ABRAXAS PETROLEUM CORP
Form 10-Q/A
July 28, 2003

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

(Mark One) FORM 10-Q/A No. 1

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

For the Quarter Ended March 31, 2003

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

Commission File Number 0-19118

ABRAXAS PETROLEUM CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada	74-2584033
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

500 N. Loop 1604 East, Suite 100, San Antonio, Texas 78232
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (210) 490-4788

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 or No __

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

The number of shares outstanding of each of the issuer's classes of common stock outstanding as of May 14, 2003 was:

Class	Shares Outstanding
Common Stock, $.01 Par Value	35,630,115

PURPOSE OF THIS AMENDMENT ON FORM 10-Q/A

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, we are filing this amendment on Form 10-Q/A No. 1 to reflect comments to our original report on Form 10-Q that we received from the Staff of the Securities and Exchange Commission in connection with their review of Post-Effective Amendment No. 1 to our registration statement on Form S-1. The original Form 10-Q was filed on May 14, 2003 and we filed this amended and restated Form 10-Q/A No. 1 responding to the Staff's comments and updating certain information on July 28, 2003.

We have specifically amended and restated Items 1, 2 and 3 of Part I, in response to the Staff's comments. For convenience, we have restated our entire disclosure contained in this amendment. The amendment and restatement relates to our previous reporting of the sale of our Canadian oil and gas properties as discontinued operations. This amendment reflects the sale of our Canadian oil and gas properties as continuing operations.

This report speaks as of the original filing date of our report on Form 10-Q and, except as indicated, has not been updated to reflect events occurring subsequent to that date.

2

FORWARD-LOOKING INFORMATION

We make forward-looking statements throughout this document. Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we "believe," "expect" or "anticipate" will occur or what we "intend" to do, and other similar statements), you must remember that our expectations may not be correct, even though we believe they are reasonable. The forward-looking information contained in this document is generally located in the material set forth under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "2003 Outlook" but may be found in other locations as well. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon our management's reasonable estimates of future results or trends. The factors that may affect our expectations regarding our operations include, among others, the following:

- our high debt level;
- our ability to raise capital;
- our limited liquidity;
- economic and business conditions;
- price and availability of alternative fuels;
- political and economic conditions in oil producing countries, especially those in the Middle East;
- our success in development, exploitation and exploration activities;

o planned capital expenditures;

o prices for crude oil and natural gas;

o declines in our production of crude oil and natural gas;

o our acquisition and divestiture activities;

o results of our hedging activities; and

o other factors discussed elsewhere in this document.

In addition to these factors, important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements") are disclosed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2002 which is incorporated by reference herein and this report. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the Cautionary Statements.

ABRAXAS PETROLEUM CORPORATION AND SUBSIDIARIES

FORM 10 - Q/A

INDEX

PART I
FINANCIAL INFORMATION

PART II
OTHER INFORMATION

Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets
(in thousands)

	(As Restated, see Note 13) March 31, 2003 (Unaudited)	December 31, 2002
Assets:		
Current assets:		
Cash	$ 2,510	$ 4,882
Accounts receivable, net:		
Joint owners	950	2,215
Oil and gas production	5,289	7,466
Other	561	364
	6,800	10,045
Equipment inventory	698	1,014
Other current assets	1,026	1,240
Total current assets	11,034	17,181
Property and equipment:		
Oil and gas properties, full cost method of accounting:		
Proved	305,320	521,995
Unproved, not subject to amortization	7,052	7,052
Other property and equipment	2,987	44,189
Total	315,359	573,236
Less accumulated depreciation, depletion, and amortization	214,400	422,842
Total property and equipment - net	100,959	150,394
Deferred financing fees, net	5,317	5,671
Deferred income taxes	7,820	-
Other assets	364	359
Total assets	$117,674	$181,425

See accompanying notes to consolidated financial statements

Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets (continued)
(in thousands)

	(As Restated, see Note 13) March 31, 2003 (Unaudited)	December 31, 2002
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 5,186	$ 9,687
Oil and gas production payable	2,549	2,432
Accrued interest	2,457	6,009
Other accrued expenses	2,711	1,162
Current maturities of long-term debt	-	63,500
Total current liabilities	12,903	82,790
Long-term debt	173,735	236,943
Future site restoration	1,237	3,946
Stockholders'deficit:		
Common Stock, par value $.01 per share- authorized 200,000,000 shares; issued, 35,795,998 and 30,145,280 in 2003 and 2002 respectively	358	301
Additional paid-in capital	140,595	136,830
Receivable from stock sale	(97)	(97)
Accumulated deficit	(206,919)	(269,621)
Treasury stock, at cost, 165,883 shares	(964)	(964)
Accumulated other comprehensive loss	(3,174)	(8,703)
Total stockholders' deficit	(70,201)	(142,254)
Total liabilities and stockholders' deficit	$ 117,674	$ 181,425

See accompanying notes to consolidated financial statements

Abraxas Petroleum Corporation
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands except per share data)

	(As Restated, see Note 13) Three Months Ended March 31,	
	2003	2002
Revenue:		
Oil and gas production revenues	$ 12,772	$ 10,886
Gas processing revenue	132	670
Rig revenues	181	151
Other	26	100
	13,111	11,807
Operating costs and expenses:		
Lease operating and production taxes	2,726	3,909
Depreciation, depletion and amortization	3,142	6,814
Rig operations	166	121
General and administrative	1,395	1,698
General and administrative (stock-based compensation)	36	-
	7,465	12,542
Operating income (loss)	5,646	(735)
Other (income) expense		
Interest income	(10)	(33)
Interest expense	5,164	8,413
Amortization of deferred financing fees	377	427
Financing cost	3,601	-
Gain on sale of foreign subsidiaries	(66,960)	-
	(57,828)	8,807
Earnings (loss) before cumulative effect of accounting change and taxes	63,474	(9,542)
Cumulative effect of accounting change	(395)	-
Earnings (loss) before taxes	63,079	(9,542)
Income tax expense (benefit)	377	(843)
Net earnings (loss)	$ 62,702	$ (8,699)
Basic earnings (loss) per common share:		
Net earnings (loss) from	$ 1.84	$ (0.29)
Cumulative effect of accounting change	(0.01)	-
Net earnings (loss) per common - basic	$ 1.83	$ (0.29)
Diluted earnings (loss) per common share:		
Net earnings (loss)	$ 1.83	$ (0.29)
Cumulative effect of accounting change	(0.01	-
Net earnings (loss) per common share - diluted	$ 1.82	$ (0.29)

======== ========

See accompanying notes to consolidated financial statements

7

Abraxas Petroleum Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	(As Restated, see Note 13) Three Months Ended March 31,	
	2003	2002
Cash flows from Operating Activities		
Net income (loss)	$ 62,702	$ (8,699)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	3,142	6,814
Deferred income tax expense (benefit)	377	(843)
Amortization of deferred financing fees	377	427
Amortization of debt discount	-	113
Stock-based compensation	36	-
Gain on sale of foreign subsidiaries	(66,960)	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,160)	1,099
Equipment inventory	162	91
Other	1,650	(87)
Accounts payable and accrued expenses	2,419	9,367
Net cash provided by operations	2,745	8,282
Cash flows from Investing Activities		
Capital expenditures, including purchases and development of properties	(4,589)	(17,408)
Proceeds from sale of foreign subsidiaries	85,824	
Net cash provided by (used) in investing activities	$ 81,235	$ (17,408)
Cash flows from Financing Activities		
Proceeds from long-term borrowings	43,189	6,096
Payments on long-term borrowings	(130,903	(719)
Issuance of common stock in connection with exchange	3,651	-
Exercise of stock options	5	-
Deferred financing fees	(2,529)	-
Net cash (used) in provided by financing activities	(86,587)	5,377
Effect of exchange rate changes on cash	235	(5)

Increase (decrease) in cash	(2,372)	(3,754)
Cash, at beginning of period	4,882	7,605
Cash, at end of period	$ 2,510	$ 3,851
Supplemental disclosures of cash flow information:		
Interest paid	$ 3,029	$ 4,935

See accompanying notes to consolidated financial statements

8

Abraxas Petroleum Corporation
Notes to CondensedConsolidated Financial Statements
(Unaudited)
(tabular amounts in thousands except per share data)

Note 1. Basis of Presentation

The accounting policies followed by Abraxas Petroleum Corporation and its subsidiaries (the "Company" or "Abraxas") are set forth in the notes to the Company's audited financial statements in the Annual Report on Form 10-K filed for the year ended December 31, 2002, as amended by the annual report on Form 10-K/A No. 1 filed on July 22, 2003. Such policies have been continued without change. Also, refer to the notes to those financial statements for additional details of the Company's financial condition, results of operations, and cash flows. All the material items included in those notes have not changed except as a result of normal transactions in the interim, or as disclosed within this report. The accompanying interim consolidated financial statements have not been audited by independent accountants, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the financial position and results of operations. Any and all adjustments are of a normal and recurring nature. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of results to be expected for the full year.

Theconsolidated financial statements include the accounts of the Company and its wholly-owned foreign subsidiary, Grey Wolf Exploration Inc. ("New Grey Wolf"). In January 2003, the Company sold all of the common stock of its wholly-owned foreign subsidiaries, Canadian Abraxas Petroleum Limited ("Canadian Abraxas") and Grey Wolf Exploration Inc. ("Old Grey Wolf"). Certain oil and gas properties were retained and transferred into New Grey Wolf which was incorporated in January 2003. The operations of Canadian Abraxas and Grey Wolf are included in the consolidated financial statements through January 23, 2003

New Grey Wolf's assets and liabilities are translated to U.S. dollars at period-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the period. Translation adjustments are accumulated as a separate component of shareholders' equity.

The Company has incurred net losses in five of the last six years, and there can be no assurance that operating income and net earnings will be achieved in future periods. The Company's revenues, profitability and future rate of growth are substantially dependent upon prevailing prices for crude oil and natural gas and the volumes of crude oil, natural gas and natural gas liquids we produce. During 2002, crude oil and natural gas prices began to increase from 2001 levels and increased further in the first quarter of 2003. In addition, because the Company's proved reserves will decline as crude oil, natural gas and natural gas liquids are produced, unless it acquires additional properties containing proved reserves or conducts successful exploration and development activities, its reserves and production will decrease. The Company's ability to acquire or find additional reserves in the near future will be dependent, in part, upon the amount of available funds for acquisition, exploitation, exploration and development projects. In order to provide liquidity and capital resources, the Company has sold certain of its producing properties. However, production levels have declined as the Company has been unable to replace the production represented by the properties sold with new production from the producing properties it has invested in with the proceeds of property sales. In addition, under the terms of its new senior credit agreement and New Notes, the Company is subject to limitations on capital expenditures. As a result, the Company may be limited in its ability to replace existing production with new production and might suffer a decrease in the volume of crude oil and natural gas it produces. If crude oil and natural gas prices return to depressed levels or if production levels continue to decrease, the Company's revenues, cash flow from operations and financial condition may be materially adversely affected.

Certain prior years balances have been reclassified for comparative purposes.

Note 2. Income Taxes

The Company records income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

For the period ended March 31, 2002, no tax provision was required due to operating losses. For the period ended March 31, 2003, no current taxes have been provided due to operating losses for tax purposes resulting from, among other items, differing book and tax basis of assets sold. Deferred tax expense of $377,000 related to Canadian operations for the period ended March 31, 2003 has been provided for.

Note 3. Recent Events

Exchange Offer. On January 23, 2003, the Company completed an exchange offer, pursuant to which it offered to exchange cash and securities for all of the outstanding 11 1/2% Senior Secured Notes due 2004, Series A ("Second Lien Notes") and 11 1/2% Senior Notes due 2004, Series D ("Old Notes"), issued by Abraxas and Canadian Abraxas. In exchange for each $1,000 principal amount of such notes tendered in the exchange offer, tendering noteholders received:

- cash in the amount of $264;
- an 11 1/2% Secured Note due 2007, Series A ("New Notes"), with a principal amount equal to $610; and

o 31.36 shares of Abraxas common stock.

At the time the exchange offer was made, there were approximately $190.1 million of the Second Lien Notes and $800,000 of the Old Notes outstanding. Holders of approximately 94% of the aggregate outstanding principal amount of the Second Lien Notes and Old Notes tendered their notes for exchange in the offer. Pursuant to the procedures for redemption under the applicable indenture provisions, the remaining 6% of the aggregate outstanding principal amount of the Second Lien Notes and Old Notes were redeemed at 100% of the principal amount plus accrued and unpaid interest, for approximately $11.5 million ($11.1 million in principal and $0.4 million in interest). The indentures for the Second Lien Notes and Old Notes have been duly discharged. In connection with the exchange offer, Abraxas made cash payments of approximately $47.5 million and issued approximately $109.7 million in principal amount of New Notes and 5,642,699 shares of Abraxas common stock. Fees and expenses incurred in connection with the exchange offer were approximately $3.8 million

Redemption of First Lien Notes. On January 24, 2003, the Company completed the redemption of 100% of its outstanding 12?% Senior Secured Notes, Series B ("First Lien Notes"), with approximately $66.4 million of the proceeds from the sale of Canadian Abraxas and Old Grey Wolf. Prior to the redemption, the Company had $63.5 million of its First Lien Notes outstanding. Under the terms of the indenture for the First Lien Notes, the Company had the right to redeem the First Lien Notes at 100% of the outstanding principal amount of the notes, plus accrued and unpaid interest to the date of redemption, and to discharge the indenture upon call of the First Lien Notes for redemption and deposit of the redemption funds with the trustee. The Company exercised these rights on January 23, 2003 and upon the discharge of the indenture, the trustee released the collateral securing the Company's obligations under the First Lien Notes.

Note 4. Long-Term Debt

Long-term debt consisted of the following:

	March 31 2003	De
	(In thousand	
11.5% Senior Notes due 2004 ("Old Notes")	-	$
12.875% Senior Secured Notes due 2003 ("First Lien Notes")	-	
11.5% Second Lien Notes due 2004 ("Second Lien Notes")..................	-	
11.5% Senior Credit Facility("Grey Wolf Facility") providing for borrowings up to approximately US $96 million (CDN $150 million) secured by the assets of Grey Wolf and non-recourse to Abraxas	-	
11.5% Secured Notes due 2007 ("New Notes").............................	128,598	
Senior Secured Credit Agreement..	45,137	
	173,735	
Less current maturities	-	
	$ 173,735	$

New Notes. - In connection with the financial restructuring, Abraxas issued $109.7 million in principal amount of it's 11 1/2% Secured Notes due 2007, Series A, in exchange for the second lien notes and old notes tendered in the exchange offer. The New Notes were issued under an indenture with U.S. Bank, N. A. In accordance with SFAS 15, the basis of the New Notes exceeds the face

amount of the New Notes by approximately $19.0 million. Such amount will be amortized over the term of the New Notes as an adjustment to the yield of the New Notes.

The New Notes accrue interest from the date of issuance, at a fixed annual rate of 11 1/2%, payable in cash semi-annually on each May 1 and November 1, commencing May 1, 2003, provided that, if we fail, or are not permitted pursuant to our new senior credit agreement or the intercreditor agreement between the trustee under the indenture for the New Notes and the lenders under the new senior credit agreement, to make such cash interest payments in full, we will pay such unpaid interest in kind by the issuance of additional New Notes with a principal amount equal to the amount of accrued and unpaid cash interest on the New Notes plus an additional 1% accrued interest for the applicable period. Upon an event of default, the New Notes accrue interest at an annual rate of 16.5%.

The New Notes are secured by a second lien or charge on all of our current and future assets, including, but not limited to, all of our crude oil and natural gas properties. All of Abraxas' current subsidiaries, Sandia Oil & Gas Corporation, Sandia Operating Corp. (a wholly-owned subsidiary of Sandia Oil & Gas), Wamsutter Holdings, Inc., New Grey Wolf, Western Associated Energy Corporation and Eastside Coal Company, Inc. are guarantors of the New Notes, and all of Abraxas' future subsidiaries will guarantee the New Notes. If Abraxas cannot make payments on the New Notes when they are due, the guarantors must make them instead.

The New Notes and related guarantees

- o are subordinated to the indebtedness under the new senior credit agreement;
- o rank equally with all of Abraxas' current and future senior indebtedness; and
- o rank senior to all of Abraxas' current and future subordinated indebtedness, in each case, if any.

The New Notes are subordinated to amounts outstanding under the new senior credit agreement both in right of payment and with respect to lien priority and are subject to an intercreditor agreement.

Abraxas may redeem the New Notes, at its option, in whole at any time or in part from time to time, at redemption prices expressed as percentages of the principal amount set forth below. If Abraxas redeems all or any New Notes, it must also pay all interest accrued and unpaid to the applicable redemption date. The redemption prices for the New Notes during the indicated time periods are as follows:

Period	Percentage
From January 24, 2003 to June 23, 2003	80.0429%
From June 24, 2003 to January 23, 2004	91.4592%
From January 24, 2004 to June 23, 2004	97.1674%
From June 24, 2004 to January 23, 2005	98.5837%
Thereafter	100.0000%

Under the indenture, the Company is subject to customary covenants which, among other things, restricts our ability to:

- o borrow money or issue preferred stock;
- o pay dividends on stock or purchase stock;
- o make other asset transfers;
- o transact business with affiliates;
- o sell stock of subsidiaries;
- o engage in any new line of business;
- o impair the security interest in any collateral for the notes;
- o use assets as security in other transactions; and
- o sell certain assets or merge with or into other companies.

In addition, we are subject to certain financial covenants including covenants limiting our selling, general and administrative expenses and capital expenditures, a covenant requiring Abraxas to maintain a specified ratio of consolidated EBITDA, as defined in the indenture, to cash interest and a covenant requiring Abraxas to permanently, to the extent permitted, pay down debt under the new senior credit agreement and, to the extent permitted by the new senior credit agreement, the New Notes or, if not permitted, paying indebtedness under the new senior credit agreement.

The indenture also contains customary events of default, including nonpayment of principal or interest, violations of covenants, inaccuracy of representations or warranties in any material respect, cross default and cross acceleration to certain other indebtedness, bankruptcy, material judgments and liabilities, change of control and any material adverse change in our financial condition.

New Senior Credit Agreement. In connection with the financial restructuring, Abraxas entered into a new senior credit agreement providing a term loan facility and a revolving credit facility as described below. Subject to earlier termination on the occurrence of events of default or other events, the stated maturity date for both the term loan facility and the revolving credit facility is January 22, 2006. In the event of an early termination, we will be required to pay a prepayment premium, except in the limited circumstances described in the new senior credit agreement. Outstanding amounts under both facilities bear interest at the prime rate announced by Wells Fargo Bank, N.A. plus 4.5%. Any amounts in default under the term loan facility will accrue interest at an additional 4%. At no time will the amounts outstanding under the new senior credit agreement bear interest at a rate less than 9%.

Term Loan Facility. Abraxas borrowed $4.2 million pursuant to a term loan facility on January 23, 2003, all of which was used to make cash payments in connection with the financial restructuring. Accrued interest under the term loan facility will be capitalized and added to the principal amount of the term loan facility until maturity.

Revolving Credit Facility. Lenders under the new senior credit agreement have provided a revolving credit facility to Abraxas with a maximum borrowing base of up to $50 million. Our current borrowing base under the revolving credit facility is $49.9 million, subject to adjustments based on periodic calculations and mandatory prepayments under the senior credit agreement. Portions of accrued interest under the revolving credit facility may be capitalized and added to the principal amount of the revolving credit facility. We have borrowed $42.5 million under the revolving credit facility, all of which was used to make cash payments in connection with the financial restructuring. As of March 31, 2003, the balance of the facility was $40.9 million. We plan to use the remaining borrowing availability under the new senior credit agreement to fund our operations, including capital expenditures.

Covenants. Under the new senior credit agreement, Abraxas is subject to customary covenants and reporting requirements. Certain financial covenants require Abraxas to maintain minimum levels of consolidated EBITDA (as defined in the new senior credit agreement), minimum ratios of consolidated EBITDA to cash interest expense and a limitation on annual capital expenditures. In addition, at the end of each fiscal quarter, if the aggregate amount of our cash and cash equivalents exceeds $2.0 million, we are required to repay the loans under the new senior credit agreement in an amount equal to such excess. The new senior credit agreement also requires us to enter into hedging agreements on not less than 25% or more than 75% of our projected oil and gas production. We are also required to establish deposit accounts at financial institutions acceptable to the lenders and we are required to direct our customers to make all payments into these accounts. The amounts in these accounts will be transferred to the lenders upon the occurrence and during the continuance of an event of default under the new senior credit agreement.

In addition to the foregoing and other customary covenants, the new senior credit agreement contains a number of covenants that, among other things, restrict our ability to:

o incur additional indebtedness;

o create or permit to be created any liens on any of our properties;

o enter into any change of control transactions;

o dispose of our assets;

o change our name or the nature of our business;

12

o make any guarantees with respect to the obligations of third parties;

o enter into any forward sales contracts;

o make any payments in connection with distributions, dividends or redemptions relating to our outstanding securities; or

o make investments or incur liabilities.

Security. The obligations of Abraxas under the new senior credit agreement are secured by a first lien security interest in all of Abraxas' assets, including all crude oil and natural gas properties.

Guarantees. The obligations of Abraxas under the new senior secured credit agreement are guaranteed by Sandia Oil & Gas, Sandia Operating, Wamsutter, New Grey Wolf, Western Associated Energy and Eastside Coal. The guarantees under the new senior credit agreement are secured by a first lien security interest in substantially all of the guarantors' assets, including all crude oil and natural gas properties.

Events of Default. The new senior credit facility contains customary events of default, including nonpayment of principal or interest, violations of covenants, inaccuracy of representations or warranties in any material respect, cross default and cross acceleration to certain other indebtedness, bankruptcy, material judgments and liabilities, change of control and any material adverse change in our financial condition.

Note 5. Stock-based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

Effective July 1, 2000, the Financial Accounting Standards Board ("FASB") issued FIN 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB No. 25. Under the interpretation, certain modifications to fixed stock option awards which were made subsequent to December 15, 1998, and were not exercised prior to July 1, 2000, require that the awards be accounted for as variable until they are exercised, forfeited, or expired. In January 2003, the Company amended the exercise price to $0.66 on certain options with an existing exercise price greater than $0.66. The Company recognized approximately $36,000 in expense during the quarter ended March 31, 2003 as General and administrative (stock-based compensation) in the accompanying consolidated financial statements.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123), which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1995 under the fair value method prescribed by SFAS 123 The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the quarters ended March 31, 2003 and 2002, risk-free interest rates of 1.5%; dividend yields of -0-%; volatility factor of the expected market price of the Company's common stock of .35; and a weighted-average expected life of the option of ten years.

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

In October 2002, the FASB issued Statement No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure", (SFAS No. 148), providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirement of SFAS No. 123, "Accounting for Stock-Based Compensation" to include prominent disclosures in annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company adopted the disclosure provisions of SFAS No. 148 on December 31, 2002.

Had the Company determined stock-based compensation costs based on the estimated fair value at the grant date for its stock options, the Company's net income (loss) per share for the three months ended March 31, 2003 and March 31, 2002 would have been:

	Three Months Ended March 31,	
	2003	2002
Net income (loss) as reported	$ 62,702	$ (8,699)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	36	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(67)	(72)
Pro forma net income (loss)	$ 62,671	$ (8,771)
Earnings (loss) per share:		
Basic - as reported	$ 1.84	$ (0.29)
Basic - pro forma	$ 1.84	$ (0.30)
Diluted - as reported	$ 1.83	$ (0.29)
Diluted - pro forma	$ 1.82	$ (0.30)

Note 6. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended	
	2003	20
Numerator:		
Numerator for basic and diluted earnings per share		
Net earnings (loss) before cumulative effect of accounting change (in thousands)..........	$ 63,097)	$ (8
Cumulative effect of accounting change................................	(395)	
Numerator for basic and diluted earnings per share		
Net earnings (loss) available to common stockholders (in thousands)....	62,702	(

Denominator:		
Denominator for basic earnings per share - weighted-average shares.....	34,181,118	9,9
Effect of dilutive securities:		
Stock options and Warrants..	319,472	
Dilutive potential common shares		
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed Conversions....................................	34,500,590	9,9
Basic earnings (loss) per share:		
Net earnings (loss) before cumulative effect of accounting change ..	$ 1.84	$
Cumulative effect of accounting change..............................	(0.01)	
Net earnings (loss) per common share - basic .	$ 1.83	$
Diluted earnings (loss) per share:		
Net earnings (loss) before cumulative effect of accounting change...	$ 1.83	$
Cumulative effect of accounting change..............................	(0.01)	
Net earnings (loss) per common share - diluted..........................	$ 1.82	$

For the three months ended March 31, 2002, none of the shares issuable in connection with stock options or warrants are included in diluted shares. Inclusion of these shares would be antidilutive due to losses incurred in the period. Had there not been losses in this period, dilutive shares would have been 45,982 shares for the three months ended March 31, 2002.

Note 7. Hedging Program and Derivatives

On January 1, 2001, the Company adopted SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" SFAS 133 as amended by SFAS 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB 133" and SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities". Under SFAS 133, all derivative instruments are recorded on the balance sheet at fair value. If the derivative does not qualify as a hedge or is not designated as a hedge, the gain or loss on the derivative is recognized currently in earnings. To qualify for hedge accounting, the derivative must qualify either as a fair value hedge, cash flow hedge or foreign currency hedge. Currently, the Company uses only cash flow hedges and the remaining discussion will relate exclusively to this type of derivative instrument. If the derivative qualifies for hedge accounting, the gain or loss on the derivative is deferred in Other Comprehensive Income (Loss), a component of Stockholders' Equity, to the extent that the hedge is effective.

The relationship between the hedging instrument and the hedged item must be highly effective in achieving the offset of changes in cash flows attributable to the hedged risk both at the inception of the contract and on an ongoing basis. Hedge accounting is discontinued prospectively when a hedge instrument becomes ineffective. Gains and losses deferred in accumulated Other Comprehensive Income (Loss) related to a cash flow hedge that becomes ineffective remain unchanged until the related production is delivered. If the

Company determines that it is probable that a hedged transaction will not occur, deferred gains or losses on the hedging instrument are recognized in earnings immediately.

Gains and losses on hedging instruments related to accumulated Other Comprehensive Income (Loss) and adjustments to carrying amounts on hedged production are included in natural gas or crude oil production revenue in the period that the related production is delivered.

Under the terms of our new senior credit agreement, the Company is required to maintain hedging agreements with respect to not less than 25% nor more than 75% of it crude oil and natural gas production for a rolling six month period. On January 23, 2003, the Company entered into a collar option agreement with respect to 5,000 MMBtu per day, or approximately 25% of the Company's production, at a call price of $6.25 per MMBtu and a put price of $4.00 per MMBtu, for the calendar months of February through July 2003. In February 2003, the Company entered into an additional hedge agreement for 5,000 MMbtu per day with a floor of $4.50 per MMBtu for the calendar months of March 2003 through February 2004.

The following table sets forth the Company's hedge position as of March 31, 2003:

Time Period	Notional Quantities	Price
February 1, 2003--July 31, 2003	5,000 MMBtu of production per day	Collar with floor of $4. and ceiling of $6.25
March 1, 2003 - February 29, 2004	5,000 MMBtu of production per day	Floor of $4.50

All hedge transactions are subject to the Company's risk management policy, approved by the Board of Directors. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedge. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed. Both at the inception of the hedge and on an ongoing basis, the Company assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of the hedging instrument was determined based on the base price of the hedged item and NYMEX forward price quotes. As of March 31, 2003, a commodity price increase of 10% would have resulted in an unfavorable change in the fair market value of $36,200 and a commodity price decrease of 10% would have resulted in a favorable change in fair market value of $36,200.

Note 8. Contingencies

Litigation - In 2001 the Company and a limited partnership, of which Wamsutter Holdings, a subsidiary of the Company, is the general partner (the "Partnership"), were named in a lawsuit filed in U.S. District Court in the

District of Wyoming. The claim asserts breach of contract, fraud and negligent misrepresentation by the Company and the Partnership related to the responsibility for year 2000 ad valorem taxes on crude oil and natural gas properties sold by the Company and the Partnership. In February 2002, a summary judgment was granted to the plaintiff in this matter and a final judgment in the amount of $1.3 million was entered. The Company and the Partnership have filed an appeal. The Company believes these charges are without merit. The Company has established a reserve in the amount of $845,000, which represents the Company's interest in the judgment.

In late 2000, the Company received a Final De Minimis Settlement Offer from the United States Environmental Protection Agency concerning the Casmalia Disposal Site, Santa Barbara County, California. The Company's liability for the cleanup at the Superfund site is based on its acquisition of Bennett Petroleum Corporation, which is alleged to have transported or arranged for the transportation of oil field waste and drilling muds to the Superfund site. The Company has engaged California counsel to evaluate the notice of proposed de minimis settlement and its notice of potential strict liability under the Comprehensive Environmental Response, Compensation and Liability Act. Defense of the action is handled through a joint group of companies, all of which are claiming a petroleum exclusion that limits the Company's liability. The potential financial exposure and any settlement posture has yet not been developed, but is considered by the Company to be immaterial.

Additionally, from time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. At March 31, 2003, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company

Note 9. Comprehensive Income

Comprehensive income includes net income (losses) and certain items recorded directly to Stockholders' Deficit and classified as Other Comprehensive Income.

The following table illustrates the calculation of comprehensive income (loss) for the quarter ended March 31, 2003:

	Three Months Ended March 31 2003	2002
Net income...	$ 62,702	$ (8,69
Other Comprehensive income:		
Hedging derivatives (net of tax) - See Note 7 Change in fair market value of outstanding hedge positions..	102	(2,07
Foreign currency translation adjustment................	5,427	(36
Other comprehensive income...............................	5,529	(2,44
Comprehensive income.....................................	$ 68,231	$ (11,14

Note 10. Business Segments

Business segment information about our first quarter operations in different geographic areas is as follows:

	Three Months Ended March 31, 2003		
	U.S.	Canada	Tot
		(In thousands)	
Revenues	$ 8,799	$ 4,312	$
Operating profit	$ 4,736	$ 2,243	$
General corporate			
Interest expense and amortization of deferred financing fees			
Gain on sale of foreign subsidiary			
Cumulative effect of accounting change...			
Income before income taxes			$
Identifiable assets at March 31, 2003 ...	$ 82,179	$ 29,060	$
Corporate assets			
Total assets			$

16

	Three Months Ended March 31, 2002		
	U.S.	Canada	Tot
		(In thousands)	
Revenues	$ 4,616	$ 7,191	$
Operating profit	$ 454	$ (199)	$
General corporate			
Interest expense and amortization of deferred financing fees			
Income before income taxes			$

Note 11 New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," which requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. In July 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which discontinues the practice of amortizing goodwill and indefinite lived intangible assets and initiates an annual review for impairment. Intangible assets with a determinable useful life will continue to be amortized over that period. The amortization provisions apply to goodwill and intangible assets acquired after June 30, 2001. SFAS No. 141 and 142 clarify that more assets should be distinguished and classified between tangible and intangible. The Company did not change or reclassify contractual mineral rights included in oil and gas properties on the balance sheet upon adoption of SFAS No. 142. The Company believes the treatment of such mineral rights as tangible assets under the full cost method of accounting for crude oil and natural gas properties is appropriate. An issue has arisen regarding whether contractual mineral rights should be classified as intangible rather that tangible assets. If it is determined that reclassification is necessary, the Company's oil and gas properties would be reduced by $3.1 million and intangible assets would have increased by a like amount at March 30, 2003 and December 31, 2002, representing cost incurred from the effective date of June 30, 2001. The provisions of SFAS No. 141 and 142 impact only the balance sheet and associated footnote disclosure, and reclassifications necessary would not impact the Company's cash flow or results of operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 is effective for us January 1, 2003. SFAS 143 requires that the fair value of a liability for an asset's retirement obligation be recorded in the period in which it is incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized. For all periods presented, we have included estimated future costs of abandonment and dismantlement in our full cost amortization base and amortize these costs as a component of our depletion expense in the accompanying consolidated financial statements.

The Company adopted SFAS 143 effective January 1, 2003. For the quarter ended March 31, 2003 the Company recorded an additional liability of $711,732, a charge of $395,341 for the cumulative effect of the change in accounting principal and current expense of $19,108.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). Effective January 1, 2002, the Company adopted SFAS No. 144. SFAS No. 144 retains the requirement to recognize an impairment loss only where the carrying value of a long-lived asset is not recoverable from its undiscounted cash flows and to measure such loss as the difference between the carrying amount and fair value of the asset. SFAS No. 144, among other things, changes the criteria that have to be met to classify an asset as held-for-sale and requires that operating losses from discontinued operations be recognized in the period that the losses are incurred rather than as of the measurement date. This new standard had no impact on the Company's consolidated financial statements during the first quarter of 2003.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB No. 4, 44, and 64, Amendments of FASB Statement No. 13 and Technical Corrections" (SFAS 145). SFAS 145 clarifies guidance related to the reporting of gains and losses from extinguishment of debt and resolves inconsistencies related to the required accounting treatment of certain lease modifications. SFAS 145 also amends other existing pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The provisions relating to the reporting of gains and losses from extinguishment of debt were effective for us beginning January 1, 2003. All other provisions of this standard have been effective for the Company as of May 15, 2002 and did not have a significant impact on the Company's financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 requires costs associated with exit of disposal activities to be recognized when they are incurred rather than at the date of commitment to an exit or disposal plan. SFAS 146 was effective for us beginning January 1, 2003. For the period ended March 31, 2003 this standard had no impact on the Company's financial condition or results of operation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-based Compensation--Transition and Disclosure, an amendment of FASB Statement No. 123," which amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS 148 are effective for annual financial statements for fiscal years ending after December 15, 2002, and for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The Company will continue to use APB No. 25 to account for stock based compensation, while providing the disclosures required by SFAS 123 as amended by SFAS 148.

Note 12 Accounting Change

The Company adopted SFAS 143 effective January 1, 2003. For the quarter ended March 31, 2003 the Company recorded an additional liability of $711,732, a charge of $395,341 for the cumulative effect of the change in accounting principal and current expense of $19,108.

Note 13 Restatement

In January 2003, the Company sold its wholly owned Canadian subsidiaries, Old Grey Wolf and Canadian Abraxas as part of a series of transactions related to a financial restructuring - see Note 3 for additional information regarding an exchange offer, redemption of certain notes and a new credit agreement. Subsequent to the issuance of its consolidated financial statements for the year ended December 31, 2002, it was determined that the wholly owned Canadian subsidiaries should not have been presented as discontinued operations. As a result, the accompanying consolidated balance sheets as of December 31, 2002, and the related consolidated statements of operations, for the Quarters ended March 31, 2002 and 2003 have been restated to present the assets and liabilities, results of operations as components of continuing operations. The transactions were completed in January 2003, accordingly, no restatement of the March 31, 2003 balance sheet was necessary.

A summary of the significant effects of the restatement is as follows (In thousands):

	For the Three Months Ended March 31,			
	2003		2002	
	As Previously Reported	As Restated	As Previously Reported	
Revenues:				
Oil and gas production revenue	$ 9,653	$ 12,772	$ 4,461	$
Gas processing revenue	-	132	-	
Rig revenue	181	181	151	
Other	2	26	4	
	9,836	13,111	4,616	
Operating costs and expenses:				
Lease operating and production taxes	2,347	2,726	1,878	
Depreciation, depletion and amortization	2,350	3,142	2,253	
Rig operations	166	166	121	
General and administrative	1,230	1,395	1,093	
General and administrative (Stock-based compensation)	36	36	-	
	6,129	7,465	5,345	
Operating income (loss)	3,707	5,646	(729)	
Other (income) expense:				
Interest income	(10)	(10)	(33)	
Amortization of deferred financing fees	329	377	331	
Interest expense	4,523	5,164	6,235	
Financing costs	3,601	3,601	-	
(Gain) loss on sale of foreign subsidiaries	-	(66,960)	-	
	8,443	(57,828)	6,533	
Income (loss) before income tax	(4,736)	63,474	(7,262)	
Income tax expense (benefit):	-	377	-	
Loss from discontinued operations:				
Earnings loss from discontinued operations	873	-	(1,437)	
Gain of sale of foreign subsidiaries	66,960	-	-	

Net earnings from discontinued operations	67,833	-	(1,437)	
Cumulative effect of accounting change	(395)	(395)	-	
Net income (loss)	$ 62,702	$ 62,702	$ (8,699)	$

	December 31, 2002	
	As Previously Reported	As Restated
Current Assets:		
Cash	$ 557	$ 4,882
Accounts receivable:		
Joint owners	516	2,215
Oil and gas production sales	5,292	7,466
Other	221	364
	6,029	10,045
Equipment inventory	1,021	1,014
Other current assets	316	1,240
	7,923	17,181
Assets held for sale	74,247	-
Total current assets	82,170	17,181
Property and equipment:		
Oil and gas properties:		
Proved	298,972	521,995
Unproved	7,052	7,052
Other property and equipment	2,713	44,189
Total	308,737	573,236
Less accumulated depreciation, depletion and amortization	212,811	422,842
Total property and equipment - net	95,926	150,394
Deferred financing fees	2,970	5,671
Deferred income taxes	-	7,820
Other	359	359
Total assets	$ 181,425	$ 181,425
Current Liabilities:		
Accounts payable	$ 4,171	$ 9,687
Joint interest oil and gas production payable	1,637	2,432

Accrued interest	5,000	6,009
Other accrued expenses	1,162	1,162
Hedge liability	-	-
Current maturities of long-term debt	63,500	63,500
	75,470	82,790
Liabilities related to assets held for sale	56,697	-
Total current liabilities	132,167	82,790
Long-term debt	190,979	236,943
Deferred income taxes	-	-
Future site restoration	533	3,946
Stockholders' equity (deficit)	(142,254)	(142,254)
Total liabilities and stockholders' deficit	$ 181,425	$ 181,425

ABRAXAS PETROLEUM CORPORATION

PART I

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition, results of operations, liquidity and capital resources. This discussion should be read in conjunction with our consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed for the year ended December 31, 2002. The results of operations of Canadian Abraxas and Old Grey Wolf are included in this report through January 23, 2003, the date of the consummation of the sale.

As discussed in Note 13 to the consolidated financial statements, the Company's financial statements have been restated. The accompanying management's discussion and analysis gives effect to that restatement.

Critical Accounting Policies

There have been no changes from the Critical Accounting Polices described in our Annual Report on Form 10-K and Form 10-K/A for the year ended December 31, 2002.

General

We have incurred net losses in five of the last six years, and there can be no assurance that operating income and net earnings will be achieved in future periods. Our revenues, profitability and future rate of growth are substantially dependent upon prevailing prices for crude oil and natural gas and the volumes of crude oil, natural gas and natural gas liquids we produce. During 2002, crude oil and natural gas prices began to increase from 2001 levels and increased further in the first quarter of 2003. In addition, because our proved reserves will decline as crude oil, natural gas and natural gas liquids are produced, unless we acquire additional properties containing proved reserves or conduct successful exploration and development activities, our reserves and production will decrease. Our ability to acquire or find additional reserves in the near future will be dependent, in part, upon the amount of available funds for acquisition, exploitation, exploration and development projects. In order to provide us with liquidity and capital resources, we have sold certain of our producing properties. However, our production levels have declined as we have been unable to replace the production represented by the properties we have sold with new production from the producing properties we have invested in with the proceeds of our property sales. In addition, under the terms of our new senior credit agreement and our new notes, we are subject to limitations on capital expenditures. As a result, we will be limited in our ability to replace existing production with new production and might suffer a decrease in the volume of crude oil and natural gas we produce. If crude oil and natural gas prices return to depressed levels or if our production levels continue to decrease, our revenues, cash flow from operations and financial condition will be materially adversely affected. For more information, see "Liquidity and Capital Resources."

Results of Operations

General. Our financial results depend upon many factors, particularly the following factors which most significantly affect our results of operations:

- the sales prices of crude oil, natural gas liquids and natural gas;

- the level of total sales volumes of crude oil, natural gas liquids and natural gas;

- the ability to raise capital resources and provide liquidity to meet cash flow needs;

- the level of and interest rates on borrowings; and

- the level and success of exploration and development activity.

Commodity Prices. Our results of operations are significantly affected by fluctuations in commodity prices. Price volatility in the natural gas market has remained prevalent in the last few years. In the first quarter of 2003, we experienced an increase in energy commodity prices from the prices that we received in the first quarter of 2002. Price declines experienced in 2001 continued during the first quarter of 2002, primarily due to the economic

downturn. Beginning in March 2002, commodity prices began to increase and continued higher through 2002 and have continued to increase during the first part of 2003.

The table below illustrates how natural gas prices fluctuated over the eight quarters prior to and including the quarter ended March 31, 2003. The table below also contains the last three day average of NYMEX traded contracts price and the prices we realized during each quarter presented, including the impact of our hedging activities.

Natural Gas Prices by Quarter (in $ per Mcf)

	Quarter Ended						
	June 30, 2001	Sept.30, 2001	Dec 31, 2001	March 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 2002
Index	$ 4.82	$ 2.98	$ 2.47	$ 2.38	$ 3.36	$ 3.28	$
Realized	3.41	2.26	2.09	2.21	2.44	2.08	

The NYMEX natural gas price on May 8, 2003 was $5.77 per Mcf.

Prices for crude oil have followed a similar path as the commodity market fell throughout 2001 and the first quarter of 2002. The table below contains the last three day average of NYMEX traded contracts price and the prices we realized during each quarter presented

Crude Oil Prices by Quarter (in $ per Bbl)

	Quarter Ended						
	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001	March 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 20
Index	$ 27.94	$ 26.50	$ 22.12	$ 19.48	$ 26.40	$ 27.50	$ 2
Realized	25.32	25.06	18.72	16.640	23.47	27.47	2

The NYMEX crude oil price on May 8, 2003 was $ 26.98 per Bbl.

Hedging Activities. We seek to reduce our exposure to price volatility by hedging our production through swaps, options and other commodity derivative instruments. During the first quarter of 2002 we experienced hedging losses of $250,000. In October 2002, all of these hedge agreements expired. Under the expired hedge agreements, we made total payments over the term of these arrangements to various counterparties in the amount of $35.1 million.

Under the terms of our new senior credit agreement, we are required to maintain hedging positions with respect to not less than 25% nor more than 75% of our crude oil and natural gas production for a rolling six month period. On January 23, 2003, we entered into a collar option agreement with respect to 5,000 MMBtu per day, or approximately 25% of our production, at a call price of $6.25 per MMBtu and a put price of $4.00 per MMBtu agreement, for the calendar months of February through July 2003. In February 2003, we entered into a second hedge agreement for the calendar months of March 2003 through February 2004, related to 5,000 MMBtu which provides for a floor price of $4.50 per MMBtu. During the first quarter of 2003, we incurred hedging losses of $470,890 in connection with our collar option agreement.

Selected operating data. The following table sets forth certain of our operating data for the periods presented.

	Three Months Ended March 31,	
	2003	2002
Operating Revenue:		
Crude Oil Sales...	$ 2,174	$ 1,
Natural Gas Sales	10,087	8,
Natural Gas Liquids Sales....................................	511	
Gas processing revenue.......................................	132	
Rig Operations...	181	
Other..	26	
	$ 13,111	$ 11,

Operating Income (loss)......................................	$ 5,646	$ (
Crude Oil Production (MBBLS).................................	65.4	7
Natural Gas Production (MMCFS)...............................	1,965.3	3,97
Natural Gas Liquids Production (MBBLS).......................	20.2	6
Average Crude Oil Sales Price ($/BBL)........................	$ 33.22	$ 16
Average Natural Gas Sales Price ($/MCF)......................	$ 5.13	$ 2
Average Liquids Sales Price ($/BBL)..........................	$ 25.29	$ 12

Comparison of Three Months Ended March 31, 2003 to Three Months Ended March 31, 2002

Operating Revenue. During the three months ended March 31, 2003, operating revenue from crude oil, natural gas and natural gas liquid sales increased to $12.8 million compared to $10.9 million in the three months ended March 31, 2002. The increase in revenue was primarily due to increased prices realized during the period, partially offset by a decline in production volumes. Higher commodity prices impacted crude oil and natural gas revenue by $7.2 million while reduced production volumes had a $5.6 million negative impact on revenue.

Average sales prices net of hedging losses for the quarter ended March 31, 2003 were:

- o $33.22 per Bbl of crude oil,
- o $25.29 per Bbl of natural gas liquid, and
- o $ 5.13 per Mcf of natural gas

Average sales prices net of hedging losses for the quarter ended March 31, 2002 were:

- $16.64 per Bbl of crude oil,
- $12.76 per Bbl of natural gas liquid, and
- $ 2.21 per Mcf of natural gas

Crude oil production volumes declined by 8.6 MBbls from 74.0 MBbls during the quarter ended March 31, 2002 to 65.4 MBbls for the same period of 2003. The decline in crude oil production was due to the sale of U.S. properties in the second quarter of 2002. These properties contributed 4.9 MBbbls of crude oil in the first quarter of 2002. Additionally the Canadian properties sold in January 2003, in connection with the sale of Canadian Abraxas and Grey Wolf contributed 6.4 MBbls during the quarter ended March 2002 compared to 2.4 MBbls during the quarter ended March 2003 (through January 23, 2003). Natural gas production volumes declined by 2,007.8 MMcf to 1,965.3 MMcf for the three months ended March 31, 2003 from 3,973.1 MMcf for the same period of 2002. This decline was due to the sale of U.S properties in the second quarter of 2002 and the sale of Canadian properties in January 2003 in connection with the sale of our Canadian subisidiaries. The U.S. properties contributed 152.2 MMcf for the quarter ended March 31, 2002 while the Canadian properties contributed 2,507.4 MMcf in the first quarter of 2002, compared to 558.9 MMcf during the quarter ended March 31, 2003 (through January 23, 2003.) The decrease in production applicable to the properties which were sold was offset by new production from drilling activities which contributed 4.5 MBbls of crude oil and 225.4 MMcf of natural gas during the first quarter of 2003

Lease Operating Expenses. Lease operating expenses ("LOE") for the three months ended March 31, 2003 decreased to $2.7 million from $3.9 million for the same period in 2002. The decrease in LOE was primarily due to the sale of Canadian Abraxas and Grey Wolf in January 2003. LOE related to the properties sold was $2.0 million for the first quarter of 2002 compared to $379,000 during the first quarter of 2003 through the date of the sale. Partially offsetting the decline was an increase in production tax expense due to higher commodity prices in the quarter ended March 31, 2003 compared to the same period of 2002. LOE on a per Mcfe basis for the three months ended March 31, 2003 was $1.10 per Mcfe compared to $0.81 for the same period of 2002. The increase in the per Mcfe expense was primarily due to the increase in production tax expense described above and by a decline in production volumes in the first quarter of 2003 compared to the same period in 2002.

General and Administrative ("G&A") Expenses. G&A expenses decreased by $0.3 million to $1.4 million during the quarter ended March 31, 2003 for the first three months of 2003 from $1.7 million for the first three months of 2002. G&A expense on a per Mcfe basis was $0.56 for the first quarter of 2003 compared to $0.33 for the same period of 2002. The decrease in G&A expense was primarily due to a reduction in personnel in connection with the sale of Canadian Abraxas and Grey Wolf on January 23, 2003. The increase in G&A expense on a per Mcfe basis was due to a decline in production volumes during the first quarter of 2003 compared to the same period in 2002.

G&A Stock-based Compensation. Effective July 1, 2000, the Financial Accounting Standards Board ("FASB") issued FIN 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of Accounting Principles Board Opinion No. ("APB") 25. Under the interpretation, certain modifications to fixed stock option awards which were made subsequent to December 15, 1998, and not exercised prior to July 1, 2000, require that the awards be accounted for as variable until they are exercised, forfeited, or expired. In January 2003, we amended the exercise price to $0.66 per share on certain options with an existing exercise price greater than $0.66 per share. We recognized approximately $36,000 as stock-based compensation expense during the quarter ended March 31, 2003 related to these repricings. During 2002, we did not recognize any stock-based compensation due to the decline in the price of our common stock.

Depreciation, Depletion and Amortization Expenses. Depreciation, depletion and amortization ("DD&A") expensedecreased to $3.1 million for the three months ended March 31, 2003 from $6.8million for the same period of 2002. The decline in DD&A was primarily due to the sale of Canadian properties in January 2003, as well as ceiling limitation write-downs in the second quarter of 2002. Our DD&A on a per Mcfe basis for the three months ended March 31, 2003 was $1.27 per Mcfe compared to $1.41 in 2002.

Interest Expense. Interest expense decreased from $8.4 million for the first three months of 2002 to $5.2 million in 2003. The decrease in interest expense was due to the reduction in long-term debt in the first quarter of 2003 as compared to the same period of 2002. The reduction in debt was the result of the financial transactions which occurred on January 23, 2003 as described in Note 2 in the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

General. The crude oil and natural gas industry is a highly capital intensive and cyclical business. Our capital requirements are driven principally by our obligations to service debt and to fund the following costs: o the development of existing properties, including drilling and completion costs of wells;

o acquisition of interests in crude oil and natural gas properties; and

o production and transportation facilities.

The amount of capital available to us will affect our ability to service our existing debt obligations and to continue to grow the business through the development of existing properties and the acquisition of new properties.

Our sources of capital are primarily cash on hand, cash from operating activities, funding under the new senior credit agreement and the sale of properties. Our overall liquidity depends heavily on the prevailing prices of crude oil and natural gas and our production volumes of crude oil and natural gas. Significant downturns in commodity prices, such as that experienced in the last nine months of 2001 and the first quarter of 2002, can reduce our cash from operating activities. Although we have hedged a portion of our natural gas and crude oil production and will continue this practice as required pursuant to the new senior credit agreement, future crude oil and natural gas price declines would have a material adverse effect on our overall results, and therefore, our liquidity. Low crude oil and natural gas prices could also negatively affect our ability to raise capital on terms favorable to us.

If the volume of crude oil and natural gas we produce decreases, our cash flow from operations will decrease. Our production volumes will decline as reserves are produced. In addition, due to sales of properties in 2002 and January 2003, we now have significantly reduced reserves and production levels. In the future we may sell additional properties, which could further reduce our production volumes. To offset the loss in production volumes resulting from natural field declines and sales of producing properties, we must conduct successful exploration, exploitation and development activities, acquire additional producing properties or identify additional behind-pipe zones or secondary recovery reserves. While we have had some success in pursuing these activities historically, we have not been able to fully replace the production volumes lost from natural field declines and property sales.

Working Capital. At March 31, 2003, our current liabilities of approximately $12.9 million exceeded our current assets of $11.0 million resulting in a working capital deficit of $1.9 million. This compares to a working capital deficit of approximately $65.7 million at December 31, 2002. However, as a result of the financial restructuring completed in January 2003, our current liabilities were significantly reduced. Current liabilities at March

31, 2003 consisted of trade payables of $5.2 million, revenues due third parties of $2.5 million and accrued interest of $2.5 million related to our new notes, which was paid in kind May 1 with the issuance of additional notes. After giving effect to the scheduled principal reductions required during 2003 under our new senior credit agreement we will have cash interest expense of approximately $4.0 million. We do not expect to make cash interest payments with respect to the outstanding new notes, and the issuance of additional new notes in lieu of cash interest payments thereon will not affect our working capital balance.

Capital expenditures. Capital expenditures, excluding property divestitures during the first three months of 2003, were $4.4 million compared to $2.1 million during the same period of 2002. The table below sets forth the components of these capital expenditures on a historical basis for the three months ended March 31, 2003 and 2002.

	Three Months Ended March 31	
	2003	2002
Expenditure category (in thousands):		
Acquisitions	$ -	$ 28
Development	4,423	17,249
Facilities and other	166	131
Total	$ 4,589	$ 17,408

During the three months ended March 31, 2003 and 2002, capital expenditures were primarily for the development of existing properties. For 2003, our capital expenditures are subject to limitations imposed under the new senior credit facility and new notes, including a maximum annual capital expenditure budget of $15 million for 2003, and subject to reduction in the event of a reduction in our net assets. Our capital expenditures could include expenditures for acquisition of producing properties if such opportunities arise, but we currently have no agreements, arrangements or undertakings regarding any material acquisitions. We have no material long-term capital commitments and are consequently able to adjust the level of our expenditures as circumstances dictate. Additionally, the level of capital expenditures will vary during future periods depending on market conditions and other related economic factors. Should the prices of crude oil and natural gas decline from current levels, our cash flows will decrease which may result in a reduction of the capital expenditures budget. If we decrease our capital expenditures budget, we may not be able to offset crude oil and natural gas production volumes decreases caused by natural field declines and sales of producing properties.

Sources of Capital. The net funds provided by and/or used in each of the operating, investing and financing activities are summarized in the following table and discussed in further detail below:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net cash provided by operating activities	$ 2,745	$ 8,282
Net cash (used) in provided by financing activities	(86,587)	5,377
Net cash provided by (used) in investing activities	81,235	(17,408)
Total	$ (2,607)	$ (3,749)

Operating activities during the three months ended March 31, 2003 provided us $2.7 million cash compared to providing $8.3 million in the same period in 2002. Net income plus non-cash expense items during 2003 and net changes in operating assets and liabilities accounted for most of these funds. Financing activities used $86.6 million for the first three months of 2003 compared to providing 5.4 million for the same period of 2002. Most of these funds were used to reduce our long-term debt and were generated by the sale of our Canadian subsidiaries and the exchange offer completed in January 2003. Investing activities provided $81.2 million for the quarter ended March 31, 2003 compared to using $17.4 million for the same period of 2002. The sale of our Canadian subsidiaries contributed $85.8 million in 2003 reduced by $4.6 million in exploration and development expenditures. Expenditures in 2002 were primarily for the development of crude oil and natural gas properties.

Future Capital Resources. We will have four principal sources of liquidity going forward: (i) cash on hand, (ii) cash from operating activities, (iii) funding under the new senior credit agreement , and (iv) sales of producing properties. However, covenants under the indenture for the outstanding new notes and the new senior credit agreement restrict our use of cash on hand, cash from operating activities and any proceeds from asset sales. We may attempt to raise additional

capital through the issuance of additional debt or equity securities, though the terms of the new note indenture and the new senior credit agreement substantially restrict our ability to:

- incur additional indebtedness;
- incur liens;
- pay dividends or make certain other restricted payments;

- consummate certain asset sales;
- enter into certain transactions with affiliates;
- merge or consolidate with any other person; or
- sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets.

Our best opportunity for additional sources of liquidity and capital will be through the issuance of equity securities or through the disposition of assets.

Contractual Obligations

We are committed to making cash payments in the future on the following types of agreements:

- Long-term debt
- Operating leases for office facilities

We have no off-balance sheet debt or unrecorded obligations and we have not guaranteed the debt of any other party. Below is a schedule of the future payments that we are obligated to make based on agreements in place as of March 31, 2003:

Contractual Obligations (dollars in thousands)	Payments due in:				
	Total	Less than one year	1-3 years	3-5 years	More than years
Long-Term Debt (1)	$ 230,638	$ -	$ 46,394	$ 184,244	$
Operating Leases (2)	1,546	351	929	265	

(1) These amounts represent the balances outstanding under the term loan facility, the revolving credit facility and the new notes. These repayments assume that interest will be capitalized under the term loan facility and that periodic interest on the revolving credit facility will be paid on a monthly basis and that we will not draw down additional funds thereunder.

(2) Office lease obligations. Leases for office space for Abraxas and New Grey Wolf expire in April 2006 and December 2008, respectively.

Other obligations. We make and will continue to make substantial capital expenditures for the acquisition, exploitation, development, exploration and production of crude oil and natural gas. In the past, we have funded our operations and capital expenditures primarily through cash flow from operations, sales of properties, sales of production payments and borrowings under our bank credit facilities and other sources. Given our high degree of operating control, the timing and incurrence of operating and capital expenditures is largely within our discretion.

Long-Term Indebtedness.

New Notes . In connection with the financial restructuring, Abraxas issued

$109.7 million in principal amount of it's 11 1/2% Secured Notes due 2007, Series A, in exchange for the second lien notes and old notes tendered in the exchange offer. The new notes were issued under an indenture with U.S. Bank, N. A. senior secured credit agreement

The new notes accrue interest from the date of issuance, at a fixed annual rate of 11 1/2%, payable in cash semi-annually on each May 1 and November 1, commencing May 1, 2003, provided that, if we fail, or are not permitted pursuant to our new senior credit agreement or the intercreditor agreement between the trustee under the indenture for the new notes and the lenders under the new senior credit agreement, to make such cash interest payments in full, we will pay such unpaid interest in kind by the issuance of additional new notes with a

principal amount equal to the amount of accrued and unpaid cash interest on the new notes plus an additional 1% accrued interest for the applicable period. Upon an event of default, the new notes accrue interest at an annual rate of 16.5%.

The new notes are secured by a second lien or charge on all of our current and future assets, including, but not limited to, all of our crude oil and natural gas properties. All of Abraxas' current subsidiaries, Sandia Oil & Gas, Sandia Operating (a wholly-owned subsidiary of Sandia Oil & Gas), Wamsutter, New Grey Wolf, Western Associated Energy and Eastside Coal, are guarantors of the New Notes, and all of Abraxas' future subsidiaries will guarantee the New Notes. If Abraxas cannot make payments on the New Notes when they are due, the guarantors must make them instead.

The new notes and related guarantees:

o are subordinated to the indebtedness under the new senior credit agreement;

o rank equally with all of Abraxas' current and future senior indebtedness; and

o rank senior to all of Abraxas' current and future subordinated indebtedness, in each case, if any.

The new notes are subordinated to amounts outstanding under the new senior credit agreement both in right of payment and with respect to lien priority and are subject to an intercreditor agreement.

Abraxas may redeem the new notes, at its option, in whole at any time or in part from time to time, at redemption prices expressed as percentages of the principal amount set forth below. If Abraxas redeems all or any new notes, it must also pay all interest accrued and unpaid to the applicable redemption date. The redemption prices for the new notes during the indicated time periods are as follows:

Period	Percentage
From January 24, 2003 to June 23, 2003	80.0429%
From June 24, 2003 to January 23, 2004	91.4592%
From January 24, 2004 to June 23, 2004	97.1674%
From June 24, 2004 to January 23, 2005	98.5837%
Thereafter	100.0000%

Under the indenture, we are subject to customary covenants which, among other things, restricts our ability to:

- borrow money or issue preferred stock;
- pay dividends on stock or purchase stock;
- make other asset transfers;
- transact business with affiliates;
- sell stock of subsidiaries;
- engage in any new line of business;
- impair the security interest in any collateral for the notes;
- use assets as security in other transactions; and
- sell certain assets or merge with or into other companies.

In addition, we are subject to certain financial covenants including covenants limiting our selling, general and administrative expenses and capital expenditures, a covenant requiring Abraxas to maintain a specified ratio of consolidated EBITDA, as defined in the indenture, to cash interest and a covenant requiring Abraxas to permanently, to the extent permitted, pay down debt under the new senior credit agreement and, to the extent permitted by the new senior credit agreement, the new notes or, if not permitted, paying indebtedness under the new senior credit agreement.

The indenture also contains customary events of default, including nonpayment of principal or interest, violations of covenants, inaccuracy of representations or warranties in any material respect, cross default and cross acceleration to certain other indebtedness, bankruptcy, material judgments and liabilities, change of control and any material adverse change in our financial condition.

New Senior Credit Agreement. In connection with the financial restructuring, Abraxas entered into a new senior credit agreement providing a term loan facility and a revolving credit facility as described below. Subject to earlier termination on the occurrence of events of default or other events, the stated maturity date for both the term loan facility and the revolving credit facility is January 22, 2006. In the event of an early termination, we will be required to pay a prepayment premium, except in the limited circumstances described in the new senior credit agreement. Outstanding amounts under both facilities bear interest at the prime rate announced by Wells Fargo Bank, N.A. plus 4.5%. Any amounts in default under the term loan facility will accrue interest at an additional 4%. At no time will the amounts outstanding under the new senior credit agreement bear interest at a rate less than 9%.

Term Loan Facility. Abraxas has borrowed $4.2 million pursuant to a term loan facility at January 23, 2003, all of which was used to make cash payments in connection with the financial restructuring. Accrued interest under the term loan facility will be capitalized and added to the principal amount of the term loan facility until maturity.

Revolving Credit Facility. Lenders under the new senior credit agreement have provided a revolving credit facility to Abraxas with a maximum borrowing base of up to $50 million. Our current borrowing base under the revolving credit facility is $49.9 million, subject to adjustments based on periodic calculations and mandatory prepayments under the senior credit agreement. We have borrowed $42.5 million under the revolving credit facility, all of which was used to make cash payments in connection with the financial restructuring. We plan to use the remaining borrowing availability under the new senior credit agreement to fund our operations, including capital expenditures. As of March 31, 2003, the balance of the facility was $40.9 million

Covenants. Under the new senior credit agreement, Abraxas is subject to customary covenants and reporting requirements. Certain financial covenants require Abraxas to maintain minimum levels of consolidated EBITDA (as defined in the new senior credit agreement), minimum ratios of consolidated EBITDA to cash interest expense and a limitation on annual capital expenditures. In addition, at the end of each fiscal quarter, if the aggregate amount of our cash and cash equivalents exceeds $2.0 million, we are required to repay the loans under the new senior credit agreement in an amount equal to such excess. The new senior credit agreement also requires us to enter into hedging agreements on not less than 25% or more than 75% of our projected oil and gas production. We are also required to establish deposit accounts at financial institutions acceptable to the lenders and we are required to direct our customers to make all payments into these accounts. The amounts in these accounts will be transferred to the lenders upon the occurrence and during the continuance of an event of default under the new senior credit agreement.

In addition to the foregoing and other customary covenants, the new senior credit agreement contains a number of covenants that, among other things, restrict our ability to:

- incur additional indebtedness;
- create or permit to be created any liens on any of our properties;
- enter into any change of control transactions;
- dispose of our assets;
- change our name or the nature of our business;
- make any guarantees with respect to the obligations of third parties;
- enter into any forward sales contracts;
- make any payments in connection with distributions, dividends or redemptions relating to our outstanding securities, or
- make investments or incur liabilities.

Security. The obligations of Abraxas under the new senior credit agreement are secured by a first lien security interest in substantially all of Abraxas' assets, including all crude oil and natural gas properties.

Guarantees. The obligations of Abraxas under the new senior credit agreement are guaranteed by Sandia Oil & Gas, Sandia Operating, Wamsutter, New Grey Wolf, Western Associated Energy and Eastside Coal. The guarantees under the new senior credit agreement are secured by a first lien security interest in substantially all of the guarantors' assets, including all crude oil and natural gas properties.

Events of Default. The new senior credit agreement contains customary events of default, including nonpayment of principal or interest, violations of covenants, inaccuracy of representations or warranties in any material respect, cross default and cross acceleration to certain other indebtedness, bankruptcy, material judgments and liabilities, change of control and any material adverse change in our financial condition.

Hedging Activities.

Our results of operations are significantly affected by fluctuations in commodity prices and we seek to reduce our exposure to price volatility by hedging our production through swaps, options and other commodity derivative instruments. Under the new senior credit agreement, we are required to maintain hedge positions on not less than 25% or more than 75% of our projected oil and gas production for a six month rolling period. On January 23, 2003, we entered into a collar option agreement with respect to 5,000 MMBtu per day, or approximately 25% of our production, at a call price of $6.25 per MMBtu and a put price of $4.00 per MMBtu, for the calendar months of February through July 2003. In February 2003, we entered into a second hedge agreement related to 5,000 MMBtu for the calendar months of March 2003 through February 2004 which provides for a floor price of $4.50 per MMBtu.

Net Operating Loss Carryforwards.

At December 31, 2002 the Company had, subject to the limitation discussed below, $167.1 million of net operating loss carryforwards for U.S. tax purposes. These loss carryforwards will expire from 2003 through 2022 if not utilized. At December 31, 2002, the Company had approximately $1.0 million of net operating loss carryforwards for Canadian tax purposes. These carryforwards will expire from 2003 through 2009 if not utilized. In connection with January 2003 financial transactions certain of the loss carryforwards may be utilized.

As a result of the acquisition of certain partnership interests and crude oil and natural gas properties in 1990 and 1991, an ownership change under Section 382 occurred in December 1991. Accordingly, it is expected that the use of the U.S. net operating loss carryforwards generated prior to December 31, 1991 of $3,203,000 will be limited to approximately $235,000 per year.

During 1992, the Company acquired 100% of the common stock of an unrelated corporation. The use of net operating loss carryforwards of the acquired corporation of $257,000 acquired in the acquisition are limited to approximately $115,000 per year.

As a result of the issuance of additional shares of common stock for acquisitions and sales of common stock, an additional ownership change under Section 382 occurred in October 1993. Accordingly, it is expected that the use of all U.S. net operating loss carryforwards generated through October 1993 (including those subject to the 1991 and 1992 ownership changes discussed above) of $6,590,000 will be limited as described above and in the following paragraph.

An ownership change under Section 382 occurred in December 1999, following the issuance of additional shares. It is expected that the annual use of U.S. net operating loss carryforwards subject to this Section 382 limitation will be limited to approximately $363,000, subject to the lower limitations described above. Future changes in ownership may further limit the use of the Company's carryforwards. In 2000 assets with built-in gains were sold, increasing the Section 382 limitation for 2001 by approximately $31,000,000.

The annual Section 382 limitation may be increased during any year, within 5 years of a change in ownership, in which built-in gains that existed on the date of the change in ownership are recognized.

In addition to the Section 382 limitations, uncertainties exist as to the future utilization of the operating loss carryforwards under the criteria set forth under FASB Statement No. 109. Therefore, the Company has established a valuation allowance of $39.7 million and $99.1 million for deferred tax assets at December 31, 2001 and 2002, respectively.

Outlook for 2003

We have previously communicated the following guidance for 2003:

Production:	
BCFE (approximately 80% gas)	7 - 8
Price differentials (Pre Hedge):	
$ per Bbl of oil	0.64
$ per Mcf of natural gas	0.51
LOE , $ per MCFE	1.21
G&A, $ per MCFE	0.69
Capital Expenditures ($ millions)	15.0

Actual results could materially differ and will depend on, among other things, our ability to successfully increase our production of crude oil, natural gas liquids and natural gas through our drilling activities. We undertake no duty to update these forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Commodity Price Risk

As an independent crude oil and natural gas producer, our revenue, cash flow from operations, other income and profitability, reserve values, access to capital and future rate of growth are substantially dependent upon the prevailing prices of crude oil, natural gas and natural gas liquids. Declines in commodity prices will materially adversely affect our financial condition, liquidity, ability to obtain financing and operating results. Lower commodity prices may reduce the amount of crude oil and natural gas that we can produce economically. Prevailing prices for such commodities are subject to wide fluctuation in response to relatively minor changes in supply and demand and a variety of additional factors beyond our control, such as global political and economic conditions. Historically, prices received for crude oil and natural gas production have been volatile and unpredictable, and such volatility is expected to continue. Most of our production is sold at market prices. Generally, if the commodity indexes fall, the price that we receive for our production will also dec