	3,685	15,645
PROVED DEVELOPED RESERVES:						
Beginning of year	2,952	10,798	3,423	13,839	4,952	20,448
End of year	3,657	11,116	2,952	10,798	3,423	13,839

</TABLE>

Information with respect to the Company's estimated discounted future net cash flows from its oil and gas properties for fiscal 1996, 1995 and 1994 (in thousands) follows:

	1996	1995	1994
Future revenues	$115,708	$ 74,482	$ 82,985
Future production costs	(48,297)	(33,026)	(35,850)
Future development costs	(2,215)	(2,840)	(1,667)
Future income tax expense	(2,607)	(431)	(561)
Future net cash flows	62,589	38,185	44,907
10% annual discount	(24,652)	(13,985)	(15,886)
Discounted future net cash flows	$ 37,937	$ 24,200	$ 29,021

Principal changes in the Company's estimated discounted future net cash flows for each of the three years in the period ended September 30, 1996 (in thousands) are as follows:

	1996	1995	1994
Beginning of year	$24,200	$29,021	$ 49,627
Oil and gas sales, net of production costs	(5,646)	(6,091)	(7,565)
Net change in prices and production costs	10,185	(440)	(4,003)
Extensions and discoveries less related costs	2,006	1,274	67
Purchases of reserves in place, net	89	99	469
Sales of reserves in place, net	(247)	(1,581)	(1,968)
Change in estimated development costs	596	(1,117)	348
Revision of previous quantity estimates	4,735	906	(11,237)
Accretion of discount	2,420	2,902	4,963
Net change in income taxes	(1,114)	56	1,072
Changes in production rates and other	713	(829)	(2,752)
End of year	$37,937	$24,200	$ 29,021

At September 30, 1996, average oil and gas prices used in the determination of future cash flows were $22.48 per barrel and $1.90 per Mcf, respectively.

TIPPERARY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the fiscal years ended September 30, 1996, and 1995 (in thousands, except per share data):

	Quarter Ended				
	December 31, 1995	March 31, 1996	June 30, 1996	September 30, 1996	Total
FISCAL 1996					
Revenues	$2,631	$2,686	$3,084	$2,735	$11,136
Gross profit	$1,333	$1,286	$1,680	$1,290	$ 5,589
Net income (loss)	$ (241)	$ (171)	$ 145	$ (523)	$ (790)
Net income (loss) per common share	$ (.02)	$ (.02)	$ .01	$ (.04)	$ (.07)

	Quarter Ended				
	December 31, 1994	March 31, 1995	June 30, 1995	September 30, 1995	Total
FISCAL 1995					
Revenues	$2,941	$3,163	$3,132	$2,601	$11,837
Gross profit	$1,567	$1,712	$1,664	$1,058	$ 6,001
Net loss	$ (431)	$ (293)	$ (143)	$ (417)	$(1,284)
Net (loss) per common share	$ (.04)	$ (.02)	$ (.01)	$ (.04)	$ (.11)

EXHIBIT 10.40

THIS WARRANT AND THE RIGHTS REPRESENTED HEREBY SHALL NOT BE TRANSFERABLE AT ANY TIME UNLESS (i) A REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, SHALL BE IN EFFECT WITH RESPECT TO THIS WARRANT OR THE SHARES ISSUABLE HEREUNDER AT SUCH TIME, OR (ii) THE TRANSFER IS MADE IN COMPLIANCE WITH THE PROVISIONS OF SECTION 5.

NUMBER: 50,000 SHARES

WARRANT
TO PURCHASE SHARES
OF
TIPPERARY CORPORATION

This certifies that, for value received, David L. Bradshaw, an individual residing in Denver, Colorado ("Bradshaw"), or his registered assigns, is entitled to purchase from TIPPERARY CORPORATION, a Texas corporation (the "Company"), fifty thousand (50,000) Shares, at the price of Four Dollars and 63/100 ($4.63) per Share (as defined in Section 3) at any time, or in part from time to time in accordance with the following vesting schedule ("Vesting Schedule"):

Date:	Total Shares Subject to Exercise
From and after January 25, 1997	16,667
From and after January 25, 1998	16,667
From and after January 25, 1999	16,666

This Warrant shall expire, if not exercised prior thereto, two (2) years after the resignation or removal of Bradshaw as an employee of the Company. If Bradshaw should resign or be removed as an officer from the Company, then this Warrant shall be vested only to the extent vested on such date of resignation or removal according to the Vesting Schedule. The provisions as to adjustment of the initial exercise price set forth above and the number of Shares to be issued upon the occurrence of certain events (the Provisions as to Adjustment) are more fully set forth in Annex I hereto. (Hereinafter, the initial exercise price set forth above in this paragraph for the purchase of Shares upon the exercise of this Warrant, as adjusted pursuant to the Provisions as to Adjustment, is referred to as the "Exercise Price"). This Warrant is subject to the following provision, terms and conditions:

1. EXERCISE OF WARRANT.

(a) The rights represented by this Warrant may be exercised by the holder hereof, in whole or in part,(but not as to a fractional Share), by the surrender of this Warrant at the Company's principal office located in Denver, Colorado

(or such other office or agency of the Company as the Company may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of the Company at any time within the period above

named) and delivery of a completed subscription form in the form attached to this Warrant as EXHIBIT A, and upon payment to the Company of the Exercise Price for such Shares.

(b) Payment of the Exercise Price shall be made by a combination of any one or more of the following: (i) by application, to the extent permitted by applicable law, of (A) Shares or other securities of the Company owned by the holder hereof, (B) Warrant Shares (as hereinafter defined) issuable upon the exercise of this Warrant, (C) options, warrants or similar rights to acquire Shares or other securities of the Company owned by the holder hereof, or (D) other securities owned by the holder hereof which are convertible into Shares or other securities of the Company, the value of any of which for such purpose shall be the fair market value thereof determined in good faith by the Company and the holder hereof at the time of such exercise; or (ii) in cash or by certified check or bank draft in New York Clearing House funds.

(c) The Company agrees that any Shares so purchased by the exercise of this Warrant shall be deemed to be issued to the holder hereof as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been surrendered, the completed subscription form delivered, and payment made for such Shares as aforesaid.

(d) Stock certificates evidencing Shares so purchased shall be delivered to the holder hereof as promptly as practicable, after the rights represented by this Warrant shall have been so exercised. If this Warrant shall have been exercised only in part, and unless this Warrant has expired, a new Warrant representing the number of Shares with respect to which this Warrant shall not then have been exercised shall also be delivered to the holder hereof within such time. Notwithstanding the foregoing, however, the Company shall not be required to deliver any stock certificate evidencing Shares upon exercise of this Warrant except in accordance with the provisions, and subject to the limitations, of Section 5. The Company will pay all expenses and charges payable in connection with the preparation, execution and delivery of stock certificates and any new Warrants.

2. CERTAIN COVENANTS OF THE COMPANY. The Company covenants and agrees as follows:

(a) All Shares which may be issued upon the exercise of the rights represented by this Warrant (all such Shares, whether previously issued or subject to issuance upon the exercise of this Warrant, are from time to time referred to herein as "Warrant Shares") will, upon issuance, be duly authorized

and issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof.

(b) During the period within which the rights represented by this Warrant may be exercised, and only insofar as the Vesting Schedule herein permits the exercise of this Warrant, the Company will at all times have authorized and reserved free of preemptive or other rights for

the exclusive purpose of issuance upon exercise of the purchase rights evidenced by this Warrant, a sufficient number of Shares to provide for the exercise of rights represented by this Warrant.

(c) The Company will not, by amendment or restatement of the Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, issuance or sale of securities or otherwise, avoid or take any action which would have the effect of avoiding the performance of any of the terms to be performed hereunder by the Company, but will at all times in good faith carry out all of the provisions of this Warrant and take all such action as may be necessary or appropriate to protect the rights of the holder hereof against dilution or other impairment and, in particular, will not permit the par value of any Share to be or become greater than the then effective Exercise Price.

3. DEFINITION OF SHARES. As used herein, the term "Shares" shall mean and include shares of the Common Stock, par value $.02 per share, of the Company as are constituted and exist on the date hereof, and shall also include any other class of the capital stock of the Company hereafter authorized which shall neither be limited to a fixed sum or percentage of par value in respect to the rights of the holders thereof to receive dividends and to participate in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, nor be subject at any time to redemption by the Company; provided that the Shares receivable upon exercise of this Warrant shall include only Shares of the type as are constituted and exist on the date hereof or Shares resulting from any reclassification of the Shares as provided for in paragraph (C) of the Provisions as to Adjustment.

4. NO RIGHTS OR LIABILITIES AS A SHAREHOLDER. This Warrant shall not entitle the holder hereof as such to any rights whatsoever, including, without limitation, voting rights, as a holder of Shares of the Company. No provisions hereof, in the absence of affirmative action by the holder hereof to purchase Shares, and no mere enumeration herein of the rights or privileges of such holder, shall give rise to any liability of such holder as a holder of Shares of the Company, regardless of who may assert such liability.

5. RESTRICTIONS ON TRANSFER.

(a) This Warrant shall not be exercisable by a transferee hereof and/or transferable and the Warrant Shares shall not be transferable except upon the conditions specified in this Section 5, which conditions are intended, among other things, to ensure compliance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations of the Securities and Exchange Commission (the "Commission") thereunder (collectively the "Securities Act"), in respect of the exercise and/or transfer of this Warrant and/or transfer of such Warrant Shares.

(b) This Warrant and the Warrant Shares shall not be transferable (except for a transfer of this Warrant or the Warrant Shares in an offering registered under the Securities Act, including, without limitation, a transfer in a registered offering effected pursuant to Section 6, and any subsequent transfer) unless, prior to any transfer, the holder hereof shall have received from its transferee reasonable assurances that such person is aware that this Warrant and the Warrant Shares have not been registered under the Securities Act and that such person is acquiring this Warrant or the Warrant Shares for investment only and not with the view to the disposition or public offering thereof (unless in an offering registered under the Securities Act of 1933 or exempt therefrom), and that such person is aware that the stock certificates evidencing the Warrant Shares shall bear a legend restricting transfer and disposition thereof in accordance with the Securities Act unless, in the opinion of counsel to the Company, such legend may be omitted. In the event of any transfer of this Warrant (other than a transfer in an offering registered under the Securities Act, including, without limitation, a transfer in a registered offering effected pursuant to Section 6, and any subsequent transfer), the holder hereof shall provide an opinion of counsel, who shall be reasonably satisfactory to the Company, that an exemption from the registration requirements of the Securities Act is available.

(c) Any permitted subsequent holder of this Warrant shall be subject to all the terms and conditions herein, and shall acknowledge, in writing, upon receipt of this Warrant his or her acceptance of the terms and conditions herein.

(d) To facilitate sales by a holder of this Warrant or Warrant Shares in transactions qualifying under Rule 144 promulgated by the Commission under the Securities Act, if available, the Company agrees to satisfy the current public information requirements of said Rule 144, for as long as the Shares remain registered under the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder (collectively the "Exchange Act"), and to provide said holder upon request with such other information as such holder may require for compliance with the provisions of said Rule 144.

6. REGISTRATION UNDER SECURITIES ACT.

(a) If the Company at any time proposes to register any issuance of its securities under the Securities Act (other than a registration on Form S-8 in connection with an employee stock purchase or option plan or on Form S-4 in connection with mergers, acquisitions or exchange offerings), the Company will at such time give prompt written notice to the holder hereof and to the holders of all other Warrant Shares issuable from any outstanding Warrants (such holders are hereinafter referred to as the "Prospective Sellers") of its intention to do so. Upon the written request of a Prospective Seller, given within 30 days after receipt of any such notice (which request shall state the intended method of disposition of the Warrant Shares to be transferred by such Prospective Seller), the Company shall use its best efforts to cause all Warrant Shares, the holders of which (or of the Warrants to which the same are related), to the extent vested in

accordance with the Vesting Schedule, shall have so requested registration of the transfer thereof, to be registered under the Securities Act, all to the extent requisite to permit the sale or other disposition (in accordance with the intended method thereof as aforesaid) by the Prospective Sellers of such Warrant Shares. The rights granted pursuant to this Section 6(a) shall not be effective with respect to the Prospective Seller in the case of an underwritten public offering of securities of the Company by the Company unless each Prospective Seller agrees to the terms and conditions, including underwriting discounts and allowances, specified by the managing underwriter of such offering with respect to such Warrant Shares. The Company shall have the right to reduce the number of Warrant Shares of the Prospective Sellers to be included in a registration statement pursuant to the exercise of the rights granted by this Section 6(a) if, and to the extent, that the managing underwriter of such offering is of the good faith opinion, supported by written reasons therefor, that the inclusion of such Warrant Shares would materially adversely affect the marketing of the securities of the Company to be offered; provided, that any such reduction of the number of Warrant Shares the transfer of which is to be registered on behalf of the Prospective Sellers shall be made on the basis of a pro rata reduction of all Warrant Shares of all Prospective Sellers.

(b) If and whenever the Company is required by the provisions of this Section 6 to use its best efforts to effect the registration of any transfer of Warrant Shares under the Securities Act, the Company will, as expeditiously as possible,

(i) prepare and file with the Commission a registration statement with respect to such transfer and use its best efforts to cause such registration statement to become and remain effective, but not for any period longer than nine months;

(ii) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective, and to comply with the provisions of the Securities Act with respect to the transfer of all securities covered by such registration statement, including, without limitation, taking all necessary actions whenever the Prospective Sellers of the Warrant Shares covered by such registration statement shall desire to dispose of the same;

(iii) furnish to each Prospective Seller such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents, as such Prospective Seller may reasonably request in order to facilitate the disposition of the Warrant Shares owned by such Prospective Seller and covered by such registration statement;

(iv) use its best efforts to register or qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as each Prospective Seller shall request, and use its best efforts to do any and all other acts and things which may be reasonably necessary to enable such Prospective Seller to consummate the disposition in such jurisdiction of the Warrant Shares owned by such Prospective Seller and covered by such registration statement; provided that, notwithstanding the foregoing, the Company shall not be required to register in any jurisdiction as a broker or dealer of securities or to grant its consent to service of process in any such jurisdiction solely on account of such intended disposition by such Prospective Seller;

(v) furnish to the Prospective Sellers whose intended dispositions are registered a signed copy of an opinion of counsel for the Company, in form and substance acceptable to such Prospective Sellers, to the effect that: (A) a registration statement covering such dispositions of Warrant Shares has been filed with the Commission under the Securities Act and has been made effective by order of the Commission, (B) such registration statement and the prospectus contained therein and any amendments or supplements thereto comply as to form in all material respects with the requirements of the Securities Act, and nothing has come to such counsel's attention which would cause him to believe that the registration statement or such prospectus, amendment or supplement, at the time such registration statement or amendment

became effective or such supplement was filed with the Commission, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein (in the case of such prospectus, amendment or supplement, in the light of the circumstances under which they were made) not misleading (provided that such counsel need not render any opinion with respect to the financial statements and other financial, engineering and statistical data included therein), and (C) to the best of such counsel's knowledge, no stop order has been issued by the Commission suspending the effectiveness of such registration statement and no proceedings for the issuance of such a stop order are threatened or contemplated;

(vi) furnish to the Prospective Sellers whose intended dispositions are required a blue sky survey in the form and of the substance customarily prepared by counsel for the Company and accepted by sellers of securities in similar offerings, discussing and describing the application provisions of the securities or blue sky laws of each state or jurisdiction in which the Company

shall be required, pursuant to Section 6(c)(iv), to register or qualify such intended dispositions of such Warrant Shares, or, in the event counsel for the underwriters in such offering shall be preparing a blue sky survey, cause such counsel to furnish such survey to, and to allow reliance thereon by, such Prospective Sellers;

(vii) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission under the Securities Act and the Exchange Act, insofar as they relate to such registration and such registration statement; and

(viii) use its best efforts to list such Warrant Shares on any securities exchange on which any securities of the Company are then listed or to admit such Warrant Shares for trading in any national market system in which any securities of the Company are then admitted for trading, if the listing or admission of such securities is then permitted under the rules of such exchange or system.

(c) With respect to the registration by the Company of transfers of Warrant Shares under the Securities Act pursuant to Section 6(a), the Company shall pay all expenses incurred by it in complying with this Section 6 (including, without limitation, all registration and filing fees, printing expenses, blue sky fees and expenses, costs and expenses of audits, and

reasonable fees and disbursements of counsel for the Company and special counsel designated by Prospective Sellers owning a majority of the Warrant Shares covered by such registration, but specifically excluding any underwriting discounts and allowances that are allocable to the Warrant Shares being sold by, and which shall be paid by, the Prospective Sellers; provided, however, that if any registration statement filed with the Commission by the Company under Section 6(a) shall not be declared effective by the Commission, such attempted registration shall not constitute a registration under this Section 6(c).

(d) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 6 that each Prospective Seller, the transfer of whose Warrant Shares is registered or to be registered under each such registration, shall furnish to the Company such written information regarding the securities held by such Prospective Seller as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company.

(e) (i) In the event of any registration of any transfer of Warrant Shares under the Securities Act pursuant to this Section 6, the Company will indemnify and hold harmless each Prospective Seller of such securities, each of its officers, directors and partners, and each other person, if any, who controls such Prospective Seller within the meaning of the Securities Act, and

each underwriter, if any, who participates in the offering of such securities, against any losses, claims, damages or liabilities (or actions in respect thereof), joint or several, to which each Prospective Seller, officer, director or partner, controlling person or underwriter may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement under which such transfer of securities was registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act, and will reimburse such Prospective Seller and each of its officers, directors and partners, and each such controlling person or underwriter, for any legal or any other expenses reasonably incurred by such Prospective Seller or its officers, directors and partners or controlling persons or by each such underwriter, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in

such registration statement, preliminary prospectus or prospectus or such amendment or supplement in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such Prospective Seller specifically for use in the preparation thereof. In the event of any registration by the Company or any transfer of securities under the Securities Act pursuant to this Section 6, each Prospective Seller of Warrant Shares covered by such registration will indemnify and hold harmless the Company, each other person, if any, who controls the Company within the meaning of the Securities Act and each officer and director of the Company and the other Prospective Sellers to the same extent that the Company agrees to indemnify it, but only with respect to the written information relating to such Prospective Seller furnished to the Company by such Prospective Seller aforesaid.

(ii) Each indemnified party shall, as promptly as practicable upon receipt of notice of the commencement of any action against such indemnified party or its officers, directors or partners, or any controlling person of such indemnified party, in respect of which indemnity may be sought from an indemnifying party on account of the indemnity agreement contained in Section 6(e)(i), notify the indemnifying party in writing of the commencement thereof. The omission of such indemnified party to so notify the indemnifying party of any such action shall not relieve the indemnifying party from any liability which it may have on account of the indemnity agreement contained in Section 6(e)(i) to the extent that the failure to receive such notice within a reasonable period of time shall not have caused harm, loss or damage to the indemnifying party, provided that, conversely, if such failure to receive notice shall have caused any harm, loss or damage to the indemnifying party, such failure shall constitute a defense to any liability which such indemnifying party may have on account of such agreement to the extent of

the harm, loss or damage so caused. In case any such action shall be brought against any indemnified party, its officers, directors and partners, or any such controlling person, and such indemnified party shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in (and, to the extent that the indemnifying party shall wish, to direct) the defense thereof at the indemnifying party's own expense, in which event the defense shall be conducted by recognized counsel chosen by the indemnifying party and approved by the indemnified party (whose approval shall not unreasonably be withheld) and the indemnified party may participate in such defense at its own expense (unless it is advised by counsel that actual or potential differing interests or defenses exist or may exist, in which case such expenses shall be paid by the indemnifying party, provided that the indemnifying party shall not be required to pay the expenses for more than one counsel for all such indemnified parties).

7. TRANSFER; OWNERSHIP. Subject to Section 5, this Warrant and all

rights hereunder are transferable, in whole or in part, at the office or agency of the Company referred to in Section 1 by the holder hereof in person or by a duly authorized attorney, upon surrender of this Warrant, with an assignment, acceptable to the Company, duly completed, at which time a new Warrant shall be made and delivered by the Company, of the same tenor as this Warrant but registered in the name of the transferee. The holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant and to transfer this Warrant on the books of the Company, any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered holder hereof as the owner hereof for all purposes. Any transfer of this Warrant shall be made in compliance with the Securities Act and any applicable statute, securities or blue sky laws.

8. EXCHANGE AND REPLACEMENT. Subject to Section 7, this Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 1, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of Shares which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of Shares as shall be designated by said holder hereof at the time of such surrender. Upon receipt by the Company at the office or agency referred to in Section 1 of evidence reasonably satisfactory to it of the loss, theft or destruction of this Warrant and of indemnity or security reasonably satisfactory to it (provided that the written indemnity of the holder hereof shall be deemed reasonably satisfactory to the Company for such purposes), the Company will deliver a new Warrant of like tenor and date in replacement of this Warrant. This Warrant shall be promptly canceled by the Company upon the surrender hereof in connection with any transfer, exchange or replacement. The Company will pay all expenses and charges payable in connection with the preparation, execution and delivery of Warrants pursuant to Section 7 and this Section 8.

9. NOTICES. Any notice or other document required or permitted to be given or delivered to the holder hereof shall be delivered at, or sent by certified or registered mail to, David L. Bradshaw, 8998 West Brandt Drive, Littleton, Colorado 80123, or to such other address as shall have been furnished to the Company in writing by the holder hereof. Any notice or other document required or permitted to be given or delivered to the Company shall be delivered at, or sent by certified or registered mail to, 633 Seventeenth, Suite 1550, Denver, Colorado 80202, or to such other address as shall have been furnished in writing to the holder hereof by the Company. Any notice so addressed and mailed by registered or certified mail or otherwise delivered, shall be deemed to be given when actually received by the addressee.

10. GOVERNING LAW. THIS WARRANT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS.

11. MISCELLANEOUS. This Warrant will be binding upon any partnership or corporation succeeding to the Company by consolidation or acquisition of all or substantially all of the Company's assets, and upon any successor or assign of the holder hereto. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party (or any predecessor in interest thereof) against whom enforcement of the same is sought. The headings in this Warrant are for purposes of reference only and shall not affect the meaning or construction of any of the provisions hereon.

IN WITNESS WHEREOF, Tipperary Corporation has caused this Warrant to be signed by its duly authorized officers, under its corporate seal, to be dated April 1, 1996.

TIPPERARY CORPORATION

BY: /s/ David L. Bradshaw
ITS: Chief Financial Officer

(CORPORATE SEAL)

ATTEST: /s/ Elaine R. Treece
ITS: Secretary

Annex 1

TIPPERARY CORPORATION

PROVISIONS AS TO ADJUSTMENT OF
EXERCISE PRICE AND NUMBER OF SHARES
ISSUED UPON OCCURRENCE OF CERTAIN EVENTS

The Exercise Price and the number of Shares issuable upon the exercise of the annexed Warrant to purchase shares of TIPPERARY CORPORATION, a Texas corporation (herein and in this Warrant referred to as the "Company"), shall be subject to adjustment from time to time as hereinafter provided; that in no event shall the Exercise Price be increased to a price greater than Four Dollars and 63/100 ($ 4.63) per Share, except as provided by paragraph (C). Upon each adjustment of the Exercise Price, the holder of this Warrant shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the number of Shares obtained by multiplying the number of Shares purchasable pursuant hereto immediately prior to such adjustment by a fraction,

the numerator of which is the Exercise Price in effect immediately prior to such adjustment and the denominator of which is the Exercise Price resulting from such adjustment. In making the adjustments to the Exercise Price and the number of Shares issuable upon the exercise of this Warrant, the following provisions shall be applicable:

(A) If and whenever the Company shall issue or sell any Shares for consideration per Share that is less than the Exercise Price in effect immediately prior to the time of such issue or sale at less than the Market Price (as hereinafter defined) of such Shares on the date of such issue or sale, then forthwith upon such issue or sale the Exercise Price in effect immediately prior thereto shall be adjusted to an amount (calculated to the nearest cent) determined by dividing (i) an amount equal to the sum of (a) the number of Shares outstanding immediately prior to such issue or sale multiplied by the Exercise Price in effect immediately prior to such issue or sale, and (b) the consideration, if any, received by the Company upon such issue or sale by (ii) the total number of Shares outstanding immediately after such issue or sale; provided, however, that no adjustment shall be made hereunder by reason of:

(i) the grant of this Warrant or the issuance of Shares upon the exercise of this Warrant or any other outstanding Warrant;

(ii) the grant by the Company of options to purchase shares in connection with any purchase or option plan for the benefit of employees of the Company, or any affiliates or subsidiaries thereof; or

(iii) the issuance (whether directly or by assumption in a merger or otherwise) or sale (including any issuance or sale to holders of Shares) of any securities convertible into or exchangeable for Shares (such convertible or exchangeable securities are herein referred to as "Convertible Securities"), or the grant of

rights to subscribe for or to purchase, or of options for the purchase of (including any grant of such rights or options to holders of Shares, other than pursuant to a dividend on Shares), Shares of Convertible Securities, regardless of whether the right to convert or exchange such Convertible Securities or such rights or options are immediately exercisable.

No adjustment of the Exercise Price shall be required to be made by the Company and no notice hereunder must be given if the amount of any required adjustment is less than 5% of the Exercise Price. In such case any such adjustment shall be carried forward and shall be made (and notice thereof shall be given hereunder) at the time of and together with the next subsequent adjustment which, together with any adjustment so carried forward, shall amount to not less than 5% of the Exercise Price.

(B) For the purposes of paragraph (A), the following provisions (i) through (vi), inclusive, shall also be applicable:

(i) If, at the time Shares are issued and sold upon the conversion or exchange of Convertible Securities or upon the exercise of rights or options previously granted by the Company, the price per Share for which such Shares are issued (determined by dividing (a) the total amount, if any, received by the Company as consideration for such Convertible Securities or for the granting of such rights or options, plus the aggregate amount of additional consideration paid to the Company upon the conversion or exchange of such Convertible Securities (which, if so provided in such Convertible Securities, shall be deemed to be equal to the outstanding principal amount of the indebtedness represented by such Convertible Securities) or upon the exercise of such rights or options, by (b) the total number of Shares issued upon the conversion or exchange of such Convertible Securities or upon the exercise of such rights or options) shall be less than the Exercise Price in effect immediately prior to such issue, sale or exercise, then the adjustments provided for by the first paragraph of this Annex 1 and paragraph (A) shall be made. In making the adjustment of the Exercise Price provided for by paragraph (A), the amount described in clause (a) of this paragraph (B)(i) shall be considered the consideration received by the Company upon the issue or sale of the Shares for purposes of clause (i)(b) of paragraph (A).

(ii) In case at any time any Shares or Convertible Securities or any rights or options to purchase any Shares or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or

allowed by the Company in connection therewith. In case any Shares or Convertible Securities or any rights or options to purchase any Shares or Convertible Securities shall be issued or sold, in whole or in part, for consideration other than cash, the amount of the consideration other than cash received by the Company in exchange for the issue or sale of such Convertible Securities shall be deemed to be the fair value of such consideration as determined in good faith by the board of directors of the Company, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith; provided that if the holder or holders of at least 66-2/3% of the Warrant Shares purchasable under this Warrant shall request in writing,

the value of such consideration shall be determined by an independent expert selected by such holders, the costs and expenses of which shall be borne by the Company, and, if the value of such consideration as so determined is less than the value determined by the board of directors of the Company, the lesser value shall be utilized in calculating the consideration per Share received by the Company for purposes of making the adjustment provided by paragraph (A). In the event of any merger or consolidation of the Company in which the Company is not the surviving corporation or in the event of any sale of all or substantially all of the assets of the Company for stock or other securities of any corporation, the Company shall be deemed to have issued a number of Shares for stock or securities of such other corporation computed on the basis of the actual exchange ratio on which the transaction was predicated and for consideration that is equal to the fair market value on the date of such transaction of such stock or securities of the other corporation, and if any such calculation results in adjustment of the Exercise Price, the determination of the number of Shares issuable upon exercise of this Warrant immediately prior to such merger, consolidation or sale, for purposes of paragraph (A), shall be made after giving effect to such adjustment of the Exercise Price.

(iii) The number of Shares outstanding at any given time shall not include Shares that have been redeemed by the Company and not canceled, if any, and that are thus owned or held by or for the account of the Company, and the disposition of any such Shares shall be considered an issue or sale of Shares for purposes of paragraph (A).

(iv) "Market Price" shall mean the lower of (a) the average closing sales prices of Shares recorded on the principal national securities exchange on which the Shares are listed or in a national market system for securities in which the Shares are admitted to trading or (b) the average of the closing bid and asked prices of Shares reported in the domestic over-the-counter market, for the 20

trading days immediately prior to the day as of which the Market Price is being determined. If the Shares are not listed on any national securities exchange or admitted for trading in any national market system or traded in the domestic over-the-counter market, the Market Price shall be the higher of (y) the book value of the Shares as determined by a firm of independent public accountants of recognized standing selected by the board of directors of the Company as of the last day of any month ending within 60 days preceding the date as of which the determination is

to be made or (z) the fair market value of the Shares determined in good faith by the board of directors of the Company, provided that if the holder or holders of at least 66-2/3% of the Warrant Shares purchasable under the Warrant shall request in writing, the fair market value of the Shares shall be determined by an independent investment banking firm or other independent expert selected by such holders and reasonably satisfactory to the Company, which determination shall be as of a date which is within 15 days of the date as of which the determination is to be made.

(v) Anything herein to the contrary notwithstanding, in case the Company shall issue any Shares in connection with the acquisition by the Company of the stock or assets of any other corporation or the merger of any other corporation into the Company under circumstances where, on the date of the issuance of such Shares, the consideration received for such Shares is less than the Market Price of the Shares, but on the date the number of Shares was determined, the consideration received for such Shares would not have been less than the Market Price thereof, such Shares shall not be deemed to have been issued for less than the Market Price.

(vi) Anything in clause (ii) of this paragraph (B) to the contrary notwithstanding, in the case of an acquisition where all or part of the purchase price is payable in Shares or Convertible Securities but is stated as a dollar amount, where the Company upon making the acquisition pays only part of a maximum dollar purchase price which is payable in Shares or Convertible Securities and where the balance of such purchase price is deferred or is contingently payable under a formula related to earnings over a period of time, (a) the consideration received for any Shares or Convertible Securities delivered at the time of the acquisition shall be deemed to be such part of the total consideration as the portion of the dollar purchase price then paid in Shares or Convertible Securities bears to the total maximum dollar purchase price payable in Shares or Convertible Securities and (b) in connection with each issuance of additional Shares or Convertible Securities pursuant to the terms of the agreement relating to such acquisition, the consideration received shall be deemed to be such part of the total consideration as the portion of the dollar

purchase price then and theretofore paid in Shares or Convertible Shares bears to the total maximum dollar purchase price payable in Shares or Convertible Securities multiplied by a fraction, the numerator of which shall be the number of Shares (or in the case of Convertible Securities other than capital stock of the Company,

the aggregate principal amount of such Convertible Securities) then issued and the denominator of which shall be the total number of shares (or in the case of Convertible Securities other than capital stock of the Company, the aggregate principal amount of such Convertible Securities) then and theretofore issued under such acquisition agreement. In the event only a part of the purchase price for an acquisition is paid in Shares or Convertible Securities in the manner referred to in this clause (vi), the term "total consideration" as used in this clause (vi) shall mean that part of the aggregate consideration as is fairly allocable to the purchase price paid in Shares or Convertible Securities in the manner referred to in this clause (vi), as determined by the board of directors of the Company.

(C) In the case at any time the Company shall subdivide its outstanding Shares into a greater number of Shares, then from and after the record date for such subdivision the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of Shares purchasable upon the exercise of this Warrant shall be correspondingly increased, and, conversely, in case the outstanding Shares shall be combined into a smaller number of Shares, then from and after the record date for such combination the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Shares purchasable upon the exercise of this Warrant shall be correspondingly decreased.

(D) Unless the provisions of paragraph (E) apply, if any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with another corporation, or sale of all or substantially all of its assets to another corporation, shall be effected in such a way that holders of Shares (or any other securities of the Company then issuable upon the exercise of this Warrant) shall be entitled to receive stock, securities or assets with respect to or exchange for Shares (or such other securities) then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provision shall be made whereby the holder hereof shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the Shares (or other securities) of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding Shares (or other securities) equal to the number of Shares (or other securities) immediately theretofore so purchasable and receivable had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for

adjustment of the Exercise Price and of the number of Shares (or other securities) purchasable upon the exercise of this Warrant and for the registration thereof as provided in Section 6 of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof (including an immediate adjustment, by reason of such consolidation, merger or sale, of the Exercise Price to the value of the Shares (or other securities) reflected by the terms of such consolidation, merger or sale if the value so reflected is less than the Exercise Price in effect immediately prior to such consolidation, merger or sale). In the event of a consolidation or merger of the Company with or into another corporation as a result of which a greater or lesser number of securities of the surviving corporation are issuable to holders of Shares in respect of the number of Shares outstanding immediately prior to such consolidation or merger, then the Exercise Price in effect immediately prior to such consolidation or merger shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding Shares. The Company shall not effect any such consolidation, merger or sale, unless prior to or simultaneously with the consummation thereof the surviving or successor corporation (if other than the Company) resulting from such consolidation or merger of the corporation purchasing such assets shall assume, by written instrument executed and mailed to the registered holder hereof at the last address of such holder appearing on the books of the Company, the obligation to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to purchase, and containing the express assumption of such surviving or successor corporation of the due performance of every provision of this Warrant to be performed by the Company and of all liabilities and obligations of the Company hereunder.

(E) In the event of a change in control of the Company, as defined in this paragraph (E), then the Board of Directors shall accelerate the exercise date of the Warrant or make this Warrant fully vested and exercisable and, in its sole discretion, may take any or all of the following actions: (a) grant a cash bonus award to any holder of this Warrant in an amount necessary to pay the Exercise Price of all or any portion of the Warrant then held by such person; (b) pay cash to any holder of this Warrant in exchange for the cancellation of the holder's Warrant in an amount equal to the difference between the Exercise Price of such Warrant and the greater of the tender offer price for the underlying Shares or the Market Price of the Shares on the date of the cancellation of the Warrant; and (c) make any other adjustments or amendments to this Warrant. For purposes of this paragraph (E), a "change in control" shall be deemed to have occurred if (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended ("1934 Act"), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of more than 50% of the then outstanding voting stock of the Company; or (b) at any time during any period of three consecutive years after the date of this Warrant, individuals who at the beginning of such period constitute the Board (and any new director

whose election by the Board or whose nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election

was previously so approved) cease for any reason to constitute a majority thereof; or (c) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation.

(F) In case at any time the Company shall pay any dividend on or make any other distribution with respect to Shares (or any other securities of the Company then issuable upon the exercise of the Warrant) that is payable in Shares, Convertible Securities, any other securities of the Company or other stock, securities or assets, other than cash, then thereafter, and in lieu of any adjustment of the Exercise Price and the number of Shares issuable upon the exercise of this Warrant, the holder of this Warrant, upon any exercise of the rights represented hereby, shall be entitled to receive the number of Shares (or other securities) being purchased upon such exercise and, in addition to and without further payment, the Shares, Convertible Securities, other securities of any company or other stock, securities or assets which the holder of this Warrant would have received by way of such distributions if continuously since the date of the Warrant (or, if this Warrant shall have been issued pursuant to Section 7 of this Warrant, the date of the predecessor Warrant to which this Warrant relates) such holder had been the record holder of the number of Shares (or other securities), then being purchased and had retained all such Shares, Convertible Securities, other securities of the Company or other stock, securities or assets distributable with respect to such Shares (or other securities) and, furthermore, all cash, stock, securities or assets payable as dividends or distributions with respect to the foregoing and originating directly or indirectly therefrom. The Company shall reserve and retain in escrow from any such dividend or distribution of Shares, Convertible Securities, other securities of the Company or other stock, securities or assets, and from any such dividends or distributions with respect thereto and originating directly or indirectly therefrom, such Shares, Convertible Securities, other securities of the Company and other stock, securities, assets and cash as shall be necessary to fulfill its obligations to the holder hereof pursuant to this paragraph (F).

(G) If at any time conditions arise by reason of action taken by the Company, which in the good faith opinion of the board of directors of the Company, are not adequately covered by the provisions of this Annex 1, and which

might materially adversely affect the rights of the holder of this Warrant, the Company shall appoint a firm of independent public accountants of recognized standing (which may be the regular accountants or auditors of the Company), which shall give their opinion as to the adjustments, if any, in the Exercise Price and the number of Shares purchasable upon the exercise of this Warrant, or other change in the rights of the holder hereof, on a basis consistent with the other provisions of this Annex 1, necessary to preserve without diminution the rights of the holder hereof. Upon receipt of such opinion, the Company shall forthwith make the adjustments described therein.

(H)(i) Within ten (10) days of any adjustment of the Exercise Price or change in the number of Shares purchasable upon the exercise of this Warrant made pursuant to paragraphs (A), (B), (C) , or (F) or any change in the rights of the holder of this Warrant by reason of the occurrence of events described in paragraphs (D), (E), or (F), the Company shall give written notice by certified or registered mail to the registered holder of this Warrant at the address of such holder as shown on the books of the Company, which notice shall describe the event requiring such adjustments (with respect to any adjustment made pursuant to paragraphs (C), (D), (E) or (F), the Exercise Price resulting from such adjustment, the increase or decrease, if any, in the number of Shares purchasable upon the exercise of this Warrant, or the other change in the rights of such holder, and set forth in reasonable detail the method of calculation of such adjustments and the facts upon which such calculations are based. Within two (2) days of receipt from the holder of this Warrant upon the surrender hereof for exercise pursuant to Section 1 of this Warrant, and within three (3) days of receipt from the holder hereof a written request therefor (which request shall not be made more than once each calendar quarter), the Company shall give written notice by certified or registered mail to such holder at his address as shown on the books of the Company of the Exercise Price in effect as of the date of receipt by the Company of this Warrant for exercise, or the date of receipt of such written request, and the number of Shares purchasable or the number or amount of other shares of stock, securities or assets receivable as of such date, and set forth in reasonable detail the method of calculation of such numbers; provided that no further adjustments to the Exercise Price or the number of Shares purchasable or number or amount of shares, securities or assets receivable on exercise of this Warrant shall be made after receipt of this Warrant by the Company for exercise.

(ii) Upon each adjustment of the Exercise Price and each change in the

number of Shares purchasable upon the exercise of this Warrant, and change in the rights of the holder of this Warrant by reason of the occurrence of other events herein set forth, then and in each case, upon written request of the holder of this Warrant (which request shall be made not more often than once each calendar year), the Company will at its expense promptly obtain an opinion of independent public accountants reasonably satisfactory to each holder stating the then effective Exercise Price and the number of Shares then purchasable, or specifying the other shares of stock, securities or assets and the amount thereof then receivable, and setting forth in reasonable detail the method of calculation of such numbers and the facts upon which such calculations are based. The Company will promptly mail a copy of such opinion to the registered holder hereof.

(I) In case at any time:

(i) The Company shall pay any dividend payable in capital stock on its outstanding Shares or make any distribution (other than regular cash dividends) to the holders of Shares;

(ii) The Company shall offer for subscription pro rata to the holders of Shares any additional capital stock or other rights;

(iii) There shall be authorized any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation; or

(iv) There shall be authorized or commence a voluntary or involuntary dissolution, liquidation or winding up of the Company.

then, in one or more of said cases, the Company shall give written notice by certified or registered mail to Bradshaw at the address of Bradshaw as shown on the books of the Company on the date on which (1) the books of the Company shall close or a record shall be taken for such dividend, distribution, or subscription rights, or (2) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place or be voted upon by the shareholders of the Company, as the case may be. Such notice shall also specify the date as of which the holders of record of Shares shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange their Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be. Such written notice shall be given at least thirty (30) days prior to the action in question and no less than thirty (30) days prior to the record date or the date on which the Company's books are closed in respect thereto.

EXHIBIT 10.41

THIS WARRANT AND THE RIGHTS REPRESENTED HEREBY SHALL NOT BE TRANSFERABLE AT ANY TIME UNLESS (i) A REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, SHALL BE IN EFFECT WITH RESPECT TO THIS WARRANT OR THE SHARES ISSUABLE HEREUNDER AT SUCH TIME, OR (ii) THE TRANSFER IS MADE IN COMPLIANCE WITH THE PROVISIONS OF SECTION 5.

NUMBER: 50,000 SHARES

WARRANT
TO PURCHASE SHARES
OF
TIPPERARY CORPORATION

This certifies that, for value received, Kenneth L. Ancell, an individual residing in Houston, Texas ("Ancell"), or his registered assigns, is entitled to purchase from TIPPERARY CORPORATION, a Texas corporation (the "Company"), Fifty Thousand (50,000) Shares, at the price of Four Dollars and 31/100 ($4.31) per Share (as defined in Section 3) at any time, or in part from time to time in accordance with the following Vesting Schedule ("Vesting Schedule"):

Date:	Total Shares Subject to Exercise
From and after July 11, 1997	16,667
From and after July 11, 1998	16,667
From and after July 11, 1999	16,666

This Warrant shall expire, if not exercised prior thereto, two (2) years after the resignation or removal of Ancell from the Board of Directors of the Company. If Ancell should resign or be removed from the Board of Directors of the Company, then this Warrant shall be vested only to the extent vested on such date of resignation or removal according to the Vesting Schedule. The provisions as to adjustment of the initial exercise price set forth above and the number of Shares to be issued upon the occurrence of certain events (the Provisions as to Adjustment) are more fully set forth in Annex I hereto. (Hereinafter, the initial exercise price set forth above in this paragraph for the purchase of Shares upon the exercise of this Warrant, as adjusted pursuant to the Provisions as to Adjustment, is referred to as the "Exercise Price"). This Warrant is subject to the following provision, terms and conditions:

1. EXERCISE OF WARRANT.

(a) The rights represented by this Warrant may be exercised by the holder hereof, in whole or in part,(but not as to a fractional Share), by the surrender of this Warrant at the Company's principal office located in Denver, Colorado (or such other office or agency of the Company as the Company may designate by

notice in writing to the holder hereof at the address

of such holder appearing on the books of the Company at any time within the period above named) and delivery of a completed subscription form in the form attached to this Warrant as EXHIBIT A, and upon payment to the Company of the Exercise Price for such Shares.

(b) Payment of the Exercise Price shall be made by a combination of any one or more of the following:

(i) By application, to the extent permitted by applicable law, of Shares or other securities of the Company owned by the holder hereof, the value of which for such purpose shall be the fair market value thereof determined in good faith by the Company and the holder hereof at the time of such exercise; provided, however, that in order to apply such Shares or other securities of the Company in the exercise hereof, each of the following conditions must be met:

(A) Such Shares or other securities of the Company shall have been owned, without material encumbrance, contingency or risk of forfeiture relating to the ownership rights, for at least six months and at all times during said six month period by the holder hereof, and within said six month period such Shares or other securities of the Company shall not have been obtained through exercise of any option, warrant or right to obtain such Shares of other securities or through the conversion of any other security; and

(B) Such Shares or other securities shall not be or include: (1) options, warrants or similar rights to acquire Shares or other securities of the Company by the holder hereof; or (2) securities owned by the holder hereof which are convertible in whole or in part into Shares or other securities of the Company.

(ii) in cash or by certified check or bank draft in New York Clearing House funds.

(c) The Company agrees that any Shares so purchased by the exercise of this Warrant shall be deemed to be issued to the holder hereof as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been surrendered, the completed subscription form delivered, and payment made for such Shares as aforesaid.

(d) Stock certificates evidencing Shares so purchased shall be delivered to the holder hereof as promptly as practicable, after the rights represented by this Warrant shall have been so exercised. If this Warrant shall have been exercised only in part, and unless this Warrant has expired, a new Warrant representing the number of Shares with respect to which this Warrant shall not then have been exercised shall also be delivered to the holder hereof within such time. Notwithstanding the foregoing, however, the Company shall not be required to deliver any stock certificate evidencing Shares upon exercise of this Warrant except in accordance with the provisions, and subject to the limitations, of Section 5. The Company will pay all expenses and charges payable in connection with the preparation, execution and delivery of stock certificates and any new Warrants or promissory notes.

2. CERTAIN COVENANTS OF THE COMPANY. The Company covenants and agrees as follows:

(a) All Shares which may be issued upon the exercise of the rights represented by this Warrant (all such Shares, whether previously issued or subject to issuance upon the exercise of this Warrant, are from time to time referred to herein as "Warrant Shares") will, upon issuance, be duly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof.

(b) During the period within which the rights represented by this Warrant may be exercised, and only insofar as the Vesting Schedule herein permits the exercise of this Warrant, the Company will at all times have authorized and reserved free of preemptive or other rights for the exclusive purpose of issuance upon exercise of the purchase rights evidenced by this Warrant, a sufficient number of Shares to provide for the exercise of rights represented by this Warrant.

(c) The Company will not, by amendment or restatement of the Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, issuance or sale of securities or otherwise, avoid or take any action which would have the effect of avoiding the performance of any of the terms to be performed hereunder by the Company, but will at all times in good faith carry out all of the provisions of this Warrant and take all such action as may be necessary or appropriate to protect the rights of the holder hereof against dilution or other impairment and, in particular, will not permit the par value of any Share to be or become greater than the then effective Exercise Price.

3. DEFINITION OF SHARES. As used herein, the term "Shares" shall mean and include shares of the Common Stock, par value $.02 per share, of the Company as are constituted and exist on the date hereof, and shall also include any other class of the capital stock of the Company hereafter authorized which shall neither be limited to a fixed sum or percentage of par value in respect to the

rights of the holders thereof to receive dividends and to participate in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of

the Company, nor be subject at any time to redemption by the Company; provided that the Shares receivable upon exercise of this Warrant shall include only Shares of the type as are constituted and exist on the date hereof or Shares resulting from any reclassification of the Shares as provided for in paragraph (C) of the Provisions as to Adjustment.

4. NO RIGHTS OR LIABILITIES AS A SHAREHOLDER. This Warrant shall not entitle the holder hereof as such to any rights whatsoever, including, without limitation, voting rights, as a holder of Shares of the Company. No provisions hereof, in the absence of affirmative action by the holder hereof to purchase Shares, and no mere enumeration herein of the rights or privileges of such holder, shall give rise to any liability of such holder as a holder of Shares of the Company, regardless of who may assert such liability.

5. RESTRICTIONS ON TRANSFER.

(a) This Warrant shall not be exercisable by a transferee hereof and/or transferable and the Warrant Shares shall not be transferable except upon the conditions specified in this Section 5, which conditions are intended, among other things, to ensure compliance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations of the Securities and Exchange Commission (the "Commission") thereunder (collectively the "Securities Act"), in respect of the exercise and/or transfer of this Warrant and/or transfer of such Warrant Shares.

(b) This Warrant and the Warrant Shares shall not be transferable (except for a transfer of this Warrant or the Warrant Shares in an offering registered under the Securities Act, including, without limitation, a transfer in a registered offering effected pursuant to Section 6, and any subsequent transfer) unless, prior to any transfer, the holder hereof shall have received from its transferee reasonable assurances that such person is aware that this Warrant and the Warrant Shares have not been registered under the Securities Act and that such person is acquiring this Warrant or the Warrant Shares for investment only and not with the view to the disposition or public offering thereof (unless in an offering registered under the Securities Act of 1933 or exempt therefrom), and that such person is aware that the stock certificates evidencing the Warrant Shares shall bear a legend restricting transfer and disposition thereof in accordance with the Securities Act unless, in the opinion of counsel to the Company, such legend may be omitted. In the event of any transfer of this Warrant (other than a transfer in an offering registered under the Securities Act, including, without limitation, a transfer in a registered offering effected pursuant to Section 6, and any subsequent transfer), the holder hereof shall

provide an opinion of counsel, who shall be reasonably satisfactory to the Company, that an exemption from the registration requirements of the Securities Act is available.

(c) Any permitted subsequent holder of this warrant shall be subject to all the terms and conditions herein, and shall acknowledge, in writing, upon receipt of this Warrant his or her acceptance of the terms and conditions herein.

(d) To facilitate sales by a holder of this Warrant or Warrant Shares in transactions qualifying under Rule 144 promulgated by the Commission under the Securities Act, if available, the Company agrees to satisfy the current public information requirements of said Rule 144, for as long as the Shares remain registered under the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder (collectively the "Exchange Act"), and to provide said holder upon request with such other information as such holder may require for compliance with the provisions of said Rule 144.

6. REGISTRATION UNDER SECURITIES ACT.

(a) If the Company at any time proposes to register any issuance of its securities under the Securities Act (other than a registration on Form S-8 in connection with an employee stock purchase or option plan or on Form S-4 in connection with mergers, acquisitions or exchange offerings), the Company will at such time give prompt written notice to the holder hereof and to the holders of all other Warrant Shares issuable from any outstanding Warrants (such holders are hereinafter referred to as the "Prospective Sellers") of its intention to do so. Upon the written request of a Prospective Seller, given within 30 days after receipt of any such notice (which request shall state the intended method of disposition of the Warrant Shares to be transferred by such Prospective Seller), the Company shall use its best efforts to cause all Warrant Shares, the holders of which (or of the Warrants to which the same are related), to the extent vested in accordance with the Vesting Schedule, shall have so requested registration of the transfer thereof, to be registered under the Securities Act, all to the extent requisite to permit the sale or other disposition (in accordance with the intended method thereof as aforesaid) by the Prospective Sellers of such Warrant Shares. The rights granted pursuant to this Section 6(a) shall not be effective with respect to the Prospective Seller in the case of an underwritten public offering of securities of the Company by the Company unless each Prospective Seller agrees to the terms and conditions, including underwriting discounts and allowances, specified by the managing underwriter of such offering with respect to such Warrant Shares. The Company shall have the right to reduce the number of Warrant Shares of the Prospective Sellers to be included in a registration statement pursuant to the exercise of the rights granted by this Section 6(a) if, and to the extent, that the managing

underwriter of such offering is of the good faith opinion, supported by written reasons therefor, that the inclusion of such Warrant Shares would materially adversely affect the marketing of the securities of the Company to be offered; provided, that any such reduction of the number of Warrant Shares the transfer of which is to be registered on behalf of the Prospective Sellers shall be made on the basis of a pro rata reduction of all Warrant Shares of all Prospective Sellers.

(b) If and whenever the Company is required by the provisions of this Section 6 to use its best efforts to effect the registration of any transfer of Warrant Shares under the Securities Act, the Company will, as expeditiously as possible,

(i) prepare and file with the Commission a registration statement with respect to such transfer and use its best efforts to cause such registration statement to become and remain effective, but not for any period longer than nine months;

(ii) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective, and to comply with the provisions of the Securities Act with respect to the transfer of all securities covered by such registration statement, including, without limitation, taking all necessary actions whenever the Prospective Sellers of the Warrant Shares covered by such registration statement shall desire to dispose of the same;

(iii) furnish to each Prospective Seller such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents, as such Prospective Seller may reasonably request in order to facilitate the disposition of the Warrant Shares owned by such Prospective Seller and covered by such registration statement;

(iv) use its best efforts to register or qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as each Prospective Seller shall request, and use its best efforts to do any and all other acts and things which may be reasonably necessary to enable such Prospective Seller to consummate the disposition in such jurisdiction of the Warrant Shares owned by such Prospective Seller and covered by such registration statement; provided that,

notwithstanding the foregoing, the Company shall not be required to register in any jurisdiction as a broker or dealer of securities or to grant its consent to service of process in any such jurisdiction solely on account of such intended disposition by such Prospective Seller;

(v) furnish to the Prospective Sellers whose intended dispositions are registered a signed copy of an opinion of counsel for the Company, in form and substance acceptable to such Prospective Sellers, to the effect that: (A) a registration statement covering such dispositions of Warrant

Shares has been filed with the Commission under the Securities Act and has been made effective by order of the Commission, (B) such registration statement and the prospectus contained therein and any amendments or supplements thereto comply as to form in all material respects with the requirements of the Securities Act, and nothing has come to such counsel's attention which would cause him to believe that the registration statement or such prospectus, amendment or supplement, at the time such registration statement or amendment became effective or such supplement was filed with the Commission, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein (in the case of such prospectus, amendment or supplement, in the light of the circumstances under which they were made) not misleading (provided that such counsel need not render any opinion with respect to the financial statements and other financial, engineering and statistical data included therein), and (C) to the best of such counsel's knowledge, no stop order has been issued by the Commission suspending the effectiveness of such registration statement and no proceedings for the issuance of such a stop order are threatened or contemplated;

(vi) furnish to the Prospective Sellers whose intended dispositions are required a blue sky survey in the form and of the substance customarily prepared by counsel for the Company and accepted by sellers of securities in similar offerings, discussing and describing the application provisions of the securities or blue sky laws of each state or jurisdiction in which the Company shall be required, pursuant to Section 6(c)(iv), to register or qualify such intended dispositions of such Warrant Shares, or, in the event counsel for the underwriters in such offering shall be preparing a blue sky survey, cause such counsel to furnish such survey to, and to allow reliance thereon by, such Prospective

Sellers;

(vii) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission under the Securities Act and the Exchange Act, insofar as they relate to such registration and such registration statement; and

(viii) use its best efforts to list such Warrant Shares on any securities exchange on which any securities of the Company are then listed or to admit such Warrant Shares for trading in any national market system in which any securities of the Company are then admitted for trading, if the listing or admission of such securities is then permitted under the rules of such exchange or system.

(c) With respect to the registration by the Company of transfers of Warrant Shares under the Securities Act pursuant to Section 6(a), the Company shall pay all expenses incurred by it in complying with this Section 6 (including, without limitation, all registration and filing fees, printing expenses, blue sky fees and expenses, costs and expenses of audits, and reasonable fees and disbursements of counsel for the Company and special counsel designated by Prospective Sellers owning a majority of the Warrant Shares covered by such registration, but specifically excluding any underwriting discounts and allowances that are allocable to the Warrant Shares being sold by, and which shall be paid by, the Prospective Sellers; provided, however, that if any registration statement filed with the Commission by the Company under Section 6(a) shall not be declared effective by the Commission, such attempted registration shall not constitute a registration under this Section 6(c).

(d) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 6 that each Prospective Seller, the transfer of whose Warrant Shares is registered or to be registered under each such registration, shall furnish to the Company such written information regarding the securities held by such Prospective Seller as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company.

(e) (i) In the event of any registration of any transfer of Warrant Shares under the Securities Act pursuant to this Section 6, the Company will indemnify and hold harmless each Prospective Seller of such securities, each of its officers, directors and partners, and each other person, if any, who controls such Prospective Seller within the meaning of the Securities Act, and each underwriter, if any, who participates in the offering of such securities, against any losses, claims, damages or liabilities (or actions in respect thereof), joint or several, to which each Prospective Seller, officer, director

or partner, controlling person or underwriter may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement under which such transfer of securities was registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act, and will reimburse such

Prospective Seller and each of its officers, directors and partners, and each such controlling person or underwriter, for any legal or any other expenses reasonably incurred by such Prospective Seller or its officers, directors and partners or controlling persons or by each such underwriter, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company or Double-Double, as the case may be, will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, preliminary prospectus or prospectus or such amendment or supplement in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such Prospective Seller specifically for use in the preparation thereof. In the event of any registration by the Company or any transfer of securities under the Securities Act pursuant to this Section 6, each Prospective Seller of Warrant Shares covered by such registration will indemnify and hold harmless the Company, each other person, if any, who controls the Company within the meaning of the Securities Act and each officer and director of the Company and the other Prospective Sellers to the same extent that the Company agrees to indemnify it, but only with respect to the written information relating to such Prospective Seller furnished to the Company by such Prospective Seller aforesaid.

(ii) Each indemnified party shall, as promptly as practicable upon receipt of notice of the commencement of any action against such indemnified party or its officers, directors or partners, or any controlling person of such indemnified party, in respect of which indemnity may be sought from an indemnifying party on account of the indemnity agreement contained in Section 6(e)(i), notify the indemnifying party in writing of the commencement thereof. The omission of such indemnified party to so notify the indemnifying party of any such action shall not relieve the indemnifying party from any liability which it may have on account of the indemnity agreement contained in Section 6(e)(i) to the extent that the failure to receive such notice within a reasonable period of time shall not have caused harm, loss or damage to the

indemnifying party, provided that, conversely, if such failure to receive notice shall have caused any harm, loss or damage to the indemnifying party, such failure shall constitute a defense to any liability which such indemnifying party may have on account of such agreement to the extent of the harm, loss or damage so caused. In case any such action shall be brought against any indemnified party, its officers, directors and partners, or any such controlling person, and such indemnified party shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in (and, to the extent that the indemnifying party shall wish, to direct) the defense thereof at the indemnifying party's own expense, in which event the defense shall be conducted by recognized counsel chosen by the indemnifying party and approved by the indemnified party (whose approval shall not unreasonably be withheld) and the indemnified party may participate in such defense at its own expense (unless it is advised by counsel that actual or potential differing interests or defenses exist or may exist, in which case such expenses shall be paid by the indemnifying party, provided that the indemnifying party shall not be required to pay the expenses for more than one counsel for all such indemnified parties).

7. TRANSFER; OWNERSHIP. Subject to Section 5, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company referred to in Section 1 by the holder hereof in person or by a duly authorized attorney, upon surrender of this Warrant, with an assignment, acceptable to the Company, duly completed, at which time a new Warrant shall be made and delivered by the Company, of the same tenor as this Warrant but registered in the name of the transferee. The holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant and to transfer this Warrant on the books of the Company, any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered holder hereof as the owner hereof for all purposes. Any transfer of this Warrant shall be made in compliance with the Securities Act and any applicable statute securities or blue sky laws.

8. EXCHANGE AND REPLACEMENT. Subject to Section 7, this Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 1, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of Shares which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of Shares as shall be designated by said holder hereof at the time of such surrender. Upon receipt by the Company at the office or agency referred to in Section 1 of evidence reasonably satisfactory to

it of the loss, theft or destruction of this Warrant and of indemnity or security reasonably satisfactory to it (provided that the written indemnity of the holder hereof shall be deemed reasonably satisfactory to the Company for such purposes), the Company will deliver a new Warrant of like tenor and date in replacement of this Warrant. This Warrant shall be promptly canceled by the Company upon the surrender hereof in connection with any transfer, exchange or replacement. The Company will pay all expenses and charges payable in connection with the preparation, execution and delivery of Warrants pursuant to Section 7 and this Section 8.

9. NOTICES. Any notice or other document required or permitted to be given or delivered to the holder hereof shall be delivered at, or sent by certified or registered mail to, Kenneth L. Ancell, 1155 Dairy Ashford, Suite 206, Houston, Texas 77079, or to such other address as shall have been furnished to the Company in writing by the holder hereof. Any notice or other document required or permitted to be given or delivered to the Company shall be delivered at, or sent by certified or registered mail to, 633 Seventeenth, Suite 1550, Denver, Colorado 80202, or to such other address as shall have been furnished in writing to the holder hereof by the Company. Any notice so addressed and mailed by registered or certified mail or otherwise delivered, shall be deemed to be given when actually received by the addressee.

10. GOVERNING LAW. THIS WARRANT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS.

11. MISCELLANEOUS. This Warrant will be binding upon any partnership or corporation succeeding to the Company by consolidation or acquisition of all or substantially all of the Company's assets, and upon any successor or assign of the holder hereto. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party (or any predecessor in interest thereof) against whom enforcement of the same is sought. The headings in this Warrant are for purposes of reference only and shall not affect the meaning or construction of any of the provisions hereon.

IN WITNESS WHEREOF, Tipperary Corporation has caused this Warrant to be signed by its duly authorized officers, under its corporate seal, to be dated July 11, 1996.

TIPPERARY CORPORATION

BY: /s/ David L. Bradshaw
ITS: President & CEO

(CORPORATE SEAL)

ATTEST: /s/ Elaine R. Treece
ITS: Secretary

Annex 1

TIPPERARY CORPORATION

PROVISIONS AS TO ADJUSTMENT OF
EXERCISE PRICE AND NUMBER OF SHARES
ISSUED UPON OCCURRENCE OF CERTAIN EVENTS

The Exercise Price and the number of Shares issuable upon the exercise of the annexed Warrant to purchase shares of TIPPERARY CORPORATION, a Texas corporation (herein and in this Warrant referred to as the "Company"), shall be subject to adjustment from time to time as hereinafter provided; that in no event shall the Exercise Price be increased to a price greater than Four Dollars and 31/100 ($4.31) per Share, except as provided by paragraph (C). Upon each adjustment of the Exercise Price, the holder of this Warrant shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the number of Shares obtained by multiplying the number of Shares purchasable pursuant hereto immediately prior to such adjustment by a fraction, the numerator of which is the Exercise Price in effect immediately prior to such adjustment and the denominator of which is the Exercise Price resulting from such adjustment. In making the adjustments to the Exercise Price and the number of Shares issuable upon the exercise of this Warrant, the following provisions shall be applicable:

(A) If and whenever the Company shall issue or sell any Shares for consideration per Share that is less than the Exercise Price in effect immediately prior to the time of such issue or sale at less than the Market Price (as hereinafter defined) of such Shares on the date of such issue or sale, then forthwith upon such issue or sale the Exercise Price in effect immediately prior thereto shall be adjusted to an amount (calculated to the nearest cent) determined by dividing (i) an amount equal to the sum of (a) the number of Shares outstanding immediately prior to such issue or sale multiplied by the Exercise Price in effect immediately prior to such issue or sale, and (b) the consideration, if any, received by the Company upon such issue or sale by (ii) the total number of Shares outstanding immediately after such issue or sale; provided, however, that no adjustment shall be made hereunder by reason of:

(i) the grant of this Warrant or the issuance of Shares upon the exercise of this Warrant or any other outstanding Warrant;

(ii) the grant by the Company of options to purchase shares in connection with any purchase or option plan for the benefit of employees of the Company, or any affiliates or subsidiaries thereof; or

(iii) the issuance (whether directly or by assumption in a merger or otherwise) or sale (including any issuance or sale to holders of Shares) of any securities convertible into or exchangeable for Shares (such convertible or exchangeable securities are herein referred to as "Convertible Securities"), or the grant of rights to subscribe for or to purchase, or of options for the purchase of (including any grant of such rights or options to holders of Shares, other than pursuant to a dividend on Shares), Shares of Convertible Securities, regardless of whether the right to convert or exchange such Convertible Securities or such rights or options are immediately exercisable.

No adjustment of the Exercise Price shall be required to be made by the Company and no notice hereunder must be given if the amount of any required adjustment is less than 5% of the Exercise Price. In such case any such adjustment shall be carried forward and shall be made (and notice thereof shall be given hereunder) at the time of and together with the next subsequent adjustment which, together with any adjustment so carried forward, shall amount to not less than 5% of the Exercise Price.

(B) For the purposes of paragraph (A), the following provisions (i) through (vi), inclusive, shall also be applicable:

(i) If, at the time Shares are issued and sold upon the conversion or exchange of Convertible Securities or upon the exercise of rights or options previously granted by the Company, the price per Share for which such Shares are issued (determined by dividing (a) the total amount, if any, received by the Company as consideration for such Convertible Securities or for the granting of such rights or options, plus the aggregate amount of additional consideration paid to the Company upon the conversion or exchange of such Convertible Securities (which, if so provided in such Convertible Securities, shall be deemed to be equal to the outstanding principal amount of the indebtedness represented by such Convertible Securities) or upon the exercise of such rights or options, by (b) the total number of Shares issued upon the conversion or exchange of such Convertible Securities or upon the exercise of such rights or options) shall be less than the Exercise Price in effect immediately prior to such issue, sale or exercise, then the adjustments provided for by the first

paragraph of this Annex 1 and paragraph (A) shall be made. In making the adjustment of the Exercise Price provided for by paragraph (A), the amount described in clause (a) of this paragraph (B)(i) shall be considered the consideration received by the Company upon the issue or sale of the Shares for purposes of clause (i)(b) of paragraph (A).

(ii) In case at any time any Shares or Convertible Securities or any rights or options to purchase any Shares or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or

allowed by the Company in connection therewith. In case any Shares or Convertible Securities or any rights or options to purchase any Shares or Convertible Securities shall be issued or sold, in whole or in part, for consideration other than cash, the amount of the consideration other than cash received by the Company in exchange for the issue or sale of such Convertible Securities shall be deemed to be the fair value of such consideration as determined in good faith by the board of directors of the Company, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith; provided that if the holder or holders of at least 66-2/3% of the Warrant Shares purchasable under this Warrant shall request in writing, the value of such consideration shall be determined by an independent expert selected by such holders, the costs and expenses of which shall be borne by the Company, and, if the value of such consideration as so determined is less than the value determined by the board of directors of the Company, the lesser value shall be utilized in calculating the consideration per Share received by the Company for purposes of making the adjustment provided by paragraph (A). In the event of any merger or consolidation of the Company in which the Company is not the surviving corporation or in the event of any sale of all or substantially all of the assets of the Company for stock or other securities of any corporation, the Company shall be deemed to have issued a number of Shares for stock or securities of such other corporation computed on the basis of the actual exchange ratio on which the transaction was predicated and for consideration that is equal to the fair market value on the date of such transaction of such stock or securities of the other corporation, and if any such calculation results in adjustment of

the Exercise Price, the determination of the number of Shares issuable upon exercise of this Warrant immediately prior to such merger, consolidation or sale, for purposes of paragraph (A), shall be made after giving effect to such adjustment of the Exercise Price.

(iii) The number of Shares outstanding at any given time shall not include Shares that have been redeemed by the Company and not canceled, if any, and that are thus owned or held by or for the account of the Company, and the disposition of any such Shares shall be considered an issue or sale of Shares for purposes of paragraph (A).

(iv) "Market Price" shall mean the lower of (a) the average closing sales prices of Shares recorded on the principal national securities exchange on which the Shares are listed or in a national market system for securities in which the Shares are admitted to trading or (b) the average of the closing bid and asked prices of Shares reported in the domestic over-the-counter market, for the 20

trading days immediately prior to the day as of which the Market Price is being determined. If the Shares are not listed on any national securities exchange or admitted for trading in any national market system or traded in the domestic over-the-counter market, the Market Price shall be the higher of (y) the book value of the Shares as determined by a firm of independent public accountants of recognized standing selected by the board of directors of the Company as of the last day of any month ending within 60 days preceding the date as of which the determination is to be made or (z) the fair market value of the Shares determined in good faith by the board of directors of the Company, provided that if the holder or holders of at least 66-2/3% of the Warrant Shares purchasable under the Warrant shall request in writing, the fair market value of the Shares shall be determined by an independent investment banking firm or other independent expert selected by such holders and reasonably satisfactory to the Company, which determination shall be as of a date which is within 15 days of the date as of which the determination is to be made.

(v) Anything herein to the contrary notwithstanding, in case the Company shall issue any Shares in connection with the acquisition by the Company of the stock or assets of any other corporation or the merger of any other corporation into the Company under

circumstances where, on the date of the issuance of such Shares, the consideration received for such Shares is less than the Market Price of the Shares, but on the date the number of Shares was determined, the consideration received for such Shares would not have been less than the Market Price thereof, such Shares shall not be deemed to have been issued for less than the Market Price.

(vi) Anything in clause (ii) of this paragraph (B) to the contrary notwithstanding, in the case of an acquisition where all or part of the purchase price is payable in Shares or Convertible Securities but is stated as a dollar amount, where the Company upon making the acquisition pays only part of a maximum dollar purchase price which is payable in Shares or Convertible Securities and where the balance of such purchase price is deferred or is contingently payable under a formula related to earnings over a period of time, (a) the consideration received for any Shares or Convertible Securities delivered at the time of the acquisition shall be deemed to be such part of the total consideration as the portion of the dollar purchase price then paid in Shares or Convertible Securities bears to the total maximum dollar purchase price payable in Shares or Convertible Securities and (b) in connection with each issuance of additional Shares or Convertible Securities pursuant to the terms of the agreement relating to such acquisition, the consideration received shall be deemed to be such part of the total consideration as the portion of the dollar

purchase price then and theretofore paid in Shares or Convertible Shares bears to the total maximum dollar purchase price payable in Shares or Convertible Securities multiplied by a fraction, the numerator of which shall be the number of Shares (or in the case of Convertible Securities other than capital stock of the Company, the aggregate principal amount of such Convertible Securities) then issued and the denominator of which shall be the total number of shares (or in the case of Convertible Securities other than capital stock of the Company, the aggregate principal amount of such Convertible Securities) then and theretofore issued under such acquisition agreement. In the event only a part of the purchase price for an acquisition is paid in Shares or Convertible Securities in the manner referred to in this clause (vi), the term "total consideration" as used in this clause (vi) shall mean that part of the aggregate consideration as is fairly allocable to the purchase price paid in Shares or Convertible Securities in the manner referred to in this clause

(vi), as determined by the board of directors of the Company.

(C) In the case at any time the Company shall subdivide its outstanding Shares into a greater number of Shares, then from and after the record date for such subdivision the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of Shares purchasable upon the exercise of this Warrant shall be correspondingly increased, and, conversely, in case the outstanding Shares shall be combined into a smaller number of Shares, then from and after the record date for such combination the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Shares purchasable upon the exercise of this Warrant shall be correspondingly decreased.

(D) Unless the provisions of paragraph (E) apply, if any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with another corporation, or sale of all or substantially all of its assets to another corporation, shall be effected in such a way that holders of Shares (or any other securities of the Company then issuable upon the exercise of this Warrant) shall be entitled to receive stock, securities or assets with respect to or exchange for Shares (or such other securities) then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provision shall be made whereby the holder hereof shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the Shares (or other securities) of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding Shares (or other securities) equal to the number of Shares (or other securities) immediately theretofore so purchasable and receivable had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for

adjustment of the Exercise Price and of the number of Shares (or other securities) purchasable upon the exercise of this Warrant and for the registration thereof as provided in Section 6 of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof (including an immediate adjustment, by reason of such consolidation, merger or sale, of the Exercise Price to the value of the Shares (or other securities) reflected by the terms of such consolidation, merger or sale if the value so reflected is less than the Exercise Price in effect immediately prior to such consolidation, merger or sale). In the event of a consolidation or merger of the Company with or into another corporation as a result of which a greater or lesser number of

securities of the surviving corporation are issuable to holders of Shares in respect of the number of Shares outstanding immediately prior to such consolidation or merger, then the Exercise Price in effect immediately prior to such consolidation or merger shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding Shares. The Company shall not effect any such consolidation, merger or sale, unless prior to or simultaneously with the consummation thereof the surviving or successor corporation (if other than the Company) resulting from such consolidation or merger of the corporation purchasing such assets shall assume, by written instrument executed and mailed to the registered holder hereof at the last address of such holder appearing on the books of the Company, the obligation to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to purchase, and containing the express assumption of such surviving or successor corporation of the due performance of every provision of this Warrant to be performed by the Company and of all liabilities and obligations of the Company hereunder.

(E) In the event of a change in control of the Company, as defined in this paragraph (E), then the Board of Directors shall accelerate the exercise date of the Warrant or make this Warrant fully vested and exercisable and, in its sole discretion, may take any or all of the following actions: (a) grant a cash bonus award to any holder of this Warrant in an amount necessary to pay the Exercise Price of all or any portion of the Warrant then held by such person; (b) pay cash to any holder of this Warrant in exchange for the cancellation of the holder's Warrant in an amount equal to the difference between the Exercise Price of such Warrant and the greater of the tender offer price for the underlying Shares or the Market Price of the Shares on the date of the cancellation of the Warrant; and (c) make any other adjustments or amendments to this Warrant. For purposes of this paragraph (E), a "change in control" shall be deemed to have occurred if (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended ("1934 Act"), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of more than 50% of the then outstanding voting stock of the Company; or (b) at any time during any period of three consecutive years after the date of this Warrant, individuals who at the beginning of such period constitute the Board (and any new director whose election by the Board or whose nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election

was previously so approved) cease for any reason to constitute a majority thereof; or (c) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or

consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation.

(F) In case at any time the Company shall pay any dividend on or make any other distribution with respect to Shares (or any other securities of the Company then issuable upon the exercise of the Warrant) that is payable in Shares, Convertible Securities, any other securities of the Company or other stock, securities or assets, other than cash, then thereafter, and in lieu of any adjustment of the Exercise Price and the number of Shares issuable upon the exercise of this Warrant, the holder of this Warrant, upon any exercise of the rights represented hereby, shall be entitled to receive the number of Shares (or other securities) being purchased upon such exercise and, in addition to and without further payment, the Shares, Convertible Securities, other securities of any company or other stock, securities or assets which the holder of this Warrant would have received by way of such distributions if continuously since the date of the Warrant (or, if this Warrant shall have been issued pursuant to Section 7 of this Warrant, the date of the predecessor Warrant to which this Warrant relates) such holder had been the record holder of the number of Shares (or other securities), then being purchased and had retained all such Shares, Convertible Securities, other securities of the Company or other stock, securities or assets distributable with respect to such Shares (or other securities) and, furthermore, all cash, stock, securities or assets payable as dividends or distributions with respect to the foregoing and originating directly or indirectly therefrom. The Company shall reserve and retain in escrow from any such dividend or distribution of Shares, Convertible Securities, other securities of the Company or other stock, securities or assets, and from any such dividends or distributions with respect thereto and originating directly or indirectly therefrom, such Shares, Convertible Securities, other securities of the Company and other stock, securities, assets and cash as shall be necessary to fulfill its obligations to the holder hereof pursuant to this paragraph (F).

(G) If at any time conditions arise by reason of action taken by the Company, which in the good faith opinion of the board of directors of the Company, are not adequately covered by the provisions of this Annex 1, and which might materially adversely affect the rights of the holder of this Warrant, the Company shall appoint a firm of independent public accountants of recognized standing (which may be the regular accountants or auditors of the Company), which shall give their opinion as to the adjustments, if any, in the Exercise Price and the number of Shares purchasable upon the exercise of this Warrant, or other change in the rights of the holder hereof, on a basis consistent with the other provisions of this Annex 1, necessary to preserve without diminution the rights of the holder hereof. Upon receipt of such opinion, the Company shall forthwith make the adjustments described therein.

(H) (i) Within ten (10) days of any adjustment of the Exercise Price or change in the number of Shares purchasable upon the exercise of this Warrant made pursuant to paragraphs (A), (B), (C) , or (F) or any change in the rights of the holder of this Warrant by reason of the occurrence of events described in paragraphs (D), (E), or (F), the Company shall give written notice by certified or registered mail to the registered holder of this Warrant at the address of such holder as shown on the books of the Company, which notice shall describe the event requiring such adjustments (with respect to any adjustment made pursuant to paragraphs (C), (D), (E) or (F), the Exercise Price resulting from such adjustment, the increase or decrease, if any, in the number of Shares purchasable upon the exercise of this Warrant, or the other change in the rights of such holder, and set forth in reasonable detail the method of calculation of such adjustments and the facts upon which such calculations are based. Within two (2) days of receipt from the holder of this Warrant upon the surrender hereof for exercise pursuant to Section 1 of this Warrant, and within three (3) days of receipt from the holder hereof a written request therefor (which request shall not be made more than once each calendar quarter), the Company shall give written notice by certified or registered mail to such holder at his address as shown on the books of the Company of the Exercise Price in effect as of the date of receipt by the Company of this Warrant for exercise, or the date of receipt of such written request, and the number of Shares purchasable or the number or amount of other shares of stock, securities or assets receivable as of such date, and set forth in reasonable detail the method of calculation of such numbers; provided that no further adjustments to the Exercise Price or the number of Shares purchasable or number or amount of shares, securities or assets receivable on exercise of this Warrant shall be made after receipt of this Warrant by the Company for exercise.

(ii) Upon each adjustment of the Exercise Price and each change in the number of Shares purchasable upon the exercise of this Warrant, and change in the rights of the holder of this Warrant by reason of the occurrence of other events herein set forth, then and in each case, upon written request of the holder of this Warrant (which request shall be made not more often than once each calendar year), the Company will at its expense promptly obtain an opinion of independent public accountants reasonably satisfactory to each holder stating the then effective Exercise Price and the number of Shares then purchasable, or specifying the other shares of stock, securities or assets and the amount thereof then receivable, and setting forth in reasonable detail the method of calculation of such numbers and the facts upon which such calculations are based. The Company will promptly mail a copy of such opinion to the registered holder hereof.

(I) In case at any time:

(i) The Company shall pay any dividend payable in capital stock on its outstanding Shares or make any distribution (other than regular cash dividends) to the holders of Shares;

(ii) The Company shall offer for subscription pro rata to the holders of Shares any additional capital stock or other rights;

(iii) There shall be authorized any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation; or

(iv) There shall be authorized or commence a voluntary or involuntary dissolution, liquidation or winding up of the Company.

then, in one or more of said cases, the Company shall given written notice by certified or registered mail to Ancell at the address of Ancell as shown on the books of the Company on the date on which (1) the books of the Company shall close or a record shall be taken for such dividend, distribution, or subscription rights, or (2) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place or be voted upon by the shareholders of the Company, as the case may be. Such notice shall also specify the date as of which the holders of record of Shares shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange their Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be. Such written notice shall be given at least thirty (30) days prior to the action in question and no less than thirty (30) days prior to the record date or the date on which the Company's books are closed in respect thereto.

EXHIBIT 10.42

AGREEMENT FOR CONVERSION OF PREFERRED STOCK, SALE OF COMMON STOCK AND SETTLEMENT OF PREFERRED STOCK DIVIDENDS

THIS AGREEMENT is made as of September 30, 1996 by and among TIPPERARY CORPORATION, a Texas corporation ("Tipperary"), UNITED STATES EXPLORATION, INC., a Colorado corporation ("USXP"), Dale Jensen, and Jerome N. Fenna and Betty A. Fenna, JTEN (the latter two parties collectively shall be referred to hereafter as "Purchasers").

RECITALS

A. Tipperary and USXP entered into that certain Purchase Agreement, dated July 18, 1994, under which Tipperary acquired 250,000 shares of USXP's 1994 Series A Convertible Preferred Stock and 104,000 shares of USXP's 1994 Series B Convertible Preferred Stock (the foregoing Series A and Series B stock together shall hereafter be referred to as the "Preferred Stock"). The Preferred Stock is convertible into 786,667 shares of the common stock of USXP ("Common Stock").

B. USXP has failed to declare or pay dividends on the Preferred Stock.

C. Tipperary and USXP wish to resolve USXP's obligation to pay cumulative, unpaid dividends on the Preferred Stock, which will involve the conversion by Tipperary of the Preferred Stock into Common Stock and issuance by USXP of Common Stock to Tipperary as payment of the Preferred Stock dividends; and Tipperary wishes to sell, and Purchasers wish to purchase, 636,667 shares of the Common Stock which Tipperary will receive upon conversion of the Preferred Stock.

AGREEMENT

In consideration of the mutual promises and consideration as set forth herein, the parties agree as follows:

SECTION 1
CONVERSION OF PREFERRED STOCK; SALE OF COMMON STOCK; ISSUANCE OF COMMON STOCK IN EXCHANGE FOR PREFERRED DIVIDENDS

1.1 CONVERSION OF PREFERRED STOCK. Effective upon the Closing (as defined in Section 2.1), Tipperary shall exercise its option to convert all of the Preferred Stock into shares of Common Stock; and Tipperary and USXP agree that the 354,000 shares of Preferred Stock shall be converted into 786,667 shares of Common Stock (said 786,667 shares hereafter shall be referred to as the "Conversion Stock"), which thereupon will be issued by USXP.

1.2 SALE OF CONVERSION STOCK. At the Closing (as defined in Section 2.1

hereof), subject to the terms and conditions hereof, Tipperary will sell to Purchasers and Purchasers will purchase from the Tipperary 636,667 shares of the Conversion Stock, for which Purchasers will pay a price of $1.25 per share, amounting to $795,833.75, payable immediately.

1.3 SETTLEMENT OF UNPAID, CUMULATIVE DIVIDENDS. Tipperary and USXP agree that the total amount of accrued and unpaid cumulative dividends on the Preferred Stock is and will remain at $190,000 if the conditions and transactions set forth herein are fulfilled and consummated. As provided hereafter, USXP will issue Common Stock in payment of said $190,000 of accrued dividends, at a price per share of Common Stock equal to the average of the closing bid and asked prices of the Common Stock on the Nasdaq SmallCap Market on each of the first five trading days in November 1996. Thus, for instance, if

the average of such prices was $2.00, then 95,000 shares of Common Stock would be issued to Tipperary in payment of the preferred dividends ($190,000 DIVIDED BY $2.00 = 95,000 shares). The shares of Common Stock to be issued in payment of the preferred dividends (the "Dividend Shares") shall be restricted within the meaning in the Securities Act of 1933, as amended (the "1933 Act") and issued by USXP to Tipperary on or before November 15, 1996.

SECTION 2
CLOSING; DELIVERY

2.1 CLOSING DATE. The closing of the conversion of the Preferred Stock into the Conversion Stock and the purchase and sale 636,667 shares of the Conversion Stock shall be held at the offices of Overton, Babiarz & Sykes, 7720 East Belleview Avenue, Suite 200, Englewood, Colorado 80111, at 11:00 a.m., local time on September 30, 1996 (the "Closing") or at such other time and place upon which the parties shall agree (the date of the Closing is hereinafter referred to as the "Closing Date").

2.2 DELIVERY.

a. At the Closing, Tipperary will deliver its certificates for the Preferred Stock, duly endorsed conversion, and in consummation of the conversion of the Preferred Stock into the Conversion Stock, USXP will deliver three certificates for the Conversion Stock. Two of the Conversion Stock Certificates will be for the respective number of shares to be purchased by Purchasers and issued to Purchasers, totaling 636,667 shares; and the third certificate, for 150,000 shares of Common Stock, will be issued to Tipperary. The Conversion Stock shall be restricted within the meaning in the 1933 Act and be registered in the respective names of Purchasers and Tipperary.

b. At the Closing, in consideration of the conveyance and delivery by Tipperary of 636,667 shares of the Conversion Stock, Purchasers will deliver, in certified funds, their respective portions of the $795,833.75 payable to Tipperary.

SECTION 3
REPRESENTATIONS AND WARRANTIES OF USXP

Except as set forth on Exhibit 3 attached hereto, USXP represents and warrants to Tipperary and Purchasers as follows:

3.1 ORGANIZATION AND STANDING; ARTICLES AND BYLAWS. USXP is a corporation duly organized and existing under, and by virtue of, the laws of the State of Colorado and is in good standing under such laws. USXP has requisite corporate power and authority to own and operate its properties and assets, and to carry on its business as presently conducted and as proposed to be conducted. USXP is not presently qualified to do business as a foreign corporation in any jurisdiction except Kansas, and the failure to be so qualified will not have a material adverse effect on USXP business as now conducted or as now proposed to be conducted. USXP has furnished the other parties with copies of its Articles of Incorporation and Bylaws, as amended. Said copies are true and correct and complete and contain all amendments through the Closing Date.

3.2 CORPORATE POWER. USXP has or will have at the Closing Date all requisite legal and corporate power and authority to execute and deliver this Agreement, to issue the Conversion Stock upon conversion of the Preferred Stock, to issue the Dividend Stock, and to carry out and perform its obligations under the terms of this Agreement.

3.3 SUBSIDIARIES. All of the subsidiaries of USXP are as disclosed in its Form 10-KSB for the fiscal year ended March 31, 1996, and all such subsidiaries are duly organized and existing and by virtue of the laws of the state of their incorporation and are in good standing under such laws. Each such subsidiary has requisite corporate power and authority to own and operate its properties and assets, and to carry on its business as presently conducted and as proposed to be conducted. Each such subsidiary is not presently qualified to do business as a foreign corporation in any jurisdiction and the failure to be so qualified will not have a material adverse effect on the business of USXP as now conducted or as now proposed to be conducted. USXP has no other subsidiaries or affiliated companies and does not otherwise own or control, directly or indirectly, any equity interest in any corporation, association or business

entity.

3.4 CAPITALIZATION. The authorized capital stock of USXP consists of 500,000,000 shares of Common Stock, of which 6,780,504 shares are issued and outstanding; and 100,000,000 shares of Preferred Stock, of which 250,000 have been designated "1994 Series A Convertible Preferred Stock" and 104,000 have been designated "1994 Series B Convertible Preferred Stock" and are issued, outstanding and currently held by Tipperary. Also, USXP has established a 1996 Series C Convertible Preferred Stock under which a total of up to 4,000,000 shares may be issued; USXP has reserved sufficient common shares in respect of conversion of said preferred stock. USXP has reserved 786,667 shares of Common Stock for issuance upon conversion of the Preferred Stock. USXP has made reservation for all shares which may be issued under options it has outstanding, and USXP has disclosed in all material respects the amounts and terms of options it has outstanding in the aforementioned Form 10-KSB; since the date of the Form 10-KSB there have been no grants of options or exercises of options that are material. All outstanding securities of USXP have been duly and validly issued and are fully paid and nonassessable and were issued in compliance with applicable federal and state securities laws. The Preferred Stock has the rights, preferences, privileges and restrictions set forth in the statement establishing the two series of the Preferred Stock. Except as set forth above, there are no options, warrants or other rights to purchase any of USXP's authorized and unissued capital stock. USXP has no treasury shares.

3.5 AUTHORIZATION. All corporate action on the part of USXP, its directors and shareholders necessary for the authorization, execution, delivery and performance of this Agreement by USXP, the issuance of the Conversion Stock at Closing upon conversion of the Preferred Stock, the issuance of the Dividend Stock, and the performance of all of USXP's obligations hereunder has been taken or will be taken prior to the Closing. This Agreement, when executed and delivered by USXP, shall constitute a valid and binding obligation of USXP, enforceable in accordance with its terms. The Conversion Stock and Dividend Stock have been duly and validly reserved and, when issued in compliance with the provisions of this Agreement and the Articles of Incorporation of USXP, will be validly issued, fully paid and nonassessable; and the Preferred Stock is and Conversion Stock and Dividend Stock will be free of any liens or encumbrances, other than any liens or encumbrances created by or imposed upon the holders thereof through no action of USXP; provided, however, that the Preferred Stock is and the Conversion Stock and Dividend Stock will be subject to restrictions on transfer under state and federal securities laws as set forth herein. The Preferred Stock is not, and the Conversion Stock and Dividend Stock when issued will not be, subject to any preemptive rights or rights of first refusal.

3.6 FINANCIAL STATEMENTS. USXP has delivered to the other parties copies of its Form 10-KSB, including any amendments, for the year ended March 31, 1996, and its Form 10-QSB, including any amendments, for the quarter ended June 30, 1996, including the audited financial statements of USXP as of March 31, 1996 and March 31, 1995 and for the two years then ended and interim financial statements for the quarter ended June 30, 1996 (the "Financial Statements"). The Financial Statements are complete and correct in all material respects and have been prepared in accordance with generally accepted accounting principles

applied on a consistent basis throughout the periods indicated. The Financial Statements accurately set out and describe the financial condition and operating results of USXP as of the dates, and during the periods, indicated therein. Since June 30, 1996, there has not been any change in

the assets, liabilities, financial condition or operations of USXP from that reflected in the Financial Statements, except changes in the ordinary course of business which have not been, either in any case or in the aggregate, materially adverse.

3.7 ABSENCE OF CHANGES. Since June 30, 1996 and other than as disclosed in writing to Tipperary and Purchaser: (a) USXP has not entered into any transaction which was not in the ordinary course of business, (b) there has been no material adverse change in the condition (financial or otherwise), business, property, assets or liabilities of USXP other than changes in the ordinary course of business, none of which, individually or in the aggregate, has been materially adverse, (c) there has been no damage to, destruction of or loss of physical property (whether or not covered by insurance) materially adversely affecting the business or operations of USXP, (d) USXP has not declared or paid any dividend or made any distribution of its stock, or redeemed, purchased or otherwise acquired any of its stock, (e) USXP has not increased the compensation of any of its officers, or the rate of pay of its employees as a group, except as part of regular compensation increases in the ordinary course of business, (f) there has been no resignation or termination of employment of any key officer or employee of USXP, with the exception of the resignation of Terry L. Carroll, the former President of USXP, which has been fully disclosed to the other parties, and USXP does not know of the impending resignation or termination of employment of any such officer or employee that if consummated would have a material adverse effect on its business, (g) there has been no labor dispute involving USXP or its employees and none is pending or, to the best of USXP's knowledge, threatened, (h) there has not been any change, except in the ordinary course of business, in the contingent obligations of USXP, by way of guaranty, endorsement, indemnity, warranty or otherwise, (i) there have not been any loans made by USXP to any of its employees, officers or directors other than travel advances and office advances made in the ordinary course of business, and (i) to the best knowledge of USXP, there has been no other event or condition of any character pertaining to and materially adversely affecting the assets or business of USXP.

3.8 MATERIAL LIABILITIES. USXP has no material liabilities or obligations, absolute or contingent (individually or in the aggregate), except (i) the liabilities and obligations set forth in the Financial Statements, (ii) liabilities and obligations which have been incurred subsequent to June 30, 1996 in the ordinary course of business which have not been in the aggregate, materially adverse, (iii) liabilities and obligations under leases for its

principal offices and for equipment, and (iv) liabilities and obligations under sales, procurement and other contracts and arrangements entered into in the normal course of business.

3.9 TITLE TO PROPERTIES AND ASSETS; LIENS, ETC. USXP has good and marketable title to its properties and assets, and has good title to all its leasehold interests, in each case subject to no mortgage, pledge, lien, lease, encumbrance or charge, other than (i) the lien of current taxes not yet due and payable, (ii) possible minor liens and encumbrances which do not in any case materially detract from the value of the property subject thereto or materially impair the operations of USXP, and which have not arisen otherwise than in the ordinary course of business, and (iii) the liens to its commercial bank as disclosed in its Securities and Exchange Commission ("SEC") filings.

3.10 COMPLIANCE WITH OTHER INSTRUMENTS, NONE BURDENSOME, ETC. USXP is not in violation of any term of its Articles of Incorporation or Bylaws, or, in any material respect, of any term or provision of any material mortgage, indebtedness, indenture, contract, agreement, instrument, judgment or decree, and is not in violation of any order, statute, rule or regulation applicable to USXP where such violation would materially and adversely affect USXP. The execution, delivery and performance of and compliance with this Agreement, and the conversion of the Preferred Stock and issuance of the Conversion Stock and Dividend Stock, will not result in any violation of, or conflict with, or constitute a material default under, USXP's Articles of Incorporation or Bylaws or any of its agreements or result in the creation of, any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of USXP; and there

is no such violation or default which materially and adversely affects the business of USXP or any of its properties or assets.

3.11 CONDUCT OF BUSINESS. The business and operations conducted by USXP are being conducted in compliance in all material respects with all applicable laws, rules and regulations of all public and private authorities, foreign or domestic, having jurisdiction over USXP. USXP owns or licenses all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses, inventions, trade secrets and other similar rights necessary for the conduct of its business as currently conducted.

3.12 LITIGATION, ETC. There are no actions, suits, proceedings or investigations pending against USXP or its properties before any court or governmental agency.

3.13 EMPLOYEES. To the best of USXP's knowledge, no employee of USXP is in

violation of any term of any employment contract, or any other contract or agreement relating to the relationship of such employee with USXP or any other party because of the nature of the business conducted or to be conducted by USXP.

3.14 CERTAIN TRANSACTIONS. Other than as set forth in filings with the Securities and Exchange Commission ("SEC"), USXP is not indebted, directly or indirectly, to any of its officers, directors or shareholders or to their respective spouses or children, in any material amount whatsoever; none of said officers, directors or, to the best of USXP's knowledge, shareholders, or any members of their immediate families, are indebted to USXP or have any direct or indirect ownership interest in any firm or corporation with which USXP is affiliated or with which USXP has a business relationship, or any firm or corporation which competes with USXP except that officers, directors and/or shareholders of USXP may own less than 1% of the stock of publicly traded companies which may compete with USXP. No officer, director or shareholder, or any member of their immediate families, is, directly or indirectly, interested in any material contract with USXP. USXP is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

3.15 MATERIAL CONTRACTS AND OBLIGATIONS. Attached hereto as Exhibit 3.15 is a list of all agreements, contracts, indebtedness, liabilities and other obligations to which USXP is a party or by which it is bound that are material to the conduct and operations of its business and properties and which are not disclosed in USXP's SEC filings; or which involve transactions or proposed transactions between USXP and its officers, directors, affiliates or any affiliate thereof and are not disclosed in USXP's filings. Copies of such agreements and contracts and documentation evidencing such liabilities and other obligations have been made available for inspection by Purchasers. All of such agreements and contracts are valid, binding and in full force and effect in all material respects, assuming due execution by the other parties to such agreements and contracts.

3.16 REGISTRATION RIGHTS. Except as set forth in this Agreement and those rights existing as of the date hereof to T.L. Carroll Enterprises and Producers Services Incorporated, USXP is not under any contractual obligation to register (as defined in Section 8.1 below) any of its presently outstanding securities or any of its securities which may hereafter be issued.

3.17 GOVERNMENTAL CONSENT, ETC. No consent, approval or authorization of (or designation, declaration of filing with) any governmental authority on the part of USXP is required in connection with the valid execution and delivery of this Agreement, the conversion of the Preferred Stock, or the offer, sale or issuance of the Conversion Stock and Dividend Stock, or the consummation of any other transaction contemplated hereby, except for such filings at the offices of the Colorado Secretary of State which may be required in conjunction with the retirement of the Preferred Stock.

3.18 OFFERING. Based upon representations and warranties of Tipperary and Purchasers, the conversion of the Preferred Stock, the offer, sale and issuance of the Conversion Stock upon conversion of the Preferred and sale to the Purchasers, and the issuance of the Dividend Stock, constitute transactions exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended (the "Securities Act") and exempt from the Colorado Securities Act, as amended 11-51-101, C.R.S., ET SEQ.

3.19 BROKERS OR FINDERS; OTHER OFFERS. USXP has not incurred, and will not incur, directly or indirectly, as a result of any action taken by USXP, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement, except as provided in Section 8.

3.20 SECURITIES AND EXCHANGE COMMISSION ("SEC") REPORTING. USXP has filed all reports or other documents required to be filed with the SEC and all such documents do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading.

3.21 TAXES. USXP has filed all federal, state, local and foreign income, withholding and franchise tax returns which have been required to be filed and have paid all taxes indicated by said returns and all assessments received by them to the extent that such taxes have become due and payable except for a claim or assessment which USXP has reasonable grounds to dispute and which in the aggregate would not have a material adverse effect on the business, business prospects, financial condition, results of operations or properties of USXP, taken as a whole.

3.22 INTERNAL CONTROLS. USXP maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

3.23 DISCLOSURE. This Agreement with the Exhibits hereto when taken as a whole, do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. All transactions during USXP's current fiscal year and last three full fiscal years between USXP and any person who is or was during such time period an

officer, director or 5% stockholder of USXP have been accurately disclosed in all material respects under the circumstances under which they were made in applicable reports to the SEC to the extent required and the terms of each such transaction are and were in all material respects fair to USXP.

SECTION 4
REPRESENTATIONS AND WARRANTIES OF TIPPERARY AND PURCHASERS

Each of Tipperary and Purchasers hereby represents and warrants as follows with respect to its respective receipt upon issuance or purchase of a portion of the Conversion Stock or Dividend Stock:

4.1 EXPERIENCE. It has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to USXP so that it is capable of evaluating the merits and risks of its investment in USXP and has the capacity to protect its own interests.

4.2 INVESTMENT. It is acquiring the Conversion Stock or Dividend Stock for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. It understands that the Conversion Stock and Dividend Stock have not been, and, except as provided in Section 8 below, will not be, registered under the Securities Act, and is sold to Tipperary and Purchasers by reason of specific exemptions from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of Tipperary and Purchasers' representations.

4.3 RULE 144. It acknowledges that the Conversion Stock and Dividend Stock must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from such registration is available. It is aware of the provisions of Rule 144 promulgated under the Securities Act which permit limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares, the availability of certain current public information about USXP, the resale occurring not less than two years after a party has purchased and paid for the security to be sold, the sale being effected through a "broker's transaction" or in transactions directly with a "market maker" and the number of shares being sold during any three-month period not exceeding specified limitations.

4.4 ACCESS TO DATA. It has had an opportunity to discuss USXP's business with USXP's management. It has also had an opportunity to ask questions of

officers of USXP.

4.5 AUTHORIZATION. This Agreement when executed and delivered respectively by Tipperary and Purchasers will constitute a valid and legally binding obligation respectively of Tipperary and Purchasers, enforceable in accordance with its terms.

4.6 BROKERS OR FINDERS. Except as provided in Section 8 below, USXP has not, and will not, incur, directly or indirectly, as a result of any action taken by Tipperary or Purchasers, any liability for brokerage or finders' fees or agents' commissions in connection with this Agreement.

SECTION 5
TIPPERARY'S AND PURCHASERS' CONDITIONS TO CLOSING

Tipperary's obligations to convert the Preferred Stock into the Conversion Stock and sell 636,667 shares of the Conversion Stock to Purchasers, Purchasers' obligations to purchase the 636,667 shares of the Conversion Stock at the Closing, and Tipperary's purchase and acceptance of the Dividend Stock in payment of the accrued and unpaid cumulative dividends on the Preferred Stock are subject to the fulfillment of the following conditions:

5.1 REPRESENTATIONS AND WARRANTIES CORRECT. The representations and warranties made by USXP in Section 3 hereof shall be true and correct when made, and shall be true and correct on the Closing Date.

5.2 COVENANTS. All covenants, agreements and conditions contained in this Agreement to be performed by USXP on or prior to the Closing Date shall have been performed or complied with in all material respects. The occurrence of a closing shall constitute an acknowledgment by the Tipperary and Purchasers that they are satisfied that, based upon the representations and warranties of USXP herein, USXP has ratified all conditions, covenants and agreements required prior to the Closing.

5.3 COMPLIANCE WITH STATE SECURITIES LAWS. USXP shall have obtained all permits and qualifications required by any state for the conversion of the Preferred Stock and for the offer, sale and

issuance of the Conversion Stock and Dividend Stock to Tipperary and Purchasers, or shall have the availability of exemptions therefrom.

5.4 LEGAL MATTERS. All material matters of a legal nature which pertain to this Agreement and the transactions contemplated hereby shall have been reasonably approved by the respective counsel to Tipperary and Purchasers.

5.5 OPINION OF USXP'S COUNSEL. Tipperary and Purchasers shall have

received from Overton, Babiarz & Sykes, counsel to USXP, an opinion dated the Closing Date, in form and substance satisfactory to Tipperary and Purchasers, to the effect that:

(a) USXP is a corporation duly organized, validly existing and in good standing under the laws of the State of Colorado, and USXP has the requisite corporate power and authority to own its properties and to conduct its business.

(b) USXP is not presently required to be qualified to do business as a foreign corporation in any state or jurisdiction of the United States, other than Texas.

(c) USXP has the requisite corporate power and authority to execute, deliver and perform this Agreement. The Agreement has been duly and validly authorized by USXP, duly executed and delivered by an authorized officer of USXP and constitutes a legal, valid and binding obligation of USXP. Subject to bankruptcy and other laws of general application affecting the rights and remedies of creditors, the Agreement is enforceable according to its terms, except insofar as the enforceability of the indemnification provisions of Section 8.11 of the Agreement may be limited by applicable laws and except that no opinion need be given as to the availability of equitable remedies.

(d) The capitalization of USXP is as follows:

(i) Preferred Stock. 100,000,000 shares of Preferred Stock, of which 250,000 shares have been designated "1994 Series A Convertible Preferred Stock" and 104,000 shares have been designated "1994 Series B Convertible Preferred Stock" and are issued, outstanding and held by Tipperary. The Preferred Stock has been duly authorized, issued and delivered, and is validly outstanding, fully paid and nonassessable. The respective rights, privileges and preferences of the Preferred Stock are as stated in the statement establishing the two series of the Preferred Stock. The Conversion Stock and Dividend Stock have been duly and validly reserved for issuance and the Conversion Stock, when issued in accordance with the statement establishing the Preferred Stock, and the Dividend Stock, when issued, will be validly issued, fully paid and nonassessable.

(ii) Common Stock. 500,000,000 shares of Common Stock, of which 6,780,504 shares have been duly authorized, issued and delivered and are validly outstanding, fully paid and nonassessable and were issued in compliance with all applicable federal and state securities laws.

(iii) Except for (A) the conversion privileges of the Preferred Stock and (B) 2,900,00 shares of Common Stock reserved for issuance to prospective employees upon exercise of outstanding employee stock options, there are no preemptive rights or, to the best of such counsel's knowledge, options, warrants, conversion privileges or other rights (or agreements for any such rights) outstanding to purchase or otherwise obtain any of USXP's securities.

(e) The certificates representing the Preferred Stock and shares of

Common Stock are in due and proper form and have been duly and validly executed by the officers of USXP named thereon.

(f) The execution, delivery, performance and compliance with the terms of this Agreement do not violate any provision of any applicable federal, state or local law, rule or regulation or of any judgment, writ, decree or other binding upon USXP or any provision of USXP's amended Articles of Incorporation or Bylaws and, to the best of such counsel's knowledge, do not conflict with or constitute a default under the provision of any agreement to which USXP is a party or by which it is bound.

(g) All consents, approvals, orders or authorizations of, and all qualifications, registrations, designations, declarations or filings with, any federal or statement governmental authority on the part of USXP required in connection with the consummation of the transactions contemplated by this Agreement have been obtained and are effective as of the Closing, and such counsel is not aware of any proceedings, or threat thereof, which question the validity thereof.

(h) The conversion of the Preferred Stock and the offer, sale and issuance of the Conversion Stock and Dividend Stock pursuant to the terms of this Agreement are exempt from the registration requirements of Section 5 of the Securities Act by virtue of Section 4(2) thereof and/or other applicable exemptions and from the qualification requirements of the securities laws of the state of Colorado, and/or all requisite permits, qualifications and orders have been obtained.

(i) Except as set forth on the schedule of exceptions attached to the Agreement as Exhibit 5.6, such counsel is not aware that there is any action, proceeding or investigation pending, against USXP or any of its officers, directors or employees, or that any of the foregoing has received any threat thereof, which questions the validity of the Agreement or which might result, either individually or in the aggregate, in any material adverse change in the assets, condition, affairs or prospects of USXP, nor is such counsel aware of any litigation pending against USXP or any of its officers, directors or employees, or that any of the foregoing has received any threat thereof, by reason of the proposed activities of USXP, the past employment relationships of its officers, directors or employees, or negotiations by USXP or any of its officers or directors with possible investors in USXP or its business.

(j) USXP is not in violation of any provisions of its Articles of Incorporation or Bylaws, and neither of such documents is in violation of any provision of Colorado law.

SECTION 6
USXP'S CONDITIONS TO CLOSING

USXP's obligations at the Closing Date are subject to the fulfillment as of the Closing Date of the following conditions, provided, however, that nothing in this Section 6 shall affect or diminish Tipperary's rights under Section 1.4:

6.1 REPRESENTATIONS. The representations made by Tipperary and Purchasers in Section 4 hereof shall be true and correct when made, and shall be true and correct on the Closing Date.

6.2 LEGAL MATTERS. All material matters of a legal nature which pertain to this Agreement, and the transactions contemplated hereby, shall have been reasonably approved by counsel to USXP.

SECTION 7
AFFIRMATIVE COVENANTS OF USXP

USXP hereby covenants and agrees as follows:

7.1 TAXES AND OTHER LIABILITIES. USXP will pay and discharge, before the same become delinquent and before penalties accrue thereon, all taxes, assessments and governmental charges upon

or against it or any of its properties which may be material to the operations of USXP, and all its other material liabilities at any time existing, except to the extent and so long as (a) the same are being contested in good faith and by appropriate proceedings in such manner as not to cause any materially adverse effect upon the financial condition of USXP or the loss of any right of redemption from any sale thereunder and (b) USXP shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) deemed by it adequate with respect thereto.

7.2 NOTICE OF LITIGATION AND DISPUTES. USXP will promptly notify the other parties of any suits or litigation instituted against it, or disputes that have a high probability of resulting in a suit of significance against it.

7.3 RULE 144 REPORTING. With a view to making available to Tipperary and Purchasers the benefits of certain rules and regulations of the SEC which may permit the sale of the Conversion Stock and Dividend Stock to the public without registration, USXP agrees to use its best efforts to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times;

(b) Use its best efforts to file with the SEC in a timely manner all reports and other documents required of USXP under the Securities Act and the Exchange Act of 1934 (the "Exchange Act"); and

(c) So long as the Tipperary or Purchasers own any Restricted Securities (as defined in Section 8.1 hereof), furnish to Tipperary and Purchasers forthwith upon request a written statement by USXP as to its compliance with the reporting requirements of Rule 144, and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of USXP filed with the SEC, and such other reports and documents of USXP and other information in the possession of or reasonably obtainable by USXP as Tipperary and Purchasers may reasonably request in availing themselves of any rule or regulation of the SEC allowing Tipperary and Purchasers to sell any such securities without registration. Additionally, at the request of Tipperary or Purchasers, USXP also agrees to furnish Tipperary or the requesting Purchaser, as the case may be, with quarterly financial statements of USXP.

SECTION 8
RESTRICTIONS ON TRANSFERABILITY OF SECURITIES; COMPLIANCE WITH SECURITIES ACT; REGISTRATION RIGHTS

8.1 CERTAIN DEFINITIONS. As used in this Agreement, the following terms shall have the following respective meanings:

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"Conversion Stock" means the Common Stock issued or issuable pursuant to conversion of the Preferred Stock.

"Dividend Stock" means the Common Stock issued or issuable pursuant to this Agreement in payment to Tipperary for the accrued and unpaid cumulative dividends on the Preferred Stock.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Holder" shall mean Tipperary holding Registrable Securities and any person holding Registrable Securities to whom the rights under this Section 8 have been transferred in accordance with Section 8.12 hereof.

"Initiating Holders" shall mean Tipperary or transferees of Tipperary under Section 8.12 hereof who in the aggregate are Holders of greater than 5% of the Registrable Securities.

"Registrable Securities" means (i) the 150,000 shares of the Conversion Stock retained by Tipperary following the Closing and the Dividend Stock to be received by Tipperary hereunder in payment of accrued and unpaid cumulative dividends on the Preferred Stock; and (ii) any Common Stock of USXP issued or issuable in respect of the Common Stock set forth in the preceding clause (i) upon any stock split, stock dividend, recapitalization, or similar event, or any Common Stock otherwise issued or issuable with respect to the Common Stock set forth in the preceding clause (i); provided, however, that shares of Common Stock or other securities shall only be treated as Registrable Securities if and so long as they have not been (A) sold to or through a broker or dealer or underwriter in a public distribution or a public securities transaction, or (B) sold or are available for sale in the opinion of counsel to USXP in a single transaction exempt from the registration and prospectus delivery requirements of the Securities Act so that all transfer restrictions and restrictive legends with respect thereto are or may be removed upon the consummation of such sale.

The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing with the Commission a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Registration Expenses" shall mean all expenses, except Selling Expenses as defined below, incurred by USXP in complying with Sections 8.4, 8.5 and 8.6 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for USXP, blue sky fees and expenses, the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of USXP which shall be paid in any event by USXP) and the reasonable fees and disbursements of one counsel for all Holders in the event of exercise of requested registrations provided for in Sections 8.5, 8.6 and 8.7 hereof.

"Restricted Securities" shall mean the securities of USXP required to bear the legend set forth in Section 8.2 hereof.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Selling Expenses" shall mean all underwriting discounts, selling commissions and stock transfer taxes applicable to the securities registered by the Holders and, except as set forth in the definition of Registration Expenses, all reasonable fees and disbursements of counsel for any Holder.

8.2 RESTRICTIONS ON TRANSFERABILITY. The Conversion Stock and Dividend Stock shall not be sold, assigned, transferred or pledged except upon

satisfaction of the conditions specified in this Section 8, which conditions are intended to ensure compliance with the provisions of the Securities Act. Tipperary and each of Purchasers will cause any proposed purchaser, assignee, transferee, or pledgee of the Conversion Stock or Dividend Stock respectively held by Tipperary or either of Purchasers to agree to take and hold such securities subject to the provisions and conditions of this Section 8.

8.3 RESTRICTIVE LEGEND. Each certificate representing the Conversion Stock or Dividend Stock and (iii) any other securities issued in respect of the Conversion Stock or Dividend Stock upon any stock

split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of Section 8.3 below) be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws):

> THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.
>
> THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED IN A TRANSACTION OUTSIDE OF THE UNITED STATES UNDER REGULATION S.

Tipperary, Purchasers and each Holder consents to USXP making a notation on its records and giving instructions to any transfer agent of the Conversion Stock or Dividend Stock in order to implement the restrictions on transfer established in this Section 8.

8.4 REQUESTED REGISTRATION.

(a) REQUEST FOR REGISTRATION. In case USXP shall receive from Initiating Holders a written request that USXP effect a registration under the Securities Act with respect to not less than 50,000 shares (as adjusted for recapitalization) of Registrable Securities, USXP will:

(i) promptly give written notice of the proposed registration, qualification or compliance to all other Holders; and

(ii) as soon as practicable, use its best efforts to effect such registration (including, without limitation, appropriate qualification under applicable blue sky or other state securities laws and appropriate

compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by USXP within 20 days after receipt of such written notice from USXP;

Provided, however, that USXP shall not be obligated to take any action to effect any such registration, qualification or compliance pursuant to this Section 8.4 prior to March 1, 1997; and provided further that any sale of Registrable Securities pursuant to such registration shall not be permitted before June 2, 1997.

Subject to the foregoing clause, USXP shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable after receipt of the request or requests of the Initiating Holders.

(b) UNDERWRITING. In the event that a registration pursuant to this Section 8.4 is for a registered public offering involving an underwriting, USXP shall so advise the Holders as part of the notice given pursuant to Section 8.4(a)(i). In such event, the right of any Holder to registration pursuant to this Section 8.4 shall be conditioned upon such Holder's participation in the underwriting arrangements required by this Section 8.4, and the inclusion of such Holder's Registrable Securities in the underwriting to the extent requested shall be limited as provided herein.

USXP shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter(s) selected for such underwriting by a majority in interest of the initiating Holders, but subject to USXP's reasonable approval. Notwithstanding any other provision of this Section 8.4, if the managing underwriter(s) advise(s) the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then USXP shall so advise all Holders participating and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders thereof in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Holders at the time of filing the registration statement. No Registrable Securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration. To facilitate the allocation of shares in accordance with the above provisions,

USXP or the underwriters may round the number of shares allocated to any Holder to the nearest 100 shares.

If any Holder disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to USXP, the managing underwriter and the Initiating Holders. The Registrable Securities so withdrawn shall also be withdrawn from registration, and such Registrable Securities shall not be transferred in a public distribution prior to 90 days after the effective date of such registration, or such other shorter period of time as the underwriters may require.

8.5 COMPANY REGISTRATION.

(a) NOTICE OF REGISTRATION. If at any time or from time to time USXP shall determine to register any of its securities, either for its own account or the account of a security holder or holders, other than (i) a registration relating solely to employee benefit plans or (ii) a registration relating solely to a Commission Rule 145 transaction, USXP will:

(i) promptly give to each Holder written notice thereof; and

(ii) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within 20 days after receipt of such written notice from USXP, by any Holder.

(b) UNDERWRITING. If the registration of which USXP gives notice is for a registered public offering involving an underwriting, USXP shall so advise the Holders as a part of the written notice given pursuant to Section 8.5(a)(i). In such event the right of any Holder to registration pursuant to Section 8.5 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with USXP and any other shareholders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by USXP. Notwithstanding any other provision of this Section 8.5, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the Registrable Securities to be included in such registration. USXP shall so advise all Holders and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Holders at the time of filing the registration statement, it being understood that USXP is under no obligation to reduce the number of shares that may be underwritten for USXP. To facilitate the allocation of shares in accordance with the above provisions, USXP may round the number of shares allocated to any Holder or other shareholder to the nearest 100 shares. If any Holder or other shareholder disapproves

of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to USXP and the managing underwriter. Any securities excluded or withdrawn from such underwriting shall be withdrawn from such registration, and shall not be transferred in a public distribution prior to 90 days after the effective date of the registration statement relating thereto, or such other shorter period of time as the underwriters may require. USXP may include shares of Common Stock held by shareholders other than Holders in a registration statement pursuant to Sections 8.4 or 8.5 if, and to the extent that, the amount of Registrable Securities otherwise included in such registration statement would not thereby be diminished.

(c) RIGHT TO TERMINATE REGISTRATION. USXP shall have the right to terminate or withdraw any registration initiated by it under this Section 8.5 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration.

8.6 REGISTRATION ON FORM S-3.

(a) If any Holder or Holders holding in the aggregate not less than 5% of the then outstanding Registrable Securities request that USXP file a registration statement on Form S-3 (or any successor form to Form S-3) for a public offering of the Registrable Securities the reasonably anticipated aggregate price to the public of which, net of underwriting discounts and commissions, would exceed $100,000, USXP shall use its best efforts to cause such Registrable Securities to be registered for the offering on such form and to cause such Registrable Securities to be qualified in such jurisdictions as the Holder or Holders may reasonably request; provided, however, that USXP shall not be required to effect more than one registration pursuant to this Section 8.6 in any six month period or in excess of five registrations under this Section 8.6. The substantive provisions of Section 8.4(b) shall be applicable to each registration initiated under this Section 8.6, provided, however, that USXP shall not be obligated to take any action to effect such registration before March 1, 1997; and provided further that any sale of Registrable Securities pursuant to such registration shall not be permitted before June 2, 1997.

8.7 LIMITATIONS ON SUBSEQUENT REGISTRATION RIGHTS. From and after the Closing Date, USXP shall not enter into any agreement granting any holder or prospective holder of any securities of USXP registration rights with respect to such securities unless (i) such new registration rights, including standoff obligations, are on a pari passu basis with those rights of the Holders hereunder; or (ii) such new registration rights, including standoff obligations,

are subordinate to the registration rights granted Holders hereunder.

8.8 EXPENSES OF REGISTRATION.

(a) All Registration Expenses incurred pursuant to Sections 8.4, 8.5 and 8.6 will be borne by USXP. All Selling Expenses relating to securities registered on behalf of the Holders shall be borne by the USXP, except that if the average gross sales price per share with respect to a particular offering with respect to shares sold by Holders is $7.00 or more, then the Selling Expenses of such securities shall be born pro rata on the basis of the number of shares so registered by each Holder.

8.9 REGISTRATION PROCEDURES. In the case of each registration, qualification or compliance effected by USXP pursuant to this Section 8, USXP will keep each Holder advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. USXP will:

(a) Prepare and file with the Commission a registration statement with respect to such securities and use its best efforts to cause such registration statement to become and remain effective for at least six months (except 18 months for a Registration Statement on Form S-3), and prepare and file with

the Commission such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective for the periods as specified above;

(b) Enter into a written underwriting agreement in customary form and substance reasonably satisfactory to USXP, the Holders and the managing underwriter or underwriters of the public offering of such securities, if the offering is to be underwritten in whole or in part;

(c) Furnish to the Holders participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such underwriters may reasonably request in order to facilitate the public offering of such securities;

(d) Use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as such participating Holders may reasonably request within 10 days prior to the original filing of such registration statement;

(e) Notify the Holders (or if they have appointed an attorney-in-fact, such attorney-in-fact) participating in such registration, promptly after it shall receive notice thereof, of the time when such registration statement has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(f) Notify such Holders or their attorney-in-fact promptly of any request by the Commission for the amending or supplementing of such registration statement or prospectus or for additional information;

(g) Prepare and file with the Commission promptly upon the request of any such Holders, any amendments or supplements to such registration statement or prospectus which, in the reasonable opinion of counsel for such Holders, is required under the Securities Act or the rules and regulations thereunder in connection with the distribution of the Registrable Securities by such Holders within the time frame in Subsection (a) above;

(h) Prepare and promptly file with the Commission, and promptly notify such Holders or their attorney-in-fact of the filing of, such amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event has occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances in which they were made;

(i) In case any of such Holders or any underwriter for any such Holders is required to deliver a prospectus at a time when the prospectus then in effect may no longer be used under the Securities Act, prepare promptly upon request such amendment or amendments to such registration statement and such prospectuses as may be necessary to permit compliance with the requirements of the Securities Act;

(j) Advise such Holders or their attorney-in-fact, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued; and

(k) At the request of any such Holder, furnish on the effective date of the registration statement and, if such registration includes an underwritten public offering, at the closing provided for in the underwriting agreement, (i)

an opinion, dated each such date, of the counsel representing USXP for the purposes of such registration, addressed to the underwriters, if any, and to the Holder or Holders making such request, covering such matters with respect to the registration statement, the prospectus and each amendment or supplement thereto, proceedings under state and federal securities laws, other matters relating to USXP, the securities being registered and the offer and sale of such securities as are customarily the subject of opinions of issuer's counsel provided to underwriters in underwritten public offerings, and (ii) to the extent USXP's accounting firm is willing to do so, a letter dated each such date, from the independent certified public accountants of USXP, addressed to the underwriters, if any, and to the Holder or Holders making such request, stating that they are independent certified public accountants within the meaning of the Securities Act and that in the opinion of such accountants the financial statements and other financial data of USXP included in the registration statement or the prospectus or any amendment or supplement thereto comply in all material respects with the applicable accounting requirements of the Securities Act, and additional covering such other financial matters, including information as to the period ending not more than five business days prior to the date of such letter with respect to the registration statement and prospectus, as the underwriters or such requesting Holder or Holders may reasonably request.

8.10 INFORMATION BY HOLDER. The Holder or Holders of Registrable Securities included in any registration shall furnish USXP such information regarding such Holder or Holders, the Registrable Securities held by them and the distribution proposed by such Holder or Holders as USXP may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Section 8.

8.11 INDEMNIFICATION.

(a) USXP will indemnify each Holder, each of its officers, directors, partners, employees, agents and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Section 8, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages or liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by USXP of the Securities Act or any rule or regulation promulgated under the Securities Act applicable to USXP in connection with any such registration, qualification or compliance, and USXP will reimburse each such Holder, each of its officers, directors, partners, employees, agents and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or

defending any such claim, loss, damage, liability or action, provided that USXP will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to USXP by an instrument duly executed by such Holder, controlling person or underwriter and stated to be specifically for use therein.

(b) Each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify USXP,

each of its directors and officers, each underwriter, if any, of USXP's securities covered by such a registration statement, each person who controls USXP or such underwriter within the meaning of Section 15 of the Securities Act, and each other such Holder, each of its officers, directors, partners, employees, agents and each person controlling such Holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse USXP, such Holders, such directors, officers, persons, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to USXP by an instrument duly executed by such Holder and stated to be specifically for use therein. Notwithstanding the foregoing, the liability of each Holder under this subsection (b) shall be limited to an amount equal to the initial public offering price of the shares sold by such Holder.

(c) Each party entitled to indemnification under this Section 8.11 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party

to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 8 unless the failure to give such notice is materially prejudicial to an Indemnifying Party's ability to defend such action and provided further, that the Indemnifying Party shall not assume the defense for matters as to which there is a conflict of interest or separate and different defenses. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

8.12 TRANSFER OF REGISTRATION RIGHTS. The rights to cause USXP to register securities granted to Tipperary under Sections 8.4, 8.5 and 8.6 may be assigned to a transferee or assignee reasonably acceptable to USXP in connection with any transfer or assignment of Registrable Securities by Tipperary provided that: (i) such transfer may otherwise be effected in accordance with applicable securities laws, and (ii) such assignee or transferee acquires at least 5% of the Registrable Securities (appropriately adjusted for Recapitalizations).

SECTION 9
MISCELLANEOUS

9.1 GOVERNING LAW. This Agreement shall be governed in all respects by the internal laws of the State of Colorado.

9.2 SURVIVAL. The representations, warranties, covenants and agreements made herein shall survive any investigation made by the Tipperary or Purchasers and the closing of the transactions contemplated hereby.

9.3 SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

9.4 ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other documents delivered pursuant hereto at the Closing constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and no party shall be liable or bound to any other party in any manner by any warranties, representations or covenants except as specifically set forth herein or therein. Except as expressly provided herein, neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the party against whom

enforcement of any such amendment, waiver, discharge or termination is sought.

9.5 NOTICES, ETC.. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed:

(a) if to the Tipperary,

Attn: David L. Bradshaw, President and CEO
633 Seventeenth Street, Suite 1550
Denver, Colorado 80202,

with a copy to

Reid A. Godbolt, Esq.
Jones & Keller, P.C.
1625 Broadway, Suite 1600
Denver, Colorado 80202

(b) if to USXP,

Attn: Demetrie D. Carone, Chairman/President/CEO
United States Exploration, Inc.
1901 New Street
Independence, Kansas 67301

with a copy to

David J. Babiarz, Esq.
Overton, Babiarz & Sykes
7720 East Belleview Avenue, Suite 200
Englewood, Colorado 80111

(c) if to Dale Jensen:

(d) if to Jerome N. Fenna and Betty A. Fenna:

or to such address as a party may have designated in writing to the other parties.

Each such notice or other communication shall for all purposes of this Agreement be treated as effective or having been given when delivered if delivered personally, or, if sent by mail, at the earlier of its receipt or 72 hours after the same has been deposited in a regularly maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid.

9.6 DELAYS OR OMISSIONS. Except as expressly provided herein, no delay or omission to exercise any right, power or remedy accruing to any holder of the Preferred Stock, the Conversion Stock, the Dividend Stock or Registrable Securities, upon breach or default by USXP, shall impair any such right, power or remedy of such holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Except as provided in Section 9.4 hereof, any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any holder, shall be cumulative and not alternative.

9.7 EXPENSES. USXP, Tipperary and Purchasers shall bear their own expenses incurred on their behalf with respect to this Agreement and the transactions contemplated hereby, except as provided with respect to registration rights in Section 8..

9.8 COUNTERPARTS. This Agreement may be executed in any number of counterparts, and all of which together shall constitute one instrument.

9.9 SEVERABILITY. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision; provided that no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party.

9.10 TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not considered in construing or interpreting this Agreement.

The foregoing Agreement is hereby executed as of the date first above written.

UNITED STATES EXPLORATION, INC.	TIPPERARY CORPORATION
By: /s/ Demetrie D. Carone	By: /s/ David L. Bradshaw
Demetrie D. Carone Chairman/President/CEO	David L. Bradshaw President and Chief Executive Officer

[PURCHASER] [PURCHASER]

By:_____ By:_____

EXHIBIT INDEX

3 Exceptions to Section 3

3.15 List of Material Contracts of USXP not disclosed in SEC Filings

EXHIBIT 10.43

AGREEMENT FOR SALE OF MEMBERSHIP INTEREST IN D-GAS, L.L.C.

THIS AGREEMENT is made this 14th day of November 1995 between Hamilton Refining Co., a Texas corporation ("HRC"), as seller herein, and Tipperary Corporation, a Texas corporation ("Tipperary"), as buyer herein.

RECITALS

The parties hereto desire that, subject to the preferential rights of purchase set forth in Section 17 E(4) of the D-GAS Operating Agreement (the "Operating Agreement"), attached hereto as Exhibit A, the entire membership interest of HRC (the "HRC Interest") in D-GAS, LLC, an Alabama limited liability company ("D-GAS"), shall be transferred to Tipperary, in respect of the consideration hereafter set forth (the "Sale"). D-GAS was formed for the purpose of constructing and operating a natural gas liquids ("NGL") fractionating plant (the "Plant")in Monroe County, Alabama.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. AGREEMENT TO SELL AND/OR ASSIGN AND TRANSFER. If certain conditions set forth below are met, concerning the Plant becoming operational and meeting certain performance tests within a stated period of time, HRC agrees to sell, assign and transfer, and Tipperary agrees to buy, the HRC Interest for a price $210,000 (the "Sale Price"). If the conditions, as set forth below, are not met, then HRC agrees that it shall be deemed to have assigned and transferred the HRC Interest to Tipperary for no monetary consideration.

2. PREFERENTIAL PURCHASE RIGHTS. By entering into this Agreement, HRC acknowledges that under the Operating Agreement, HRC is required to and agrees promptly to provide written notice to FCF and Dufour of this Agreement, and with such notice, pursuant to Section 17 E(4) of the Operating Agreement, offers to sell and/or assign and transfer the HRC Interest to FCF and Dufour under the same terms and conditions as set forth in this Agreement.

3. OPERATING AGREEMENT. Tipperary agrees to be bound by all the terms and provisions of the Operating Agreement.

4. CONDITIONS AND TERMS OF CLOSING. "Closing" herein shall mean, pursuant to the terms and conditions set forth below, either (1) the sale, assignment and transfer by HRC of the HRC Interest to Tipperary for the Sale Price of $210,000, or (2) the assignment

and transfer by HRC of the HRC Interest to Tipperary for no monetary consideration. If the conditions set forth below are met, the Plant having been placed into operation, having passed the performance tests set forth below (the "Performance Tests") by a certain date, which is the sixtieth day after start-up of the Plant (the "Cut-off Date"), Tipperary shall deliver to HRC the Sale Price, and HRC shall deliver the HRC Interest to Tipperary, and to consummate the Sale, Tipperary and HRC shall sign the "Execution of Closing" section at the end of this Agreement. The date upon which the Plant passes the Performance Tests shall be referred to hereafter as the "Completion Date," whether it occurs on or before the Cut-off Date. If the Completion Date does not occur by the Cut-Off Date, the Closing shall be automatically consummated without further action by the parties, and in such Closing HRC agrees that it shall be deemed to have assigned and transferred the HRC Interest to Tipperary for no monetary consideration. However, if in the process of testing the equipment, any of the used equipment should have any major breakdown rendering the Plant inoperable until replacement parts can be received, then the Cut-off Date shall be extended by the time or number of days that it shall take to receive the replacement parts and have them installed. The terms and conditions of Closing are as follows:

(a) Regarding the completion of the Plant, the following agreements shall remain in effect:

- TURNKEY AGREEMENT dated August 9, 1994, attached hereto as Exhibit B;

- AMENDMENT TO TURNKEY AGREEMENT dated September 9, 1994, attached hereto as Exhibit C;

- FRACTIONATING AGREEMENT dated August 19, 1994, attached hereto as Exhibit D; and

- CONSTRUCTION AGREEMENT dated August 30, 1994, attached hereto as Exhibit E;

The foregoing agreements, including the Operating Agreement, Exhibits A through E, shall hereafter be referenced collectively as the "Performance Agreements." HRC shall continue its performance under the Performance Agreements through completion of construction, testing, start-up and the achievement of certain operational standards as further provided below, provided, however: (1) that the Parties recognize and agree that D-GAS has undertaken certain responsibilities for the construction and operation of the Plant, including authorizing expenditures, retaining personnel, and working with certain third parties, and HRC has retained only Plant design and design performance responsibilities pending the Closing of the Sale; and provided further (2) that Tipperary, on condition that the Sale is Closed, has advanced and will continue

to advance HRC's 40% share (pursuant to the

Turnkey Agreement) of the obligation of FOG, ORC and GGPC to fund Plant construction cost overruns.

(b) The following are the Performance Tests which must be met on or before the Cut-off Date in order for HRC to be entitled to the Sale Price upon Closing:

(1) The construction of the Plant shall be completed, with all strength and tightness tests performed, all instrument and control loops tested, all field installation work performed, and the Plant placed into operation, pursuant to all plans and specifications in the Performance Agreements.

(2) The Plant shall be capable of the sustained processing of 100,000 gallons per day of NGL raw stock with the composition of said stock reasonably close to that set forth in the Fractionating Agreement. The Plant must be capable of generating ethane, commercial grade natural gasoline (pentanes +), and commercial and propellant grade propane, iso butane and normal butane, subject to the following specifications:

PRODUCT	RECOVERY PERCENTAGE	VAPOR PRESSURE AT 100 DEGREES FAHRENHEIT
Natural Gasoline (Pentanes +)	100%	[not applicable]
Propane	95%	190 PSI absolute, +/- 10%
Iso Butane	99%	72 PSI absolute, +/- 10%
Normal Butane	99%	51 PSI absolute, +/- 10%

The recovery percentages for propane, iso butane and normal butane, reflect the diversion of a portion of the raw stock for the production of ethane. The foregoing products shall be 96% pure by volume and shall contain no contaminants such as water vapor or sulfur compounds that make their use unsuitable in the propellant industry. HRC, having no control over the raw stock, shall not be responsible in the event that the raw stock delivered to the Plant should have olefins or heavy hydrocarbons or any other such contaminants that would make their use unsuitable for the propellant industry.

(3) After the Plant is placed into operation, it must be stabilized as to all pressures, temperatures, rates, proportions of products, and other parameters for a period of six hours. Then, following said six hour period, the Plant must continuously maintain its production, in accordance with the foregoing specifications, for a period of 24 hours, in which 24-hour period at least 100,000 gallons of NGL raw stock must be fractionated into finished

products meeting the most stringent specifications (I.E. "propellant grade"), and at no time during said 24-hour period may the rate of production fall below 95,000 gallons per day.

(c) In the expectation of Closing the Sale, and in consideration of Tipperary funding HRC's 40% share of construction cost overruns, as stated above, HRC hereby appoints Tipperary as its attorney in fact in accordance with the Irrevocable Limited Power of Attorney attached hereto as Exhibit F.

(d) HRC agrees to cooperate with Tipperary and D-GAS in every reasonable way, with a view toward the cessation of HRC's involvement with the construction and operation of the Plant, including permitting representatives of Tipperary and/or D-GAS liberal access to HRC's records concerning the Plant, and, as Tipperary or D-GAS may request, providing complete drawings, specifications and other records concerning the Plant, providing all accounting books, records and reports concerning the Plant, and providing information and assistance as requested for a period of not longer than 90 days after Closing in order to facilitate and assist in the operation of the Plant following HRC's departure, and executing such agreements and documents as may reasonably be requested to accomplish the purposes of this Agreement.

5. COVENANTS, REPRESENTATIONS AND WARRANTIES OF HRC.

(a) HRC covenants and agrees that, at the time of Closing, it shall have performed all of its obligations hereunder which, at that point in time, HRC shall have been obligated to perform, and that at Closing HRC shall not be in material breach of any of the terms of this Agreement.

(b) HRC represents and warrants that, to the best of its knowledge and belief, as of the Closing, all equipment, fixtures, structures and other personal and real property constituting the Plant has been constructed, installed and placed according to the plans and specifications set forth in the Performance Agreements and also is in compliance with all industry standards and all applicable codes, regulations and laws, and that the component parts of the Plant, as constructed, installed or placed are fully sufficient to perform their intended functions in accordance with the foregoing plans, specifications and requirements, that all asbestos has been thoroughly and satisfactorily removed from any and all parts of the Plant and its components, that the Plant and all of its materials and components meet all present federal and state environmental, safety and health laws and regulations, and there is no condition in the Plant, which absent some extraordinary or catastrophic event, would create an environmental hazard.

6. TERMINATION OF AGREEMENTS AND RELEASES. An Agreement for Termination and Assignment of Agreements and Limited Mutual Releases, attached hereto as Exhibit G (without exhibits), shall automatically, and without further action by the parties thereto, become effective upon the Closing of the Sale and not before then.

7. NOTICES. Any notice under this Agreement shall be in writing and personally delivered or deposited in the United States Mail, postage prepaid, certified or registered,

and return receipt requested. Notice shall be deemed given upon personal delivery or 72 hours after the same shall have been deposited in the United States Mail. Notice shall be given to the parties at the addresses below:

TO TIPPERARY:

Attn: Carter G. Mathies, President
633 Seventeenth St., Suite 1550
Denver, Colorado 80202

TO HRC:

Attn: William L. Hamilton, President
P.O. Box 682
Sheridan, Wyoming 82821

8. ARBITRATION. It is hereby agreed that if, at any time hereafter, any dispute, difference or question shall arise between the parties regarding the construction, meaning or effect of this Agreement or any act or omission to act of any of the parties, every such dispute, difference or question, shall be expeditiously submitted for arbitration in accordance with the rules of the American Arbitration Association, and the determination of the arbitrators appointed pursuant thereto shall be binding upon the parties. Such arbitration shall be conducted in Monroe County, Alabama or such other location as the parties shall decide. Within 10 business days after any party gives notice of an election to arbitrate, Tipperary shall select an arbitrator, and HRC shall select an arbitrator. The two arbitrators who have been appointed shall, within 10 business days thereafter appoint the third arbitrator. If only one arbitrator is appointed by the parties, or if the foregoing two arbitrators fail to appoint the third arbitrator, then any of the parties may petition any court

of competent jurisdiction, with venue as herein provided, to appoint the remaining one or two arbitrators. The arbitrators shall proceed with all reasonable dispatch to hear and determine the matter in dispute, and the decision or award in writing of said arbitrators or a majority of them shall be final and binding upon the parties. With respect to any dispute subject to this arbitration provision, the prevailing party or parties shall be awarded their reasonable costs and attorney fees. If a question should arise as to whether a dispute is subject to this arbitration provision, the arbitrators, not a court, shall decide such question. Any of the parties may enter said arbitration award in any court of competent jurisdiction with venue as herein provided.

9. MISCELLANEOUS PROVISIONS.

(a) FAIR MEANING. The parties acknowledge that this Agreement is the

product of arms-length negotiations among persons with substantially equal bargaining power and shall not be construed against the party which drafted this Agreement. The language in this Agreement shall in all cases be construed as a whole according to its fair meaning, and not strictly for or against any party. When the context of this Agreement requires, any pronouns used herein include the neuter, masculine, feminine, a partnership, corporation, unincorporated association or any other legally recognized entity, and the singular includes the plural or vice versa.

(b) ASSIGNMENT. Except as provided in Section 17 E(4) of the Operating Agreement, this Agreement shall not be assigned, in whole or in part, without the express, written consent of the parties.

(c) ENTIRE AGREEMENT. This Agreement sets forth the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations and all prior discussions, agreements and understandings of the parties.

(d) COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be considered an original.

(e) AMENDMENT. This Agreement may not be altered or amended, nor any rights hereunder waived, except by an instrument executed by the parties. No right or obligation of, or default by, any of the parties shall be deemed waived by any other waiver of the same or any other right, obligation, or default, or by any previous or subsequent forbearance or course of dealing.

(f) GOVERNING LAW, VENUE AND ATTORNEYS' FEES. This Agreement shall be construed and enforced under the laws of the State of Alabama. The Parties agree that venue shall lie in any of the courts of competent jurisdiction in Monroe County Alabama and in the Federal District Court for the district and division in which Monroe County is located. If an action or suit is brought upon this Agreement, the prevailing party or parties shall be entitled to all costs and reasonable attorneys' fees.

(g) SEVERABILITY. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity of the remainder of the terms or provisions within this Agreement so long as, pursuant to such remainder, the purposes of this Agreement can nonetheless be fulfilled in all material respects.

(h) SUCCESSORS. This Agreement shall be binding upon and inure to the benefit of all successors, assigns, and heirs of the parties.

(i) HEADINGS. The headings of the sections of this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the provisions of this Agreement.

EXECUTED as of the date first written above.

TIPPERARY CORPORATION	HAMILTON REFINING COMPANY
By: /s/ Carter G. Mathies	By: /s/ William L. Hamilton
Carter G. Mathies, President	William L. Hamilton, President

EXECUTION OF CLOSING

The necessary terms and conditions, as set forth above, having been, to the best of the knowledge of the parties hereto, performed and satisfied, with the Completion Date occurring on February 2, 1996, which is within 60 days after start-up of the Plant, the parties hereby perform the following acts on this 13th day of February 1996:

1. Tipperary tenders to HRC the Sale Price, less withholdings, as provided in Section 4(d) above, in the amount of $210,000; and

2. HRC accepts said Sale Price and sells, assigns and transfers its entire interest in D-GAS to Tipperary;

thus closing the sale of said membership interest in accordance with Section 4 above.

TIPPERARY CORPORATION	HAMILTON REFINING COMPANY
By: /s/ David L. Bradshaw	By: /s/ William L. Hamilton
David L. Bradshaw, President	William L. Hamilton, President

EXHIBIT 10.44

AGREEMENT

THIS AGREEMENT is entered into this 14th day of May, 1996, by and among Anbay, Ltd., a Colorado corporation ("Anbay"), as successor to Flahive Oil and Gas LLC, a Colorado limited liability company ("FOG"), O'Neal Resources Corporation, a Colorado corporation ("ORC"), Gunsmoke Gas Processing Company, a Colorado corporation ("GGPC"), Tipperary Corporation, a Texas corporation ("Tipperary"), and Milmac Operating Company, an Oklahoma corporation ("Milmac"). All of the foregoing entities shall hereafter be referred to as the "Parties," provided, however, that references to the Parties shall include FOG and shall not include Anbay only with respect to actions taken before Anbay became FOG's assignee, as set forth below. References to FOG mean FOG as Anbay's predecessor in interest.

RECITALS

A. The Parties entered into certain contractual and business relationships with the intent of constructing and operating a natural gas liquids fractionating plant (the "Plant") in Monroe County, Alabama, and entered into various agreements incident thereto (the foregoing contractual and business relationships, the Plant, and activities incident thereto shall be collectively hereafter referred to as the "Project"), and the following agreements, executed at the commencement of the Project, are pertinent to this Agreement:

- TURNKEY AGREEMENT dated August 9, 1994 among Frisco City Fractionating L.L.C., a Utah limited liability company ("FCF"), Hamilton Refining Company, a Texas corporation ("HRC"), FOG, ORC, GGPC and Gunsmoke Production Company, a Colorado corporation ("GPC");

- AMENDMENT TO TURNKEY AGREEMENT dated September 9, 1994 among FCF, HRC, FOG, ORC, GPC, GGPC, Tipperary and Milmac (the Turnkey Agreement and the Amendment to Turnkey Agreement shall hereafter together be referred to as the "Turnkey Agreement"); and

- OPERATING AGREEMENT OF FRISCO CITY FRACTIONATING L.L.C. dated August 19, 1994 (the "FCF Agreement") among FOG, ORC, GGPC, Tipperary and Milmac.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the foregoing agreements.

B. In connection with the Parties' desire to address certain issues and define and agree to their respective rights and obligations in connection with the Project, the following are also pertinent to this Agreement:

- MEMORANDUM OF UNDERSTANDING dated September 18, 1995 (the "MOU") signed by FOG, ORC, GGPC, Tipperary and Milmac.

- AGREEMENT FOR SALE OF MEMBERSHIP INTEREST dated November 14, 1995 (the "Sale Agreement") between Tipperary and HRC.

- AGREEMENT FOR TERMINATION AND ASSIGNMENT OF AGREEMENTS AND LIMITED MUTUAL RELEASES dated November 20, 1995 (the "Termination and Release Agreement") among FCF, D-GAS, L.L.C., an Alabama limited liability company ("D-GAS"), HRC, FOG, ORC, GGPC, Tipperary and Milmac.

C. GPC and FOG have assigned all of their interests in any and all of the foregoing agreements and in the Project to GGPC and Anbay, respectively.

D. Pursuant to the Sale Agreement, Tipperary purchased and HRC, a Member of D-GAS, sold and transferred (the "HRC Sale") HRC's entire interest in D-GAS (the "HRC Interest"). The HRC Sale closed on February 13, 1996.

E. The Termination and Release Agreement provided that, at the time of the closing of the HRC Sale, without further action by the parties thereto, certain agreements relating to the project, including the Turnkey Agreement, would be terminated except for provisions which would survive such termination (and the Parties have agreed, as provided below, that only certain security interest provisions shall survive, and all other terms and provisions of the such agreements shall expire with no further liability to any party). Notwithstanding any other agreement of the parties, it is expressly understood and agreed that the security interests provided for in Section 4 of this Agreement shall remain in effect. Pursuant to request by Anbay, ORC and Gunsmoke, the final, executed counterparts of the Termination and Release Agreement are presently being retained by Tipperary.

F. The Parties wish to further define and agree to their respective rights and obligations in connection with the Project.

AGREEMENT

In consideration of the mutual covenants and agreements set forth herein, the Parties agree as follows.

1. FUNDING OF PROJECT.

(a) Tipperary and Milmac acknowledge, concerning the $1,275,000

"turnkey" price, for which they are obligated in the FCF Agreement, that $127,500 of this has not been paid. Anbay, FOG, ORC, GGPC and Tipperary (on behalf of HRC) have advanced said $127,500 of construction costs, with Tipperary paying 40% of this amount on behalf of HRC and each of Anbay (or FOG as Anbay's predecessor), ORC and GGPC paying 20% of this amount. Tipperary and Milmac, in proportion to their relative obligations (90% for Tipperary and 10% for Milmac) hereby agree to pay directly to each of Anbay, ORC and GGPC their respective 20% shares ($25,500 each) of the $127,500 upon the execution of this Agreement, subject, however, to Section 3 below. With respect to the amounts advanced by Tipperary on behalf of HRC, as to which Milmac is obligated to contribute, Milmac acknowledges that the amount of $5,100 is due and payable, and Milmac agrees to pay said $5,100 directly to Tipperary within 10 days after the execution of this Agreement.

(b) The Parties acknowledge that Tipperary has advanced substantial funds pursuant to cash calls from D-GAS for FCF construction cost overruns (the "Construction Cost Overruns") incurred by the Project. The Parties agree that Construction Cost Overruns, for purposes of this Agreement, are defined and calculated as follows: (i) Total costs and expenses from the inception of the Project through and including February 29, 1996, incurred and capitalized ("Total Construction Costs") in accordance with Generally Accepted Accounting Principles ("GAAP") shall be determined; (ii) FCF's share (the "FCF Construction Costs") of Total Construction Costs shall be determined; and (iii) the amount by which FCF Construction Costs exceed $1,275,000 shall be Construction Cost Overruns, as such term is used in this Agreement. The Parties acknowledge that portions of Construction Cost Overruns were included in amounts paid by FCF Members pursuant to cash calls of D-GAS to date, but such amounts paid pursuant to such cash calls were used for payment of D-GAS operating expenses as well.

(1) The Parties acknowledge that, for all cash calls issued on or after September 1, 1995 and thereafter, Tipperary advanced the funds for the Construction Cost Overruns, including 60% (the "60% Share") of such Construction Cost Overruns which Anbay, ORC and GGPC would otherwise together have been required to pay pursuant to Sections 3.2(b) and 3.2(c) of the FCF Agreement and the Turnkey Agreement. The Parties also acknowledge that 40% of the Construction Cost Overruns, pursuant to the Turnkey Agreement, were to have been paid by HRC, and that Tipperary advanced the funds for HRC's 40% share (the "40% Share") of such Construction Cost Overruns, beginning with the June 14, 1995 cash call. The Parties agree that Anbay, ORC and GGPC shall not be required to reimburse Tipperary for the 40% Share.

(2) The 40% Share shall consist of 40% of the total Construction Cost Overruns. The 60% Share shall consist of 60% of the total Construction Cost Overruns incurred, in accordance with GAAP, from September 1, 1995 through February 29, 1996, inclusive.

(3) Tipperary agrees to fund the 40% Share, and the 40% Share shall be considered a capital contribution to FCF by Tipperary. Tipperary agrees to fund

the 60% Share, and the 60% Share shall be considered to be (i) capital contributions of Anbay, ORC and GGPC and (ii) a loan (the "60% Loan") by Tipperary to Anbay, ORC and GGPC, which Anbay, ORC and GGPC agree to repay with interest at 20% per annum, accruing from the respective dates of Tipperary's payments (including the aforesaid advances) of the 60% Share, beginning with the earliest such payment on September 11, 1996 and continuing until the 60% Share is fully funded and paid or is determined to have been fully funded and paid from the previous advances by Tipperary. The 60% Loan shall be repaid out of a portion of distributions which otherwise would be made to Anbay, ORC and GGPC. Each payment (to be withheld from such distributions) shall be divided into three parts and withheld equally from Anbay, ORC and GGPC, and, (A) if the distribution is from FCF, shall amount 5.714286% (9.52381% before Payout Sharing Ratio, as provided in the FCF Agreement, times 20% times 3) of the total distributions then made by FCF pursuant to Section 6.2 of the FCF Agreement to or on behalf of all of its Members; and (B) if the distribution is from D-GAS, shall amount to 3.999% (6.666% before Payout Sharing Ratio set forth in the MOU times 20% times 3) of the total distributions then made by D-GAS to all of its Members. The foregoing 5.714286% and 3.999%, although based on before Payout Sharing Ratios, will not change after Payout. For purposes of the foregoing sentence, distributions shall mean gross distributions to be made to or on behalf of Members in accordance with their respective Sharing Ratios pursuant to Section 6.2 of the FCF Agreement, before any withholdings or deductions which otherwise would reduce the amount in fact paid to any Member for such distribution. The Parties agree that such payments shall be withheld from such distributions to Anbay, ORC and GGPC and paid to Tipperary before any other withholdings or deductions from such distributions. All such payments shall be applied first to accrued interest and then to principal. At such time as Tipperary has been repaid all principal and interest accrued on the 60% Loan, no further deductions in respect of the 60% Loan shall be made from distributions to Anbay, ORC or GGPC and the right to receive such previously withheld distributions shall revert to Anbay, ORC and GGPC.

(4) Anbay, ORC and GGPC agree to fund 60% of Construction Cost Overruns incurred, in accordance with GAAP, through and including August 31, 1995; provided, however, that notwithstanding anything herein to the contrary, Anbay, ORC and GGPC shall not be liable for nor required to pay additional amounts to fund Construction Cost Overruns beyond such amounts as Anbay, ORC and GGPC have already paid, and the Parties agree that Anbay, ORC and GGPC, before September 1, 1995, each contributed $80,500 ($106,000 less $25,500, which is the amount to be refunded pursuant to Section 1(a) above).

(5) FCF shall calculate the Parties' respective obligations to fund Construction Cost Overruns. The Parties shall, in accordance with the

otherwise applicable provisions of the FCF Agreement, beginning 15 days following the determination of such obligations and thereafter, pay to FCF any or all unpaid balances of such Construction Costs Overruns as may be requested by FCF. Otherwise, such obligations may be withheld from distributions which otherwise would be made to the Parties. If a Party has overpaid its obligation for Construction Cost Overruns, the overpayment shall be

returned to the Party from the first available funds out of Cash Flow which, as provided in Section 6.1 of the FCF Agreement, would otherwise be available for distributions to the Members of FCF.

(c) The Parties' respective funding obligations to FCF for operating expenses, through and including February 29, 1996, shall be determined as follows: Total operating expenses of the Plant incurred, in accordance with GAAP, including but not limited to non-capitalized testing expenses (excluding capitalized testing expenses), but exclusive of depreciation and amortization, and total gross revenues of the Plant recognized, in accordance with GAAP, from inception of the Project through and including February 29, 1996, shall be determined. If such expenses are greater than such revenues, then the shortfall shall be apportioned among the Members in accordance with their Sharing Ratios and withheld, after withholding of any payments on the 60% Loan and amounts due for Capitalized Construction Costs, from the distributions which otherwise would be made to such Members until such obligations for operating expenses have been fully paid. If such revenues exceed such expenses, then the excess shall be retained by FCF as capital contributions by the Members in proportion to their respective before Payout Sharing Ratios.

(d) For all revenues, costs and expenses incurred after February 29, 1996, the Members shall share in accordance with their then-effective Sharing Ratios, subject to the otherwise applicable terms of any applicable agreement, and the per gallon operating cost limitations for Tipperary and Milmac set forth in Subsections 3.2(d)(1), (2) and (3) of the FCF Agreement shall not apply.

(e) All capital contributions by any Member of FCF which are or have been paid directly to D-GAS shall be deemed, and so accounted for, to have been made first to FCF, and in turn it shall be deemed that FCF made such payments to D-GAS. Conversely, for instances in which a payment or distribution properly would be made from D-GAS to FCF, and by FCF to any of its Members, if such payments or distributions are or have been instead made by D-GAS directly to any of the FCF Members, such payments shall be deemed, and so accounted for, to have first been made to FCF and thence to such Members.

2. The Parties acknowledge that HRC, Anbay, ORC and GGPC are obligated to pay certain commission and/or origination fees to Susan Hillyard, Charles Savage and others (the "Hillyard/Savage Interests") in connection with the Project.

Likewise, the Parties acknowledge that HRC, Anbay, ORC and GGPC are also liable to the Hillyard/Savage Interests for such amounts and in such a manner as would be provided by a 1% of 8/8ths nonvoting working interest (the "Working Interest Obligation") in the Project. As provided in the Termination and Release Agreement, HRC has made a one-time payment of $10,000, and Anbay, as FOG's successor, ORC and GGPC have agreed to accept such $10,000 as full and complete payment of HRC's obligations with respect to, among other things, the Hillyard/Savage Interests. Anbay, ORC and GGPC acknowledge and jointly and severally agree to pay the full amounts of such commissions

and/or origination fees and amounts due pursuant to the Working Interest Obligation and to undertake to perform all other obligations in accordance with any agreements executed by any of FOG, as Anbay's predecessor, Anbay, ORC and GGPC with any party among the Hillyard/Savage Interests (the "Hillyard/Savage Agreements"). It is understood and agreed by the Parties that the HRC Interest will not be burdened, and Tipperary, in conjunction with the HRC Sale or otherwise, has not in any respect or in any manner, whether express or implied, assumed any liability or obligation whatsoever to or related to the Hillyard/Savage Interests, and it is further agreed that Tipperary has no responsibility or liability whatsoever pursuant to the Hillyard/Savage Agreements. If, notwithstanding the foregoing, any obligations or liabilities to the Hillyard/Savage Interests or pursuant to the Hillyard/Savage Agreements are imposed on FCF, D-GAS, the HRC Interest or Tipperary, then in addition to any other remedies, the costs and expenses associated with any such obligations or liabilities shall be withheld from distributions which otherwise would be made to Anbay, ORC and GGPC or shall be charged against their membership interests in FCF or D-GAS, as the case may be, in any reasonable manner which will avoid loss or injury to FCF, D-GAS, the HRC Interest or Tipperary in connection with such obligations or liabilities.

3. FEES AND EXPENSES RELATED TO TRANSACTIONS HEREIN. Each of the Parties agrees to bear its own expenses and costs which it has incurred or may incur in connection with this Agreement, the MOU, the Sale Agreement, the Termination and Release Agreement, and any transactions, provisions and agreements related thereto, except that Tipperary, which has taken primary responsibility for the preparation of the drafts and final versions of the documents in connection with the foregoing, shall be entitled to recover, for its legal fees and expenses, $3,000 from each of Anbay, ORC and GGPC, to be withheld from the payments to be made to Anbay, ORC and GGPC pursuant to Section 1(a) above.

4. SECURITY INTERESTS. The Parties agree, respecting any relations, rights or obligations among themselves, that only the provisions in the Turnkey Agreement concerning security interests in the membership interests in FCF of Anbay, ORC and GGPC, as set forth in Section 3(b) therein, and as further

provided in the respective security agreements and any related agreements, shall survive the termination of the Turnkey Agreement pursuant to the Termination and Release Agreement. The Parties agree that the security interests shall first secure recovery by Tipperary and Milmac of the $1,275,000 turnkey price (as set forth in Article 3 and Section 6.2(a) of the FCF Agreement), and thereafter the security interests shall secure repayment of the 60% Loan together with all accrued interest (as provided in subparagraph 1(b)(3) above). The parties agree that the entire membership interests of Anbay, ORC and GGPC shall secure the recovery of the $1,275,000 turnkey price, and that thereafter the portion of the membership interests (including interests in income and loss, distributions, capital accounts, and any other component of such membership interests) of Anbay, ORC and GGPC subject to the security interests shall be reduced to the same percentages as set forth in Section 1(b)(3) above out of which the 60% Loan is to be repaid.

5. MANAGING MEMBER. The Parties agree that pursuant to this Agreement,

effective with the execution of this Agreement, the number of Managing Members is reduced from two to one, and Tipperary is duly elected as the Managing Member of FCF. The Parties further approve the transfer and custody of and responsibility for the books and records of FCF from FOG to Tipperary. The Parties agree to indemnify and hold harmless any other Party from and against all damages, losses, costs and expenses (including reasonable attorneys' fees) which such Party may incur by reason of such Party being or allegedly being a Managing Member of FCF and by reason of any act or failure to act of such Party as a Managing Member or allegedly as a Managing Member during the period of time from the time that Flahive assigned its interest in FCF to Anbay until the date of this Agreement.

6. CONSENT TO TRANSFER OF MEMBERSHIP INTEREST AND ADMISSION OF SUBSTITUTED MEMBER. Anbay, ORC, GGPC and Milmac, hereby unanimously consent and agree that Tipperary, as provided in Section 10.1 of the FCF Agreement, may transfer (the "Membership Transfer") its entire membership interest in FCF to a wholly-owned subsidiary of Tipperary (the "Tipperary Subsidiary"), and that, concurrently with the Membership Transfer, the Tipperary Subsidiary will be admitted as a substituted Member pursuant to Section 10.7(a) of the FCF Agreement, with the business of FCF being continued thereafter, subject to the further agreement of the Parties as follows:

(a) The Parties agree that the provisions of Sections 10.2, 10.3 10.4 and 10.5 do not apply to the Membership Transfer and there shall be no preferential purchase rights with respect to the Membership Transfer (which is

only the contemplated transfer of Tipperary's membership interest in FCF to the Tipperary Subsdiary) because the Tipperary Subsidiary is an Affiliate as provided in Section 10.2, and the provisions of this clause (a) do not apply to the provisions of clause (e) below.

(b) As required in Section 10.7(c) of the FCF Agreement, concurrently with the Membership Transfer, Tipperary will cause the Tipperary Subsidiary to assume all of Tipperary's obligations with respect to the membership interest, and to agree to be bound by all the terms and conditions of the FCF Agreement by a written instrument, duly acknowledged.

(c) Tipperary will perform, and will cause the Tipperary Subsidiary to perform, all other acts necessary and required by the FCF Agreement in order to consummate the Membership Transfer and cause the Tipperary Subsidiary to become a substituted Member of FCF.

(d) The Parties agree, subject to the foregoing terms in this Section 6, that no further action or consent on the part of any Party shall be necessary in connection with the Membership Transfer or for the Tipperary Subsidiary to become substituted Member of FCF, and on condition that the foregoing terms of this Section 6 are complied with, the Parties further agree that the consent of each of Anbay, ORC, GGPC and Milmac to the Membership Transfer and to the Tipperary Subsidiary becoming a substituted Member of FCF is irrevocable and cannot be withdrawn.

(e) The Parties agree that any sale of any shares of capital stock or other equity interests of the Tipperary Subsidiary, Anbay, ORC, GGPC or Milmac shall be subject to the provisions of Sections 10.2, 10.3 and 10.4 of the FCF Agreement as if such sale was a sale of a membership interest in FCF to a third party, except that (i) instead of 30 days as provided in Section 10.3, the other Members of FCF shall have 45 days within which to elect to purchase the shares or equity interests offered; (ii) notwithstanding any terms or provisions of the proposed sale, such proposed sale shall be deemed to be for cash only at the time of closing, and the other Members of FCF may exercise such preferential purchase rights only upon payment of the sale price in full in cash at the closing of such sale; and (iii) to the extent that the selling Member holds any material assets in addition to the membership interest in FCF and assets related to the FCF membership interest (the selling Member's "FCF Assets"), the sale price shall be allocated between the selling Member's FCF Assets and the selling Member's other assets, and the other Members of FCF shall have the preferential right to purchase only the proportion of such shares or equity interests which is equal to the proportion which the selling Member's FCF membership interest is to the total assets of the selling Member.

7. DELIVERY OF FULLY EXECUTED COUNTERPARTS OF TERMINATION AND RELEASE

AGREEMENT. The Parties agree that Tipperary shall deliver the fully executed counterparts of the Termination and Release Agreement to the other Parties and to HRC upon execution of this Agreement.

8. REORGANIZATION OF PROJECT. The Parties agree that there shall be no obligation, as a result of any prior agreements, expressions of intent or interest, actions taken, or formulation of any plans by any of the Parties, to endeavor or otherwise take any action to reorganize FCF or D-GAS or otherwise modify the affairs of the Project, insofar as the objective, purpose or result of any such endeavor or action is that the Members of FCF would become Members of D-GAS, whether by dissolution of FCF, merger of FCF into D-GAS, collapsing FCF or any agreements, or by any other means calculated to result in the Members of FCF becoming Members of D-GAS.

9. ARBITRATION. It is hereby agreed that if, at any time hereafter, any dispute, difference or question shall arise between the Parties regarding the construction, meaning or effect of this Agreement or any act or omission to act of any of the Parties, every such dispute, difference or question, shall be expeditiously submitted for arbitration in accordance with the rules of the American Arbitration Association, and the determination of the arbitrators appointed pursuant thereto shall be binding upon the Parties. Such arbitration shall be conducted in the City and County of Denver, Colorado, or such other location as the Parties shall decide. Within 10 business days after any Party gives notice an election to arbitrate, Tipperary and Milmac shall together select an arbitrator, and Anbay, ORC and GGPC shall together select an arbitrator. The two arbitrators who have been appointed shall, within 10 business days thereafter appoint the third arbitrator. If only one arbitrator is appointed by the Parties, or if the foregoing two arbitrators fail to appoint the third arbitrator, then any of the Parties may petition any court of competent jurisdiction, with venue as herein provided, to appoint the remaining one or two arbitrators. The

arbitrators shall proceed with all reasonable dispatch to hear and determine the matter in dispute, and the decision or award in writing of said arbitrators or a majority of them shall be final and binding upon the Parties. With respect to any dispute subject to this arbitration provision, the prevailing party or parties shall be awarded their reasonable costs and attorney fees. If a question should arise as to whether a dispute is subject to this arbitration provision, the arbitrators, not a court, shall decide such question.

10. NOTICES. Any notice under this Agreement shall be in writing and personally delivered or deposited in the United States Mail, postage prepaid, certified or registered, and return receipt requested to the last address provided by the party to whom notice is given. Notice shall be deemed given upon personal delivery or 72 hours after the same shall have been deposited in

the United States Mail.

11. MISCELLANEOUS PROVISIONS.

(a) FAIR MEANING. The Parties acknowledge that this Agreement is the product of arms-length negotiations among persons with substantially equal bargaining power and shall not be construed against the Party which accepts primary responsibility for drafting this Agreement. The language in this Agreement shall in all cases be construed as a whole according to its fair meaning, and not strictly for or against any Party. When the context of this Agreement requires, any pronouns used herein include the neuter, masculine, feminine, a partnership, corporation, unincorporated association or any other legally recognized entity, and the singular includes the plural or vice versa.

(b) ASSIGNMENT. This Agreement shall not be assigned, in whole or in part, without the express, written consent of all of the Parties.

(c) ENTIRE AGREEMENT. This Agreement sets forth the entire understanding among the Parties with respect to the subject matter hereof, superseding all negotiations and all prior discussions, agreements and understandings of the Parties.

(d) COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be considered an original.

(e) AMENDMENT. This Agreement may not be altered or amended, nor any rights hereunder waived, except by an instrument executed by the Parties. No right or obligation of, or default by, any of the Parties shall be deemed waived by any other waiver of the same or any other right, obligation, or default, or by any previous or subsequent forbearance or course of dealing.

(f) GOVERNING LAW, VENUE AND ATTORNEYS' FEES. This Agreement shall be governed, construed and enforced under the laws of the State of Colorado. The Parties agree that venue shall lie in the City and County of Denver, Colorado and in the Federal District Court for the district Colorado. If an action or suit is brought upon this Agreement, to enforce the arbitration provisions herein or otherwise, the prevailing party or parties shall be entitled to all costs and reasonable attorneys' fees.

(g) SEVERABILITY. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity of the remainder of the terms or provisions within this Agreement so long as, pursuant to such remainder, the purposes of this Agreement can nonetheless be fulfilled in all material respects.

(h) SUCCESSORS. This Agreement shall be binding upon and inure to the benefit of all successors, assigns, and heirs of the Parties.

(i) HEADINGS. The headings of the Sections of this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the provisions of this Agreement.

EXECUTED as of the date first written above.

ANBAY, LTD.	GUNSMOKE GAS PROCESSING COMPANY
By: /s/ Alfred A. Wiesner	By: /s/ Lawson K. Stiff
Alfred A. Wiesner, President	Lawson K. Stiff, President
O'NEAL RESOURCES CORPORATION	TIPPERARY CORPORATION
By: /s/ Michael D. O'Neal	By: /s/ David L. Bradshaw
Michael D. O'Neal, President	David L. Bradshaw, President

MILMAC OPERATING COMPANY

By: /s/ James A. McAuley

James A. McAuley, President

EXHIBIT 10.45

DIVIDE EXPLORATION AGREEMENT

This Joint Exploration Agreement (this "AGREEMENT") is made and entered into effective as of the 27th day of June, 1996, by and between Tipperary Oil & Gas Corporation, a Texas corporation, (hereinafter called "TIPPERARY") and Lyco Energy Corporation, a Delaware corporation, (hereinafter called "LYCO" or "PROJECT MANAGER"). Tipperary and Lyco are hereinafter collectively referred to as the "PARTIES".

W I T N E S S E T H

This Agreement, when executed by Tipperary and Lyco in the space provided below, shall set forth the understanding and agreement between said Parties relative to the ownership in, and conduct of, certain acquisition, exploration and development activities in Divide County, North Dakota within the Area of Mutual Interest ("AMI") more particularly defined in Article IV below (hereinafter sometimes referred to as the "DIVIDE PROJECT" or the "PROJECT").

It is the desire of the Parties to combine their respective resources and technical expertise to conduct such activities as they deem appropriate within the AMI for (i) the gathering and evaluation of all relevant (a) mineral/leasehold ownership information and (b) engineering, production, geological and geophysical data, (ii) the acquisition of oil and gas leases, (iii) the acquisition, processing and interpretation of 3-D Seismic data, (iv) the drilling of wells for oil and gas, (v) the possible evaluation and acquisition of producing properties and (vi) the further exploitation of the Divide Project AMI, it being the express intent of the parties to conduct a joint exploration effort for the purpose of developing quality drilling prospects within the AMI.

In order to pursue the above described activities and objectives, Tipperary and Lyco entered into (i) that certain Letter of Intent, executed to be effective on June 27, 1996 and (ii) that certain Letter Agreement executed on July 31, 1996. The Letter of Intent is hereby superseded by this Agreement.

Therefore, in consideration of the mutual covenants and agreements contained herein, the obligations to be performed and the benefits to be received, Tipperary and Lyco do hereby agree as follows:

ARTICLE I - PRIMARY RESPONSIBILITIES OF TIPPERARY AND LYCO

During the term hereof (defined in Article XII), Lyco and Tipperary, in addition

to their other obligations hereunder, shall have the following primary responsibilities:

A. TIPPERARY: Tipperary, working closely and directly with Lyco, shall make available its land, geological and operating data, expertise and business knowledge relative to the lands within the AMI and provide land, technical and management staffing sufficient to:

(1) Assist Lyco with generating an inventory of mutually agreeable drillable well locations and prospects within the AMI through the integration of well and geological data, mapping and other geological and/or geophysical interpretations;

(2) Assist Lyco with the field portion of the supplemental lease acquisition program within the AMI, including, without limitation, directing the day to day activities of approved lease brokers, securing title reports and lease purchase reports, approving title for purchasing oil and gas leases, securing title curative documents (where applicable), approving bank drafts for payment of lease bonuses, and securing fully executed and recordable oil and gas leases on approved oil and gas lease forms. Tipperary will consult with and advise Lyco (Attention: Vice President of Land and Contracts or Lyco's Senior Staff Landman) on a regular basis of the status of all lease negotiations and leasing activities within the AMI and assist with the preparation of budget forecasts relative to all lease checks, take-offs, title research projects and lease acquisitions conducted for the benefit of Lyco and Tipperary on each lead or prospect within the AMI. All oil and gas leases will initially be acquired with Tipperary as "Lessee" or in such other names, including Lyco's, as Lyco and Tipperary may deem appropriate. Tipperary will promptly deliver to Lyco, on a monthly basis, assignments of record title to Lyco's 50.0% working interest in and to such leases. Lyco may or may not record said assignments at that time depending on the status of leasing activities in a particular area of the AMI.

(3) Assist Lyco by (i) providing leasehold/minerals ownership information, the status of leasing activities and lease negotiations, identification of farmin or top-leasing opportunities, etc., covering the Divide Project AMI, and (ii) updating Project maps from time to time as mutually agreed by the Parties, depicting the results of all lease take-offs, leasehold ownership reports, state lease sales, new well locations, Prospect Area designations, etc.; and

(4) Assist Lyco with the preparation and implementation by the Parties of the Exploitation Plan (defined below) within the AMI.

B. LYCO: Lyco, as the Project Manager, working closely and directly with Tipperary, shall make available its expertise and knowledge and the geological, geophysical, engineering, land, accounting and management staffing sufficient to:

(1) Prepare and implement, with Tipperary's assistance, a strategic plan (the "EXPLOITATION PLAN" or "PLAN") to exploit the Divide Project. The Exploitation Plan will consist of, but not necessarily be limited to, the overall goals, objectives and strategies for the Divide Project. The Plan will include a budget for leasing, seismic programs, drilling and completion, and ongoing evaluation of the AMI. The Plan will be an informal basis for expenditures and will serve as a means for measuring progress as the Plan is implemented. Lyco will consult with Tipperary and, subject to the other terms and conditions of this Agreement, the Parties will mutually approve operations associated with the implementation of the Plan, including, but not limited to, expenditures related to the acquisition of, acreage and the terms (lease bonus, royalty, lease term, rentals, etc.) of all leases, the acquisition of producing properties, the selection of drillsites, and the preparation of drilling and completion prognoses for new or recompleted wells; and

(2) Manage the overall exploration and exploitation of the Divide Project, including, without limitation, assisting Tipperary with the supplemental lease acquisition program, coordinating and managing producing property evaluations and acquisitions, re-entry operations, drilling and producing operations.

Lyco and Tipperary agree to coordinate their activities such that the efforts of said parties complement and do not unnecessarily overlap one another. Said parties further agree to hold regular meetings to consult with each other and to evaluate and respond to activity and the development of the mutual prospecting effort. Said meetings can be held by teleconference if the Parties agree to do so. During these meetings, the Parties will review and approve Lease Purchase Authorizations ("LPA's"), Authorities for Expenditures ("AFE's"), and other plans to exploit the development and production of oil and gas reserves within the AMI.

ARTICLE II - GEOPHYSICAL PROPOSALS

Either Lyco or Tipperary may propose to conduct a geophysical survey (herein called a "SURVEY") within the AMI in an effort to further investigate subsurface geological ideas and to enhance prospective leads into drillable prospects. A proposal for a Survey shall include, but not be limited to, the following (herein called the "Survey Parameters"): (1) the geographical area

within which the Survey is to be performed, (2) the design or pattern of the Survey points, (3) expected acquisition and processing parameters, (4) the anticipated costs, and (5) the desired start date and duration of the proposed physical operations. For the purposes of this Agreement, each data point in a Survey shall be deemed to evaluate a 660' square area centered on that data point. Without the mutual agreement of the Parties, no Survey shall be proposed which (i) comprises more than five (5) square miles of coverage or (ii) costs, on an estimated basis, more than $200,000.00 or (iii) covers any part of an existing Prospect Area

(hereinafter defined). The receiving party shall have fifteen (15) business days within which to elect to participate or not participate in the costs and ownership of the Survey. Failure of the notified Party to reply within said fifteen (15) business days shall constitute an election by that Party not to participate in the Survey.

Should either Party elect to not participate in the Survey (herein called a "NON-PARTICIPATING PARTY"), it shall have relinquished all rights to the Survey data and the results, interpretations and technical benefits derived therefrom. However, the Non-Participating Party shall retain all rights to acquire any interests within the geographic area covered by the Survey pursuant to the terms of Article IV - Area of Mutual Intent.

If operations for any such Survey are not commenced within ninety (90) days of the proposed start date, or if any of the Survey Parameters change substantially from that proposed, then said Survey shall terminate and the coverage area may be included in a new Survey proposal. However, if a Survey cannot be commenced due to adverse or limiting weather or surface access conditions or because of permitting problems, the commencement date of the Survey may be extended by the proposing Party, by written notice to the other Party, for an additional sixty (60) days. Unless mutually agreed to by the Parties, there shall not be more than three (3) Surveys proposed and/or in progress at any one time, however any Survey which costs less than $10,000.00 per square mile shall not be considered as one of the three (3) proposed Surveys. These lesser cost Surveys may be, without limitation, a 2-D seismic survey, geochemical survey, telluric survey, etc. A Survey shall be deemed to have been completed fifteen (15) business days after the completion of the field acquisition.

The participating Parties in each Survey will pay the costs of the Survey and own the Survey data based upon each participating Party's net leasehold acres within the Survey area at the time of the proposed Survey (numerator) divided by the total net leasehold acres of both of the participating Parties within the Survey area at the time of the proposed Survey (denominator). The participating Parties will retain all rights associated with said data including the same proportionate ownership percentage of all proceeds from future sales

and/or trading rights, if any.

ARTICLE III - DESIGNATION OF "PROSPECT AREAS"

Either Lyco or Tipperary may propose an initial well (including a re-entry) on a Prospect Area (defined below) within the AMI, which initial well (or re-entry) and associated Prospect Area will be subject to the Joint Operating Agreement described in Article IX hereof. For the purpose of this Agreement, each initial well (or re-entry) proposed to a depth no greater than 10,000' within the AMI will be deemed to consist of a prospect area (herein called a "PROSPECT AREA") covering the 160-acre drilling/spacing unit for the initial wellsite and eight (8) additional 160-acre drilling/spacing units surrounding the initial wellsite drilling/spacing unit. Each initial well (or re-entry) proposed below the depth of 10,000' within the AMI will be deemed to consist of a Prospect Area covering the 320-acre drilling/spacing unit for

the initial wellsite and four (4) additional 320-acre drilling/ spacing units contiguous to the initial wellsite drilling/spacing unit as designated by the proposing Party. It is understood and agreed that said Prospect Areas are (i) subject to orders of the North Dakota Industrial Commission which may determine a different drilling/spacing unit pattern regardless of the depth of the initial well, however, unless amended by other terms of this Agreement, said Prospect Areas will still consist of either nine (9) 160-acre drilling/spacing units or five (5) 320 acre- drilling/spacing units, (ii) subject to being reduced in size to avoid overlapping as provided below in this Article III and (iii) limited as to all rights from the surface of the ground down to the stratigraphic equivalent of the base of the deepest formation drilled, or tested if the initial well is a re-entry.

Such initial well proposal shall include information concerning prospect lands already under lease to the Parties, available unleased lands within the Prospect Area, suggested lease terms, the priority and amount of acreage to be acquired, expected farmin terms (if known), a complete estimate of any additional geological or geophysical costs, a description of the location and depth of the proposed initial well, a list of the targeted reservoirs and a map detailing the proposed Prospect Area, well location and lease position of the Parties. The percentage of working interest ownership of the Parties in a Prospect Area will be based on a fraction the numerator of which is the leasehold net acres owned by a Party in the Prospect Area and the denominator of which is the total net leasehold acres owned by both Parties in the Prospect Area.

The party receiving such initial well (or re-entry) proposal shall have thirty (30) days from receipt of such proposal in which to elect whether or not to participate in the well (or re-entry) and the associated Prospect Area. Failure of the notified Party to reply within said thirty (30) days shall constitute an

election by that Party to not participate in said initial well and the leases and lands comprising the associated Prospect Area, but limited to all rights from the surface of the ground down to the stratigraphic equivalent of the base of the deepest formation drilled (or tested if the initial well is a re-entry).

If the proposed Prospect Area overlays all or part of a geographic area covered by an existing Survey in which a Party did not participate in the costs and ownership of such Survey, said Party may only participate for its proportionate interest in the proposed initial well and associated Prospect Area according to one of the following two options:

(a) Said Party is not entitled to review said Survey data but must pay the Party which paid for said Survey data, within the thirty (30) day initial well election period, an amount equal to fifty percent (50.0%) of the cost of the entire Survey multiplied by the following two (2) fractions: (i) a fraction the numerator of which is the amount of leasehold net acres owned by said Party in the Prospect Area at the time of the proposed initial well and the denominator of which is the total net leasehold acres owned by both Parties in the Prospect Area at the time of the proposed initial well and (ii) a fraction the

numerator of which is the amount of gross Prospect Area acres located within the Survey area and the denominator of which is the total gross acres in the Survey area; or

(b) Said Party may receive, review and own copies of the Survey data after paying the Party which paid for the Survey data, within the thirty (30) day initial well election period, an amount equal to 300.0% of the cost of the entire Survey multiplied by a fraction the numerator of which is the amount of leasehold net acres owned by said Party in the Prospect Area at the time of the proposed initial well and the denominator of which is the total net leasehold acres owned by both Parties in the Prospect area at the time of the proposed initial well. Under this option (b), the thirty (30) day election period to participate in the proposed initial well, and associated Prospect Area, shall be extended to forty-five (45) days. Once said Party has paid the penalty pursuant to this option (b), then no additional penalties will be owed by said Party as to any additional Prospect Areas proposed within the geographic area of said Survey.

Should either Party elect to not participate (herein called a "NON-CONSENTING PARTY") in the initial well and the associated Prospect Area, it shall own no further right to participate therein and such well and Prospect Area shall no longer be subject to this Agreement or the Joint Operating Agreement. The Non-Consenting Party shall assign all of its right, title and interest in the leases and lands covering the Prospect Area, limited to all

rights from the surface of the ground down to the stratigraphic equivalent of the base of the deepest formation drilled (or tested if the initial well is a re-entry), and excluding any overriding royalty interests previously created by the Non-Consenting Party as permitted under Article VIII, to the participating Party within fifteen (15) business days after the spud date of the initial well in the Prospect Area. The Non-Consenting Party shall not compete with the participating Party to acquire any interests in said Prospect Area during the remaining term of the Agreement, or for three (3) years from the date of the Non-Consenting Party's election to not participate in said initial well and associated Prospect Area, whichever is the later.

Notwithstanding anything to the contrary herein, if the initial well (or re-entry) on a Prospect Area is not commenced within one-hundred twenty (120) days from the date of receipt of such proposal, the Prospect Area will lapse and the Parties will be in the same position as if no proposal had been made. However, it is understood and agreed that any such proposal shall not terminate upon the expiration of the one-hundred twenty (120) day period referenced above if operations cannot be commenced due to either adverse or limiting weather conditions or the unavailability of drilling rigs.

Unless agreed to by the Parties, there shall not be more than five (5) initial wells (and associated Prospect Areas) proposed at any one time under this Agreement. For the purposes of this paragraph, an initial well and associated Prospect Area shall be deemed to be excluded from said five (5) initial well proposal limitation upon the spudding of an initial well on the associated

Prospect Area.

A Prospect Area may not overlap another Prospect Area, except where an initial well in a proposed Prospect Area is targeted to test a deeper formation than the stratigraphic equivalent of the base of the deepest formation which has been proposed, or drilled (or tested if the initial well is a re-entry), on an existing Prospect Area. A Prospect Area shall be reduced in size (shrunk down), expanded or reconfigured, by the mutual agreement of the Parties, to avoid overlapping of adjoining Prospect Areas. A Prospect Area may possibly include producing leasehold which was purchased by one of the Parties but declined by the other. In such cases, the non-participating (declining) Party will not have any rights to the overlapping lands (located in the producing leasehold in which such party did not participate) or any right to participate in any well drilled on said lands and the associated drilling/spacing unit for said well. If the proximity of Prospect Area outlines result in tracts of lands between such Prospect Areas which could not be allocated to a new full sized Prospect Area as contemplated herein, then in that case the proposed Prospect Area can be reconfigured, expanded or shrunk down, by the mutual agreement of the Parties, to conform to the optimum use of the available tracts of land between such

Prospect Areas.

Also, if all Parties participate in an initial well in a Prospect Area, and said initial well is drilled, plugged and abandoned as a dry hole, or otherwise disposed of, the Prospect Area will terminate (but remain under the AMI) unless an additional well (or re-entry), is proposed on the same Prospect Area under the terms of the Operating Agreement.

Notwithstanding anything herein to the contrary, an initial well and the associated Prospect Area may be proposed without the benefit of a Survey, subject to the terms of participation described above, however, without the mutual consent of the Parties, an initial well and the associated Prospect Area cannot be proposed within (i) the geographic area covered by an existing proposed Survey or (ii) WITHIN ninety (90) days of a completed Survey (subject to the terms of Article XI - Obligatory Operations).

ARTICLE IV - AREA OF MUTUAL INTEREST/ACQUISITION OF SUPPLEMENTAL LEASEHOLD INTERESTS

The area set forth on EXHIBIT "B-1" and described on EXHIBIT "B-2" attached hereto shall constitute an Area of Mutual Interest between the Parties hereto which shall remain in force and effect for term of this Agreement at which time the AMI will terminate as to all acreage not then included in a Prospect Area which includes a producing well and such Prospect Area will be governed by the Joint Operating Agreement attached hereto and made a part hereof (see EXHIBIT "D"). If supported by geological, geophysical and/or other data, the AMI may be expanded to include additional lands if mutually agreed to by the Parties.

In the event any interests in oil and gas rights (including leases, mineral interests, royalty interests, overriding royalty interests, extensions and renewals of jointly owned leases and

contractual right to earn interests), hereinafter sometimes referred to as a "LEASEHOLD ACQUISITION", covering any of the lands located within the AMI are acquired by any of the Parties hereto, directly or indirectly, the other Party shall be notified promptly in writing by the acquiring Party and furnished with a copy of all legal instruments, paid drafts or checks, itemized invoices of the actual costs incurred, and all other pertinent and available data and title information concerning the Leasehold Acquisition, and the other Party shall have the right for a period of fifteen (15) days following receipt of such written notice (or within twenty-four (24) hours, inclusive of Saturday, Sunday or other legal holidays, following receipt thereof in the event a well is being drilled at that time in the AMI pursuant to this Agreement or the Joint Operating Agreement) in which to notify the acquiring party of its election whether or not to participate in such Leasehold Acquisition by bearing its proportionate share

(based upon the respective percentages of participation in this Agreement) of the costs of such Leasehold Acquisition, and if applicable, assuming its proportionate share of any obligations or requirements associated therewith. Failure of a Party receiving such a notice from the acquiring Party to reply and tender payment within the specified periods of time set forth herein shall constitute an election by that Party not to participate in such Leasehold Acquisition. Any Leasehold Acquisition in which all the Parties hereto elect to participate shall become subject to this Agreement.

The Party electing to participate in such Leasehold Acquisition shall pay the acquiring Party its share of the acquisition cost as determined hereinabove, within thirty (30) days after its election to participate in the Leasehold Acquisition. Upon receiving the acquisition costs, said acquiring Party shall execute and deliver a recordable Assignment (defined in Article VI) of the appropriate percentage of such acquisition to the participating Party. The general form of the Assignment is attached hereto as EXHIBIT "C". Failure of the Party to tender its share of the acquisition costs within the time period specified above shall constitute an election by such Party not to participate.

It is hereby agreed by the Parties that if any portion of a Leasehold Acquisition falls within the AMI, the entire acquisition shall be deemed to be included in the AMI.

Notwithstanding anything herein to the contrary, all costs associated with Leasehold Acquisition by Tipperary within the AMI which was previously approved by Lyco under the Exploitation Plan will be invoiced to Lyco on a monthly basis. Upon approval by Lyco of the Leasehold Acquisition, Lyco will pay by check or wire transfer fifty percent (50.0%) of the Leasehold Acquisition costs within thirty (30) days after receipt of the invoice. The Leasehold Acquisition costs shall include bonuses, brokerage and recording fees and the invoice shall include copies of legal instruments, lease purchase reports, title information and paid bank drafts.

ARTICLE V - PARTICIPATION AND OWNERSHIP

Subject to the terms hereof and the Operating Agreement, the Parties shall own and share on an equal basis ownership of all rights, interests, obligations and property acquired, produced, developed and/or purchased during the term of this Agreement within the AMI. All costs and expenses will be paid equally, unless one of the Parties elects not to participate, subject to the terms of the applicable Article(s) to this Agreement and the Joint Operating Agreement which would control such elections.

ARTICLE VI - LYCO'S ACQUISITION OF TIPPERARY'S EXISTING LEASEHOLD

Tipperary owns certain non-producing leasehold interests (the "TIPPERARY LEASES") which were acquired within the AMI prior to the effective date of this Agreement. The Tipperary Leases, including their description and any depth restrictions, Tipperary's working and revenue interest in each lease and a designation of which Tipperary Leases (see Exhibit "A" only) are subject to the overriding royalty interest of Northern Energy Corporation, are described in detail in EXHIBITS "A" AND "A-1" hereto.

Lyco agrees to purchase from Tipperary, and Tipperary agrees to sell and assign to Lyco, pursuant to Article IV - Participation and Ownership, the Tipperary Leases. The purchase price will be equal to $45.00 per net mineral acre for an assignment of fifty percent (50.0%) of Tipperary's approximate 30,000 total net leasehold acres located within the AMI. Pursuant to the Letter Agreement executed by the Parties on July 31, 1996, Lyco paid to Tipperary the sum of $675,000.00 which amount of money was intended to approximate the sum which is equal to $45.00 per net mineral acre (conveyed to Lyco), and Tipperary delivered to Lyco on July 31, 1996 a duly executed, acknowledged and completed Assignment (the "ASSIGNMENT") (SEE EXHIBIT "C") conveying to Lyco an undivided fifty percent (50.0%) of the right, title and interest of Tipperary in and to the Divide Project and the Tipperary Leases. Adjustments to this purchase price will be made post-closing, by invoice, after the actual net acres in the Tipperary Leases are determined. The Assignment was with warranty of title by, through and under Tipperary, but not otherwise, stating that Tipperary is the lawful owner of, and has good title to, the Tipperary Leases and the interests to be assigned to Lyco, that the Tipperary Leases are valid and subsisting leases covering the lands therein described, that all brokers fees and expenses and lease bonus costs (including paid-up rentals) due thereunder have been paid and that the Tipperary Leases are free and clear of all material liens, encumbrances and adverse claims. Tipperary agrees that all such costs, recording fees, claims, demands, actions, costs, expenses, debts, and liabilities of every kind of character, including without limiting the same, all charges and claims under or pursuant to any agreement, with respect to the Tipperary Leases and the Divide Project which were made, incurred or which accrue or relate to all times prior to the Effective Date shall be and remain the obligation, duty and responsibility of Tipperary; and, Tipperary shall indemnify and hold Lyco and LOC harmless from any and all of the same.

Tipperary will deliver to Lyco an undivided 43.25% revenue interest (which is equal to an 86.5% net revenue interest ("NRI")) attributable to Lyco's 50.0% working interest ("W.I.") in all of the Tipperary Leases acquired to date with the exception of those certain thirty-eight (38) oil and gas leases (21 of which contain a 1/6th royalty interest ("R.I.") and 17 of which contain a 15% R.I.) covering 6,194.31 gross acres and 3,478.91 net acres (8/8ths), which said Tipperary Leases shall be delivered to Lyco with total lease burdens on such Leases not exceeding the sum of (i) the base royalty interest provided in such lease plus (ii) a proportionate 1.0% overriding royalty interest ("ORRI")

payable to Northern Energy Corporation ("Northern", Tipperary's lease broker) on a portion of the Tipperary Leases. For example, Lyco's revenue interest in one of the 17 leases which contain a 15.0% R.I. (assuming said lease covers 100.0% of the mineral estate and was acquired through Northern) will equal 42.0%, being calculated as follows: 50.0% (Lyco's interest in the leasehold estate) x a 84.0% NRI (100.0% less (i) 15.0% R.I. and (ii) Northern's 1.0% ORRI, or 84.0%). Tipperary will deliver to Lyco, exclusive of any overriding royalty interest reservations, a 50.0% W.I. in all of the Tipperary Leases which were acquired by Tipperary through Empire Oil Company, which Leases are denoted on EXHIBIT "A-1" hereto.

ARTICLE VII - EVIDENCE OF TITLE, TITLE EXAMINATION AND TITLE DEFECTS

Immediately after the execution of this Agreement, Tipperary shall deliver to Lyco for the purpose of evidencing Tipperary's approved title to the Tipperary Leases (i) copies of the recorded leases, paid drafts, title curative documents (i.e. wills, affidavits, ratifications, subordination agreements, plugging affidavits, etc.) and any subsequent assignments related thereto, (ii) any title opinions or title memorandums which Tipperary may have acquired covering any of the Tipperary Leases, and (iii) all title acquisition/lease purchase reports and title run sheets prepared by Tipperary, or prepared on behalf of Tipperary (and approved by Tipperary) by petroleum landmen employed or contracted by Tipperary, which relate or pertain to the Tipperary Leases and the lands covered thereby. Tipperary agrees to provide to Lyco for examination and review, any other documents, records or other information which Tipperary may have relating or pertaining to the title to the Tipperary Leases and the lands covered thereunder.

Lyco shall have one (1) year from the execution of this Agreement to conduct, at Lyco's cost, an examination of the title to the Tipperary Leases. Prior to the expiration of said one (1) year time period, Lyco shall notify Tipperary in writing of (i) any material defect in Tipperary's title to the Tipperary Leases or (ii) any reasonable objection thereto. Such material defect or reasonable objection shall be hereinafter called a "TITLE DEFECT" in the singular and "TITLE DEFECTS" in the plural.

In the event Tipperary is given timely notice of a Title Defect, Tipperary shall have the option for thirty (30) days from receipt of such notice to cure, or attempt to cure, any such defect, to the reasonable satisfaction of Lyco. In the event a Title Defect is timely cured in the manner hereinabove provided, then the Tipperary Lease, or Leases, shall remain subject to this

Agreement.

Lyco and Tipperary understand and agree that if Tipperary's title to a lease is not satisfactory, on account of a Title Defect, and Tipperary notifies Lyco that (i) Tipperary is unable to cure any such Title Defect, or (ii) Tipperary elects not to attempt to cure any such Title Defect, then Lyco shall elect to either waive any such defect and said lease shall remain subject to this Agreement, or to exempt such lease from this Agreement.

If Lyco elects to exempt any lease from this Agreement because of a Title Defect, then Tipperary will pay to Lyco the sum of $45.00 per net mineral acre for any such Tipperary Lease. Said payment to Lyco shall be issued within thirty (30) days after receipt of written notice by Lyco of its election to exempt such Tipperary Lease(s).

ARTICLE VIII - JOINT OPERATIONS

Each Prospect Area designated during the term of this Agreement in which both Parties have elected to participate pursuant to the terms hereof shall be subject to the terms of the operating agreement (the "JOINT OPERATING AGREEMENT") attached hereto and made a part hereof (see EXHIBIT "D"), unless such Prospect Area is subject to an existing joint operating agreement with third parties. The Parties agree to execute the Joint Operating Agreement attached hereto contemporaneously with this Agreement. To the extent that such Joint Operating Agreement does not conflict with the terms of this Agreement, all operations involved in the exploration and development, including all development wells on each Prospect Area designated hereunder, shall also be governed by the terms of the Joint Operating Agreement. In the event of any conflict or inconsistency between this Agreement and the Joint Operating Agreement between the Parties, this Agreement shall control. Lyco's wholly owned subsidiary, Lyco Operating Company ("LOC"), shall be designated as the Operator in Article V.A of the Joint Operating Agreement unless Lyco is a non-participating party to any well proposal or completion attempt. In such event, LOC agrees, upon request by a majority of the participating parties to resign as operator for such well.

LOC shall conduct, direct and have full control of all drilling and geophysical operations conducted within each Prospect Area, as permitted and required by and within the limits of this Agreement and as more particularly described in the attached Joint Operating Agreement. However, LOC and/or Lyco will consult with Tipperary on matters regarding such operations in which Tipperary is a working interest participant and shall keep Tipperary informed as to all such operations and plans for operations as timely as possible. LOC, as operator, shall conduct all operations in a good and workmanlike manner, but it shall have no liability, as operator, to the Parties for any losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

The Joint Operating Agreement shall be deemed to be a separate agreement with respect to each initial test well and the associated Prospect Area designated hereunder. If LOC deems it necessary to

do so as Prospect Areas are designated pursuant to Article III - Designation of "Prospect Areas", an identical form Joint Operating Agreement shall be executed for each such test well and Prospect Area, with appropriate insertions and modifications for working interests, etc., unless the form of operating agreement must be altered to accommodate third party requests. If such event or necessity shall occur, the Parties shall execute a mutually agreeable operating agreement with such third party (parties), which shall, as closely as possible, cover the terms and conditions described in the attached Joint Operating Agreement. It is understood by the Parties that their interests shown in Article V (Participation and Ownership) may be proportionately reduced resulting from participation by a third party.

While this Agreement is in effect, and/or during the term of any operating agreement entered into pursuant to this Agreement, LOC will pay all delay rentals, minimum royalties, and shut-in well payments which become due and payable on leases owned jointly by the Parties, provided, however, that if LOC, through mistake, oversight, or inadvertence, fails to make any delay rental payment or other payments necessary to maintain lease acreage in force and effect as required hereunder, there shall be no liability, providing that LOC was acting in good faith. Tipperary will reimburse LOC within thirty (30) days of receipt of LOC's invoice for Tipperary's proportionate share of such payments attributable to the jointly owned leases.

In the event a Party elects not to continue a lease in full force and effect by the payment of such rental, minimum royalty, or shut-in payment, that Party will assign to the other Party any interest which it may have in the lease or part thereof which is affected. Such lease will thereafter be excluded from the terms of this Agreement and any operating agreement entered into hereunder.

Notwithstanding anything herein to the contrary, any joint interest of Lyco or Tipperary which reverts or is reassigned to the other Party pursuant to this Agreement or any operating agreement entered into by the Parties hereto, shall revert to or be reassigned to that Party free and clear of any liens, encumbrances, debt, claim, production payment, security interest or other obligation made by, through or under the surrendering Party, provided, however, it is understood and agreed that any of the Parties have the right under this Agreement to have created or reserved an overriding royalty interest ("ORRI") on each lease covered by this Agreement (proportionately reduced to the leasehold interest being owned by each Party and to the mineral interest covered by such lease) equal to the difference between total existing burdens and twenty-two percent (22.0%), but in any event such proportionate ORRI shall not exceed five percent of eight-eighths (5.0% of 8/8ths). Said overriding royalty interest(s), if created or reserved, will be considered as a "jointly acknowledged and accepted obligation of all parties" as provided in ARTICLE III.D - SUBSEQUENTLY CREATED INTERESTS in the Joint Operating Agreement governing said prospect.

The Parties recognize (i) this is a confidential agreement and shall be private between said Parties, and (ii) the need for strict confidentiality of all information related to this Agreement, the Divide Project or any operating agreement in effect between the Parties. Neither Party shall reveal, disclose or otherwise distribute information or data revealed or generated under this Agreement, including the terms hereof, either verbally or in writing to third parties without the consent of the other Party EXCEPT (i) as is hereby approved only with respect to each of the Parties' consultants, representatives, bankers or financial partners, directors, and employees, (ii) as may be necessary under existing prior contractual relationships, (iii) as may be necessary pursuant to the best judgement of either Tipperary or Lyco, as the case may be, (but with such disclosure preceded by advance notice to the other Party) to disclose to the public, to potential acquirors, to potential or actual lenders or investors in either Tipperary or Lyco or in their respective properties, and (iv) as may be required by law. It is further recognized and acknowledged that the Parties may be subject to certain contractual restrictions relating to disclosure of or copying of seismic data acquired pursuant to a Program. Both Parties acknowledge such limitations and agree to abide by the same. Notwithstanding the above, either Party may from time to time disclose sufficient data to a prospective third party partner to enable such party to make a decision to participate in a particular Prospect Area; provided that, such third party shall be required to maintain such data confidential.

ARTICLE X - PURCHASE OF THIRD PARTY PRODUCING PROPERTIES

Notwithstanding anything to the contrary herein, any Party may propose to purchase producing properties and associated leasehold within the AMI from third parties. The proposing Party will notify the other Party of the properties on which a purchase offer is to be tendered, the criteria used to determine the value of the properties and the amount of the proposed purchase price.

The Party receiving such notice shall have fifteen (15) business days from receipt of such notice in which to elect whether or not to participate in a purchase offer to be tendered to the third party. Failure to respond within said fifteen (15) business days shall be deemed an election NOT to participate in the purchase of the producing properties and associated leasehold. Should either Party decline to participate, it will own no rights to the purchased properties and associated leasehold and such properties and leasehold will not be subject to this Agreement.

The Project Manager, unless it has elected not to participate in a particular producing property proposal, shall have primary responsibility for

producing property evaluations, purchase price negotiations, preparation and negotiation of Purchase and Sale Agreements, Assignments and other closing documents.

ARTICLE XI - OBLIGATORY OPERATIONS

If, during the term of this Agreement or the Joint Operating

Agreement, a proposal is made for the drilling, deepening, reworking, plugging back, sidetracking or recompleting of a well or wells or any other operation proposed or required within six (6) months of the expiration of any rights and/or interests subject to this Agreement or the Joint Operating Agreement in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by any third party or which, failing in such operations, they revert to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction of the premises, failing in which certain rights would terminate within such period, (hereinafter referred to as "OBLIGATORY OPERATION") the following shall apply:

(a) Should only one of the Parties hereto elect to participate and pay its proportionate part of the costs to be incurred in such Obligatory Operation as elsewhere herein provided, such party desiring to participate shall have the right to do so at its sole cost, risk and expense.

(b) A Party not participating in the Obligatory Operation which involves the drilling or re-entry of the initial well in a Prospect Area under Article III - Designation of Prospects, will assign all of its rights and/or leasehold interest in said well and the leases and lands comprising the entire Prospect Area to the Participating Party.

(c) A Party not participating in the Obligatory Operation which involves a subsequent well in a Prospect Area, will assign all of its rights and/or leasehold interest in said well and the Leases and lands located within the geographical boundaries of any spacing unit established for such well.

(d) Such assignment shall be executed and delivered within thirty (30) days of the conclusion of such operation by the party not electing to participate and shall be on the form of Assignment attached hereto as Exhibit "C". Said Assignment shall be free and clear of any overriding royalty interest (except the proportionate overriding royalty interest provided for in Article IX herein), production payments, mortgages, liens or other encumbrances placed thereupon or arising out of the assigning Party's ownership and operations subsequent to the date of this Agreement, but

otherwise without warranty of title, either express or implied except as to acts of the assigning Party. The leasehold in which an interest is assigned pursuant to the terms hereof shall no longer be subject to this Agreement or the Joint Operating Agreement.

ARTICLE XII - TERM

Unless earlier terminated by the mutual consent of the Parties, this Agreement shall terminate five (5) years from the date hereof except as follows:

(a) The Parties shall continue to own their respective interests in any leasehold, minerals, royalties, farmouts, net profits interests, or overriding royalties, acquired during the term hereof;

(b) The Joint Operating Agreement(s) covering operations of the various Prospect Areas shall continue pursuant to their individual terms; and

(c) The rights of the Parties relative to the ownership of seismic data shall continue.

ARTICLE XIII - ASSIGNABILITY

Any interest in leasehold, minerals, royalties, overriding royalties, production payments, net profits interests, farmouts or the like, that a Party may acquire under the terms hereof, may be freely assigned in whole or in part, provided, however, any such assignment shall be made expressly subject to the terms and provisions hereof and to any Joint Operating Agreement or other agreements or prior assignments covering such assigned interests. An assignment shall not be effective as to the other Party until a true and complete copy of same has been furnished to such Party.

ARTICLE XIV - MISCELLANEOUS

(a) The liabilities of the Parties shall be several, not joint or collective. Each Party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs as agreed. This Agreement shall not be construed as a partnership for income tax purposes. It is not the intention of the Parties to create, nor shall this Agreement be construed as creating a mining or other partnership or association to render them liable as partners. The relationship of the Parties shall be that of independent contractors owning properties as co-tenants.

(b) The Parties shall at all times have the right to take their respective oil and/or gas in kind at the wellhead in accordance with the provisions of the

attached Joint Operating Agreement.

(c) This Agreement expresses the entire understanding of the Parties with respect to the subject matter hereof and supersedes all prior discussions, negotiations, representations, promises and agreements with respect to the matters set forth herein. This Agreement may be changed, modified or amended only by an instrument in writing duly executed by the Parties.

(d) All notices authorized or required between the Parties shall be given either in writing by mail, telegram or facsimile with postage or charges prepaid, addressed to the other Party to whom the notice is given at the addresses shown as follows:

LYCO ENERGY CORPORATION
6688 North Central Expressway, Suite 1600
Dallas, Texas 75206-3927
Attn: Bobby B. Lyle
Telephone: 214/890-4400
Fax: 214/890-9917

TIPPERARY OIL & GAS CORPORATION
633 Seventeenth Street, Suite 1550
Denver, Colorado 80202
Attn: David L. Bradshaw
Telephone: 303/293-9379
Fax: 303/292-3428

(e) In all instances, time is of the essence in this Agreement. In any instance where a response to a notice given hereunder should require a shorter response period because of outside time requirements, the Parties hereby mutually agree to such shorter response period to comply with such requirements.

(f) The existing validity of this Agreement and all matters pertaining thereto including, but not limited to, matters of performance, non-performance, breach, remedies, procedure, rights, duties and interpretation or construction shall be governed by, interpreted, construed and enforced in accordance with the laws of the State of Texas.

(g) The Parties to this Agreement shall execute and deliver (and acknowledge where necessary), or (to the extent such Party is able) shall cause to be executed and delivered by third parties (and acknowledged where necessary), from time to time, such further assignments, operating agreements, division orders, transfer orders, approvals, and other instruments and other documents, and shall

do such other and further acts and things as may be reasonably necessary to more fully and effectively accomplish the purposes and intent of this Agreement and the Joint Operating Agreement.

(h) This Agreement may be executed in any number of counterparts and each such counterpart so executed shall have the same force and effect as an original instrument as if all of the Parties to the aggregate counterparts had signed the same document.

(i) The descriptive headings in this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

(j) The effective date of this Agreement and Lyco's purchase of a 50.0% W.I. in and to the Tipperary Leases shall be June 27, 1996 (the "EFFECTIVE DATE").

The terms, covenants and conditions of this Agreement shall be binding upon and enure to the benefit of the Parties hereto and their respective successors and assigns, and said terms, covenants and conditions shall be covenants running with the lands and leases subject to, or which may become subject to, this Agreement.

EXECUTED THIS 22 DAY OF AUGUST, 1996.

TIPPERARY OIL AND GAS CORPORATION

By: /s/Jeff T. Obourn

Name: Jeff T. Obourn
Title: Attorney in Fact
Tax I.D. No.: 75-1446759

LYCO ENERGY CORPORATION

By: /s/ Robert G. Moore, Jr.

Name: Robert G. Moore, Jr.
Title: Vice President - Land & Contracts
Tax I.D. No.: 75-1777291

EXHIBIT 10.46

CAVELL ENERGY (U.S.) CORPORATION
500-4th Avenue S.W.
Suite 1200
Calgary, Alberta T2P 2V6

September 19, 1996

Tipperary Oil & Gas Corporation
Suite 1550
633-17th Street
Denver, Colorado 80202

Attention: David L. Bradshaw
President and CEO

Re: Lease Acquisition - Divide Co., North Dakota

Gentlemen:

This letter sets forth the agreement of Cavell Energy (U.S.) Corporation, a Delaware corporation ("Cavell"), and Tipperary Oil & Gas Corporation, a Texas corporation ("Tipperary"), concerning the purchase by Cavell from Tipperary of an undivided twenty-five percent (25%) interest in oil and gas leases in which Tipperary owned interests effective as of August 1, 1996 (the "Effective Date"). In consideration of the mutual promises set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Cavell and Tipperary hereby agree as follows:

1. PURCHASE OF ACREAGE. Cavell has purchased from Tipperary, and Tipperary has sold and assigned to Cavell, effective as of the Effective Date, an undivided twenty-five percent (25%) interest in and to certain oil and gas leases and other mineral rights (the "Leases") in Divide County, North Dakota, and all the property and rights incident thereto (the "Interests") as more particularly described in an Assignment of Oil and Gas Leases of even date herewith (the "Assignment"), a copy of which is attached hereto as Exhibit A.

2. PURCHASE PRICE. The Purchase Price for the Interests is $75.00 U.S. per net acre delivered by Tipperary as of the Effective Date. The Interests conveyed by the Assignment comprise an undivided twenty-five percent (25%) interest in 29,659.98 net acres, and thus the Purchase Price for the Interests is $556,124.25. The Purchase Price shall be paid by Cavell in the following manner:

(a) $300,000 U.S. has been paid to Tipperary upon execution of this agreement.

(b) The remainder of the Purchase Price, $256,124.25 U.S., shall be paid by Cavell by the timely payment on behalf of Tipperary of its retained twenty-five percent (25%) working interest share of all seismic, lease acquisition, drilling and other capital expenditures incurred on the Leases or otherwise in the Area of Mutual Interest (as defined in the Exploration Agreement referenced in paragraph 3) after the Effective Date; provided, however, that if by December 31, 1996, Cavell has not actually paid such remainder on Tipperary's behalf, then Cavell shall pay the remaining unpaid portion of such remainder to Tipperary on or before January 10, 1997.

3. LYCO AGREEMENTS. The parties acknowledge that the Interests conveyed to Cavell are subject to the terms and conditions of that certain Divide Exploration Agreement (the "Exploration Agreement") dated as of June 27, 1996, between Tipperary and Lyco Energy Corporation ("Lyco") and that certain Joint Operating Agreement (the "Operating Agreement") dated as of June 27, 1996, among Lyco Operating Company, as Operator, and Lyco and Tipperary as Non-operator. The parties further acknowledge that pursuant to the Letter Agreement of even date herewith among Lyco, Tipperary and Cavell (the "Consent Agreement") Cavell has been recognized as a party to each of the Exploration Agreement and the Operating Agreement with all the rights and obligations thereunder appurtenant to its ownership of the Interests, as such agreements are amended by the Consent Agreement, a copy of which is attached hereto as Exhibit B.

4. ADDITIONAL AMENDMENTS. In addition to the amendments set forth in the Consent Agreement, the parties acknowledge and agree as follows:

(a) Cavell's rights under Article VII of the Exploration Agreement shall extend for one year from the date of this agreement (rather than from the date of the Exploration Agreement) and that the refund amount in the last paragraph of Article VII to be paid to Cavell in the event of a Title Defect shall be $75.00 U.S. per net mineral acre rather than $45.00 U.S.

(b) In place of Tipperary's net revenue interest representations set forth in the last paragraph of Article VI, Tipperary represents and warrants to Cavell that the Assignment delivered to Cavell conveys not less than a twenty and one-half percent (20.5%) net revenue interest in and to the Leases. In addition, Cavell's rights and Tipperary's warranties and indemnities set forth in the second paragraph of Article VI of the Exploration Agreement shall

relate to the Effective Date set forth herein rather than the effective date set forth in the Exploration Agreement.

5. REPRESENTATIONS AND WARRANTIES.

(a) Tipperary represents and warrants to Cavell as follows:

(i) AUTHORITY. Tipperary is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas. Tipperary has all requisite power and authority to enter into this agreement, and to perform its obligations under this agreement. Consummation of the transactions contemplated by this agreement will not (i) violate, or be in conflict with, any provision of Tipperary's articles of incorporation or other governing documents, (ii) result in the breach of any term or condition of, or constitute a default or cause the acceleration of any obligations under any agreement or instrument to which Tipperary is a party or is bound, or (iii) violate any judgment, decree, order, statute, rule or regulation applicable to Tipperary.

(ii) AUTHORIZATION. The execution, delivery and performance of this agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Tipperary. All instruments delivered by Tipperary in connection with this agreement have been duly authorized, executed and delivered by Tipperary. This agreement and all documents executed by Tipperary in connection with this agreement shall constitute legal, valid and binding obligations of Tipperary, enforceable against Tipperary in accordance with their terms, subject only to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect, as well as general principles of equity.

(iii) AGREEMENTS. To the best of our knowledge, other than this agreement and the Consent Agreement, the Exploration Agreement and the Operating Agreement are the only existing agreements that affect or burden the Interests, the Leases or the Area of Mutual Interest.

(b) Cavell represents and warrants to Tipperary as follows:

(i) AUTHORITY. Cavell is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Cavell has all requisite power and authority to enter into this agreement, and to perform its obligations under this agreement. Consummation of the transactions contemplated by this agreement will not (i) violate, or be in conflict with, any provision of Cavell's articles of incorporation or other governing documents, (ii) result in the breach of any term or condition of, or constitute a default or cause the acceleration of any obligations under any agreement or instrument to which Cavell is a party or is bound, or (iii) violate any judgment, decree, order, statute, rule or regulation applicable to Cavell.

(ii) AUTHORIZATION. The execution, delivery and performance of this agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Cavell. All instruments delivered by Cavell in connection with this agreement have been duly authorized, executed and delivered by Cavell. This agreement and all documents executed by Cavell in connection with this agreement shall constitute legal, valid and binding obligations of Cavell, enforceable against Cavell in accordance with their terms, subject only to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect, as well as general principles of equity.

6. SURVIVAL. The agreements, covenants, representatives and warrants set forth in this agreement shall survive the date hereof indefinitely and shall not be merged into or extinguished by the execution of the Assignment.

7. ENTIRE AGREEMENT. This agreement constitutes the entire understanding among the parties with respect to the subject matter hereof, superseding all prior discussions, agreements and understandings relating to such subject matter, including, without limitation, the letter agreement dated July 30, 1996, between Cavell and Tipperary.

8. COUNTERPARTS. This agreement may be executed in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute but one and the same instrument. Delivery of an executed counterpart of this agreement by facsimile shall be equally effective as delivery of a manually executed counterpart of this agreement, and the failure to deliver a manually executed counterpart shall not affect the validity, enforceability or binding effect of this agreement.

If the foregoing accurately sets forth our agreement, please execute this letter in the space provided below.

Very truly yours,

CAVELL ENERGY (U.S.) CORPORATION

By: /s/ Murray D. McCartney

Murray D. McCartney, President

ACCEPTED AND AGREED TO
THIS 19th day of September 1996:

TIPPERARY OIL & GAS CORPORATION

By: /s/ David L. Bradshaw

David L. Bradshaw, President and CEO

EXHIBIT 10.47

CAVELL ENERGY (U.S.) CORPORATION
500-4TH AVENUE S.W.
SUITE 1200
CALGARY, ALBERTA T2P 2V6

September 19, 1996

Lyco Energy Corporation
Suite 1600
6688 North Central Expressway
Dallas, Texas 75206-3927

Attention: Robert G. Moore, Jr.
Vice President - Land & Contracts

Tipperary Oil & Gas Corporation
Suite 1550
633-17th Street
Denver, Colorado 80202

Attention: David L. Bradshaw
President and CEO

Re: Exploration Agreement; Divide County, North Dakota

Gentlemen:

Reference is made to that certain Divide Exploration Agreement (the "Exploration Agreement") dated as of June 27, 1996, between Tipperary Oil & Gas Corporation ("Tipperary") and Lyco Energy Corporation ("Lyco") and that certain Joint Operating Agreement (the "Operating Agreement") dated as of June 27, 1996, among Lyco Operating Company ("LOC"), as Operator, and Lyco and Tipperary as Non-Operators.

Effective as of August 1, 1996, Tipperary has assigned and conveyed to Cavell Energy (U.S.) Corporation ("Cavell") an undivided twenty-five percent (25%) interest in and to all of the oil and gas leases and other mineral interests owned by Tipperary as of such date, subject to the provisions of the Exploration Agreement and Operating Agreement. The parties now desire to set forth their agreement concerning the addition of Cavell as a party to the Exploration Agreement and Operating Agreement and certain amendments to such agreements. In consideration of the mutual promises set forth herein and other

good and

valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lyco, LOC, Tipperary and Cavell hereby agree as follows:

1. RECOGNITION OF CAVELL. Lyco and LOC hereby acknowledge and consent to the assignment from Tipperary to Cavell referenced above, and they agree that effective August 1, 1996, Cavell shall be recognized as a party to the Exploration Agreement and Operating Agreement and that Cavell shall have all of the rights and obligations under such agreements (as amended by this agreement) that are attributable to an undivided twenty-five percent (25%) interest in all of the leases, mineral rights, lands and the Area of Mutual Interest that are subject to such agreements.

2. INTERESTS OF PARTIES. The parties agree that effective August 1, 1996, the interests of the parties in the Exploration Agreement, Operating Agreement and all properties, lands and rights appurtenant thereto shall be owned fifty percent (50%) by Lyco, twenty-five percent (25%) by Tipperary and twenty-five percent (25%) by Cavell, and effective as of the date hereof, Tipperary shall have no further obligation or liability with regard to the twenty-five percent (25%) interest owned by Cavell, provided, however, that nothing contained herein shall affect in any respect the obligations and responsibilities of Tipperary under the Exploration Agreement with respect to liabilities allocable or attributable to the period of time prior to the date hereof. The parties agree that the provisions of the Exploration Agreement and Operating Agreement are hereby amended as appropriate to reflect the addition of Cavell as a party, and to provide that all votes and approvals contemplated by such agreements shall be determined by votes of the parties in accordance with the foregoing percentage interests. All notices to Cavell authorized or required under the Exploration Agreement or the Operating Agreement shall be given to Cavell at the following address:

Cavell Energy (U.S.) Corporation
500 - 4th Avenue S.W.
Suite 1200
Calgary, Alberta T2P 2V6

Attention: Land Department

Telephone: 403/269-8337
FAX: 403/264-1627

3. AMENDMENTS. In addition to the amendments provided under paragraph 2, the Exploration Agreement and Operating Agreement shall be amended as follows:

(a) Article XIV(e) of the Exploration Agreement shall be amended to provide that if an outside time requirement is applicable to a response period, then the outside time requirement must be set forth in the notice from the notifying party before it shall be binding on the receiving parties.

(b) In order to perfect the reciprocal liens granted by Article VII.B. of the Operating Agreement, the parties agree to negotiate in good faith with the intention of reaching agreement upon the terms and conditions of a Recording Supplement and related financing statements to be filed in the real property records of Divide County and the appropriate North Dakota UCC records.

(c) Article V.B. of the Operating Agreement is amended to provide that if Lyco sells or otherwise disposes of all of its interest in the Area of Mutual Interest (as defined in the Exploration Agreement) to an independent third party, then upon written request by Non-Operators LOC shall promptly resign as the Operator effective thirty (30) days after LOC's receipt of such request. As used herein, the terms (i) "sells or otherwise disposes" shall mean a transfer for consideration, but shall not include a transfer by merger, reorganization, consolidation, or change of control pursuant to a sale of stock or otherwise, and (ii) "independent third party" shall mean a party other than a party directly or indirectly controlling, controlled by, or under common control with, such party; a party shall be deemed to control another party if the controlling party owns 10% or more of any class of voting securities (or other similar equity interest in a partnership or limited liability company) of the controlled party or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled person, whether through ownership of stock, contract or otherwise.

Except as amended by paragraph 2 and this paragraph 3, all of the terms and conditions of the Exploration Agreement and the Operating Agreement shall remain in full force and effect.

4. COUNTERPARTS. This agreement may be executed in any number of counterparts and each such counterpart as executed shall have the same force and effect as an original instrument as if all the parties to the aggregate counterparts had signed the same document. Delivery of an executed counterpart of this agreement by facsimile shall be equally effective as delivery of a manually executed counterpart, and the failure to deliver a

manually executed counterpart shall not affect the validity, enforceability or binding effect of this agreement.

If the foregoing accurately sets forth our agreement, please execute this letter in the space provided below.

Very truly yours,

CAVELL ENERGY (U.S.) CORPORATION

By: /s/ Murray D. McCartney

Murray D. McCartney, President

ACCEPTED AND AGREED TO
this 19th day of September 1996:

LYCO ENERGY CORPORATION

By: /s/ Robert G. Moore, Jr.

Name: Robert G. Moore, Jr.
Title: Vice President-
Land and Contracts

TIPPERARY OIL & GAS CORPORATION

By: /s/ David L Bradshaw

David L. Bradshaw, President

LYCO OPERATING COMPANY

By: /s/ Charles B. Wiley

Name: Charles B. Wiley
Title: Vice President

PURCHASE AND SALE AGREEMENT

THIS AGREEMENT, dated June 28, 1996, is made and entered into by and between CLOVELLY OIL CO., INC. ("Seller") and TIPPERARY OIL & GAS CORPORATION ("Buyer").

1. BASIS OF AGREEMENT. Seller and Buyer are parties to that certain Joint Operating Agreement, dated May 15, 1992, by and between Tri-Star Petroleum Company, as Operator, and Seller, Buyer and others, as non-operators, relative to the development of the area known as the Comet Ridge Project, State of Queensland, Australia ("the Operating Agreement"). The Operating Agreement is attached hereto as Exhibit "A" and incorporated herein by reference for all purposes. Seller desires to sell a portion of its undivided interest which Seller owns or has the right to acquire in the following described Assets to Buyer, and Buyer desires to purchase a portion of the undivided interest which Seller owns or has the right to acquire in the following described Assets from Seller, all in accordance with the terms and conditions of this Purchase and Sale Agreement ("the Agreement").

2. AS SETS TO BE PURCHASED AND SOLD. Subject to the terms set forth in this Agreement, and the assumption of the obligations undertaken by Buyer in this Agreement, including without limitation those set forth in Paragraph 8 below, Seller agrees to sell to Buyer and Buyer agrees to buy from Seller the following interests credited to Seller under the "Percentage Interest of the Parties" in paragraph 3 of Exhibit "A" to the Operating Agreement, to wit:

A. In Production (%)	B. In Leasehold Ownership & Lease Operating Expenses (%)	C. In Acquisition, Drilling, Development, Workover & Capital Costs (%)
Before Project Payout:		
13.2890625	14.765625	15.750000
After Project Payout:		
11.3400000	12.600000	12.600000

in and to the following described Assets, all subject to the terms and conditions of the Operating Agreement:

(a) Seller's undivided interest in and to, and/or the right to acquire an undivided interest in and to, the Authority to Prospect hereto (the "ATP") listed and described on Exhibit "B" attached hereto, and on

Exhibit "B" attached to the

Operating Agreement, and any extension, renewal or replacement of the ATP, howsoever denominated;

(b) Seller's undivided interest in and to, and/or the right to acquire an undivided interest in and to the oil, gas and mineral licenses or leases listed and described on Exhibit "B" attached hereto (the "Leases") and any oil, gas and mineral licenses or leases issued in the future covering acreage described by the ATP or any extension, renewal or replacement of the ATP;

(c) Seller's undivided interest in and to the wells listed and described on Exhibit "C" attached hereto (the "Wells"), including all formations and depths within or below the wellbore, whether or not presently productive;

(d) Seller's undivided interest in and to all personal and mixed property located on the lands covered by the ATP and Leases and used in operations conducted on same, whether located on or off the wellsites, the Leases or the ATP;

(e) Seller's undivided interest in and to, and/or the right to acquire an undivided interest in and to, all permits licenses or leases, servitudes, rights-of-way, easements, pipeline licenses and any other tenements or similar rights associated with the ATP and Leases and/or operation of the ATP and Leases;

(f) Seller's undivided interest in and to, and/or the right to acquire an undivided interest in and to, any and all gas purchase and sale agreements, crude purchase and sale agreements, leases of equipment or facilities and any and all other agreements and rights which are (i) appurtenant to the ATP, Leases or Wells, or (ii) used or held for use in connection with the ownership or operation of the Wells or with the production, treatment, sale or disposal of water, hydrocarbons or associated substances produced, used or disposed of in connection with the Wells, ATP or the Leases;

(g) To the extent of the interest purchased and sold, Seller's contract rights under the Operating Agreement, of any nature whatsoever, including, but not limited to, all choses-in-action, whether or not presently owned by or vested in Seller; and

(h) To the extent of the interests purchased and sold, any and all of Seller's other right, title or interests of any nature whatsoever under the provisions of the Operating Agreement, including but not limited to any tax benefits or tax deductions under the laws of Australia, the State of Queensland or any municipality thereof, whether or not presently accrued, owned by or vested in Seller.

The rights and interests described in paragraphs (a) through (h) above are collectively referred to in this Agreement as "the Assets".

3. PURCHASE PRICE AND CLOSING. The Purchase Price for the Assets shall be Six Million Ninety-two Thousand One Hundred and no/100 ($6,092,100) Dollars (the "Purchase Price"). The sale shall be completed at a closing (the "Closing") to be held in the office of Seller, 650 Poydras Street, Suite 2350, New Orleans, Louisiana 70130, on or before June 28, 1996 (the "Closing Date"). At the Closing, Seller shall deliver to Buyer a fully executed Assignment in the form attached hereto as Exhibit "D". The Purchase Price, less Ten Thousand and no/100 ($10,000.00) Dollars previously paid by Buyer to Seller, the receipt and sufficiency of which is hereby acknowledged, shall be paid to Seller by certified or cashier's check made payable to the order of Clovelly Oil Co., Inc., Taxpayer Identification No.47-0552306.

4. THE EFFECTIVE DATE. The Effective Date hereof, for all purposes, shall be July 1, 1996, at 7:00 a.m., Greenwich Mean Time Plus Ten, Brisbane Australia.

5. POST CLOSING ADJUSTMENTS. Within sixty (60) days after the Closing, the parties shall undertake to agree with respect to the adjustments or payments that were not finally determined as of the Closing, and the amount due from Buyer or Seller, as the case may be, pursuant to the PostClosing adjustment. Seller shall provide Buyer access to such of Seller's records as may be reasonably necessary to a determination of Post-Closing adjustments. Payment by Buyer or Seller shall be made in immediately available funds within five (5) days of agreement. If the Post-Closing adjustment has not been agreed upon within the time period set forth herein, either party may seek to enforce any rights it claims hereunder.

6. MUTUAL REPRESENTATIONS AND WARRANTIES. Each party hereto represents and warrants to the other that:

a. It is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation;

b. It has all authority necessary to enter into this Agreement and to perform all its obligations hereunder;

c. Its execution, delivery and performance of this Agreement and the transactions contemplated hereby will not: (i) violate or conflict with any provision of its Certificate of Incorporation, By-Laws or other governing documents; (ii) result in the breach of any term or condition of, or constitute a default or cause the acceleration of any obligation under any agreement or instrument to which it is a party or

by which it is bound; or (iii) violate or conflict with any applicable judgment, decree, order, permit, law, rule or regulation, state or federal, of the United States of America;

d. This Agreement has been duly executed and delivered on its behalf, and at the Closing all documents and instruments required hereunder will have been duly executed and delivered. This Agreement, and all such documents and instruments shall constitute legal, valid and binding obligations enforceable in accordance with their respective terms, except to the extent enforceability may be affected by bankruptcy, reorganization, insolvency or similar laws affecting creditors rights generally; and

e. No legal or administrative proceeding is pending or threatened that would prohibit it from entering into or consummating this Agreement.

7. SELLER'S REPRESENTATIONS AND WARRANTIES.

a. Seller agrees to convey, assign and transfer the undivided interest in the Assets to be purchased by Buyer without warranty of title, express or implied, not even for return of the purchase price, except that Seller shall agree to warrant and defend title to the interests and properties against every person claiming an interest therein by, through and under Seller, but not otherwise. This limited warranty of title shall expire two years from the anniversary date of the sale unless Buyer shall have furnished Seller with written notice, with reasonably full particulars, of its objection to title on or before the second anniversary of the Effective Date of the sale.

b. Seller represents that the interests which Buyer shall receive shall include production from each well located on the ATP and Leases in an amount which is not less than the percentage net revenue interest set forth in Paragraph 2 above. In addition, Seller represents that the interest to be conveyed, assigned and transferred to Buyer shall not require Buyer to bear a greater percentage of costs and expenses than the percentage working interest set forth in Paragraph 2 above.

c. To the best of its knowledge, Seller represents that the interest in Assets to be purchased by Buyer are free and clear of all liens, judgments, mortgages and other burdens or encumbrances.

d. To the best of its knowledge, Seller represents that title to undivided interest in the Assets to be purchased by Buyer has not been forfeited under the terms of any Joint Operating Agreement covering said interests and that it is not in arrears with respect to any joint interest billing account.

e. Seller agrees to transfer to Buyer the full right of subrogation to enforce the covenants and warranties, if any, which Seller is entitled to enforce against Seller's predecessors in title to the subject interest in the Assets to be purchased by Buyer hereunder.

8. BUYER'S PLUGGING AND ABANDONMENT OBLIGATIONS. Notwithstanding any provision to the contrary, to the extent of the interest purchased and sold, Buyer agrees to accept full

responsibility for and all costs associated with the plugging and abandonment of all existing and subsequently drilled wells on the Assets, and the removal of all existing and subsequently installed pipelines to or from the Assets.

9. ALLOCATION OF LIABILITY AND INDEMNIFICATIONS.

a. DEFINITIONS.

The term "ASSUMED LIABILITIES" shall mean and include:

(i) All costs, expenses, liabilities and obligations assumed or otherwise agreed to be paid by Buyer pursuant to the terms of this Agreement; and

(ii) All costs, expenses, liabilities, claims and obligations arising out of, in connection with, or resulting directly or indirectly from the ownership or operation of the Assets, arising out of or resulting directly or indirectly from the ownership or operation of the Assets, but excluding Retained Liabilities, insofar as such claims relate to periods of time subsequent to the Effective Date.

The term "RETAINED LIABILITIES" shall mean and include:

(i) All costs, expenses, liabilities and obligations assumed or otherwise agreed to be paid by Seller pursuant to the terms of this Agreement;

(ii) All costs, expenses, liabilities, claims and obligations (except plugging and abandonment related costs, expenses, liabilities, claims and obligations attributable to the interest sold) arising out of, in connection with or resulting directly or indirectly from production or sale of

hydrocarbons attributable to the Assets, insofar as such claims relate to periods of time prior to the Effective Date; and

(iii) All legal fees charged to the joint account and attributable to the interests purchased and sold hereunder prior to the Effective Date.

b. LIABILITIES. Buyer agrees to assume, pay, perform, fulfill, discharge and be liable for all Assumed Liabilities, and Seller agrees to retain, pay, perform, fulfill, discharge and be and remain liable for all Retained Liabilities.

c. SELLER'S INDEMNITY. SELLER AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS BUYER, ITS OFFICERS, DIRECTORS, AGENTS AND EMPLOYEES, OR ANY OF THEM, FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, SUITS, CONTROVERSIES, LIABILITIES AND EXPENSES (INCLUDING, WITHOUT LIMITATION, COURT COSTS, REASONABLE EXPENSES OF LITIGATION AND REASONABLE ATTORNEY'S FEES) ARISING DIRECTLY OUT

OF SELLER'S OWNERSHIP OR USE OF THE INTEREST IN THE ASSETS TO BE PURCHASED HEREUNDER; PROVIDED, HOWEVER, THAT THIS INDEMNITY SHALL BE LIMITED TO THOSE CLAIMS, RIGHTS, DEMANDS AND CAUSES OF ACTION ARISING FROM ACTIVITY OCCURRING PRIOR TO THE EFFECTIVE DATE OF THE SALE.

d. BUYER'S INDEMNITY. BUYER AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS SELLER, ITS OFFICERS, DIRECTORS, AGENTS AND EMPLOYEES, OR ANY OF THEM, FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, SUITS, CONTROVERSIES, LIABILITIES AND EXPENSES (INCLUDING, WITHOUT LIMITATION, COURT COSTS, REASONABLE EXPENSES OF LITIGATION AND REASONABLE ATTORNEY'S FEES) ARISING DIRECTLY OUT OF BUYER'S OWNERSHIP OR USE OF THE INTEREST IN THE ASSETS TO BE SOLD HEREUNDER; PROVIDED, HOWEVER, THAT THIS INDEMNITY SHALL BE LIMITED TO THOSE CLAIMS, RIGHTS, DEMANDS AND CAUSES OF ACTION ARISING FROM ACTIVITY OCCURRING ON OR AFTER THE EFFECTIVE DATE OF THE SALE.

10. CONDITION OF THE ASSETS. Prior to the Closing, Buyer shall have the right to make an inspection of the Assets prior to the Closing. BUYER UNDERSTANDS AND AGREES THAT THE PERSONAL PROPERTY INCLUDED IN THE ASSETS IS SOLD "AS IS" AND "WHERE IS" WITH ALL FAULTS AND DEFECTS. WITHOUT RECOURSE BY BUYER, ITS SUCCESSORS AND/OR ASSIGNS, AGAINST SELLER AND WITHOUT COVENANT, REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED OR STATUTORY WHATSOEVER; AND WITHOUT LIMITATION OF THE GENERALITY OF THE IMMEDIATELY PRECEDING CLAUSE, SELLER EXPRESSLY DISCLAIMS AND NEGATES (A) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE AND/OR TITLE TO THE ASSETS AND (B) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY. BUYER HEREBY RELEASES SELLER FROM ANY AND

ALL LIABILITY WITH RESPECT TO THE CONDITION OF THE PERSONAL PROPERTY INCLUDED IN THE ASSETS, WHETHER OR NOT CAUSED BY SELLER'S SOLE OR PARTIAL NEGLIGENCE AND WAIVES ITS RIGHT TO RECOVER FROM SELLER ANY DAMAGES, CLAIMS, FINES, PENALTIES OR EXPENSES, THAT MAY IN ANY WAY BE CONNECTED WITH THE PHYSICAL CONDITION OF THE PERSONAL PROPERTY INCLUDED IN THE ASSETS, WHETHER NOW KNOWN OR UNKNOWN.

11. REVIEW AND INSPECTION OF THE ASSETS. Prior to the Closing, Buyer shall have the right to perform due diligence review and inspection of the Assets. Seller shall make available, both before and after Closing, to Buyer all information and data relating to the Assets as they may have and as reasonably requested by Buyer, including, but not limited to the following (a) financial and accounting records; (b) production, engineering, geological and geophysical data and reports for the Leases; (c) copies of engineering, geological and geophysical studies, subject to any license and non-disclosure requirements; (d) copies of seismic data across any of the Leases (subject to any

license restriction and non-disclosure requirements); (e) title records, including, but not limited to, copies of the Leases; (f) material and relevant information concerning pending litigation (excluding information subject to attorney-client or attorney work product privilege); (g) regulatory compliance; (h) contracts between Seller and third parties with regard to the Assets; and (i) all permits and licenses pertaining to the Assets. Nothing contained in this paragraph shall obligate Seller to take any action or expend any money to acquire anything for Buyer which Seller does not already have in its possession. Seller does not represent that it has all of the above referenced material in its possession, nor does Seller warrant the accuracy of any such material. Buyer agrees that the burden of due diligence to satisfy itself as to the status of these matters by other means if Seller does not possess the listed material shall be upon Buyer.

12. WAIVER. Seller and Buyer certify that they are not "Consumers" within the meaning of the Texas Deceptive Trade Practices - Consumer Protection Act, Subchapter E of Chapter 17, Sections 17.41, et seq., of the Texas Business and Commerce Code, as amended (the "DTPA"). The parties covenant, for themselves and for and on behalf of any successors and assignees, that if the DTPA is applicable (a) the parties are "business consumers" hereunder, (b) each party hereby waives and releases all of its rights and remedies thereunder (other than Section 17.555, Texas Business and Commerce Code) as applicable to the other party and its successors, and (c) each party shall defend and indemnify the other from and against any and all claims, demands, or causes of action of or by that party or any successor or any of its affiliates based in whole or in part on the DTPA, arising out of or in connection with the transaction set forth in this Agreement.

WAIVER OF CONSUMER RIGHTS

PURCHASER WAIVES ITS RIGHTS UNDER THE DECEPTIVE TRADE PRACTICES - CONSUMER PROTECTION ACT, SECTION 17.41 ET SEQ., BUSINESS & COMMERCE CODE, A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS. AFTER CONSULTATION WITH AN ATTORNEY OF PURCHASER'S OWN SELECTION, PURCHASER VOLUNTARILY CONSENTS TO THIS WAIVER.

13. NOTICES. All communications required or permitted under this Agreement shall be in writing and any communication or delivery hereunder shall be deemed to have been fully made if actually delivered, or if mailed by registered or certified mail, postage prepaid, return receipt requested, to the address as set forth below:

SELLER

Clovelly Oil Co., Inc.
650 Poydras Street
Suite 2350
New Orleans, Louisiana 70130
Attention: Richard G. Pfister

Telephone: (504) 522-7496
Telecopier: (504) 523-6302

BUYER

Tipperary Oil & Gas Corporation
533 Seventeenth Street
Suite 1550
Denver, Colorado 80202
Attention: David L. Bradshaw
Telephone: (303) 293-9379
Telecopier: (303) 292-3428

14. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, EXCLUDING, HOWEVER, ANY PROVISION OF TEXAS LAW THAT WOULD REOUIRE THE APPLICATION OF THE LAW OF A DIFFERENT JURISDICTION.

15. GOVERNMENTAL APPROVALS. Subsequent to the Closing, Seller agrees to cooperate fully with Buyer in obtaining any desired consents or approvals of the Government of Australia, or any State thereof, including the taking of any steps necessary to seek the consent or approval of any transfer into Seller of any part of the interests in the Assets acquired hereunder, together with the

execution of any document necessary, in the judgment of Buyer, or its counsel, to obtain any such consent or approval.

16. FURTHER ASSURANCES. Incidental and subsequent to Closing, each of the parties shall execute, acknowledge, and deliver to the other such further instruments (including any stamp duty or other form necessary for, or incident to, the notation or transfer to Buyer of any title or interest in either the Assets or the Operating Agreement), and to take such other actions as may be reasonably necessary to carry out the provisions of this Agreement.

17. EXPENSES. Whether or not the transactions contemplated by this Agreement are consummated, each of the parties hereto shall pay its own fees and expenses incident to the negotiation, preparation and execution of this Agreement, including attorneys' and accountants' fees.

18. EXISTING RELATIONSHIP. Seller and Buyer are co-working interest owners in the Assets. As a result of this relationship, Buyer acknowledges that it is thoroughly familiar with the condition of the interests and properties to be sold to it, and that it has extensive and personal knowledge of all operations which have been conducted by the working interest owners on and with respect to the interests and properties which are the subject of this Agreement.

19. ANNOUNCEMENTS. Seller and Buyer shall consult with each other prior to the release of any press releases and other announcements concerning this Agreement or the transactions contemplated hereby.

20. ARBITRATION. Seller and Buyer agree that all disputes or disagreements arising under the terms of this Agreement or arising with respect to any obligations assumed by the parties hereto shall be submitted to binding arbitration subject to the rules of the American Arbitration Association, except as to the choice of arbitrators. The arbitrators shall be chosen by each party choosing an arbitrator who shall select a third arbitrator. If the chosen arbitrators fail to agree on a third arbitrator, either party may petition any state District Court in Midland County, Texas, to select a third arbitrator.

21. EXHIBITS. The exhibits to this Agreement are incorporated herein by reference.

22. SUCCESSORS AND ASSIGNS. The terms, covenants and conditions hereof bind and inure to the benefit of Buyer and Seller and their successors and assigns.

23. CONFLICTS. In the event of a conflict between this Agreement and the terms and conditions of the Operating Agreement, the provisions of this Agreement shall prevail. In all other respects, this Agreement shall supersede

all prior agreements regarding the subject matter hereof, whether written or oral.

24. SURVIVAL. The covenants, obligations, indemnities, representations and warranties included in this Agreement shall survive the Closing and remain actionable thereafter.

25. PRODUCT OF NEGOTIATION. This Agreement is the product of negotiation between Buyer and Seller. No fiduciary duty owed by Buyer and Seller in any prior agreement between Buyer and Seller shall apply to the process of negotiation of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the parties before the undersigned competent witnesses as of the date first written above.

WITNESSES:

/s/ Leisa S. Smith

/s/ Lisa C. Spizale

Richard G. Pfister

SELLER:

CLOVELLY OIL CO., INC.

By: /s/ Richard G. Pfister

RICHARD G. PFISTER
Its: President

BUYER:

TIPPERARY OIL & GAS CORPORATION

/s/ Leisa S. Smith

/s/ Lisa C. Spizale

By: /s/ David L. Bradshaw

DAVID L. BRADSHAW
Its: President

TIPPERARY CORPORATION AND SUBSIDIARIES
Calculation of Weighted Average Number of Shares Outstanding
Years Ended September 30, 1994, 1995 and 1996
(in thousands)

Description of Transaction	Number of Shares	Weighting Factor	Weighted Average
Years ended September 30, 1994:			
Primary Shares			
Beginning of period	11,053	365/365	11,053
Shares repurchased	(28)	117/365	(9)
Shares issued upon exercise of options and warrants	163	4/365	2
Common stock equivalents(1)	265	365/365	265
End of period	11,453		11,311
Years ended September 30, 1995:			
Primary Shares			
Beginning of period	11,188	365/365	11,188
Shares issued upon exercise of options and warrants	22	35/365	2
Common stock equivalents(2)	467	N/A	0
End of period	11,677		11,190
Years ended September 30, 1996:			
Primary Shares			
Beginning of period	11,210	365/365	11,210
Common stock issuance	1,400	137/365	525
Shares issued upon exercise of options and warrants	440	60/365	72
Common stock equivalents(2)	233	N/A	0
End of period	13,283		11,807

(1) Included in computation of weighted average shares although primary EPS is reduced by less than 3%.

(2) Antidilutive and therefore excluded from computation of weighted average shares outstanding.

EXHIBIT 21.1

TIPPERARY CORPORATION AND SUBSIDIARIES

Tipperary Corporation
Tipperary Oil & Gas Corporation
Burro Pipeline Corporation
Monroe Fractionating, Inc.
Claiborne Gas, Inc.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF OPERATIONS FOUND ON PAGES F-3, F-4 AND F-5 OF THE COMPANY'S FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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