

MBANK CORPUS CHRISTI N. A.  
P. O. BOX 101  
CORPUS CHRISTI, TEXAS 78403

Minerals Management Service  
Gulf Of Mexico OCS Region  
Imperial Office Bldg.  
3301 N. Causeway Blvd.  
Metairie, Louisiana 70010

4137

The following is to be filed in your records:

- \_\_\_ REAL ESTATE DEED OF TRUST
  - \_\_\_ REAL ESTATE EXTENSION OF LIEN
  - \_\_\_ TRANSFER OF LIEN
  - \_\_\_ COLLATERAL TRANSFER OF NOTE
  - \_\_\_ REAL ESTATE RELEASE OF LIEN
  - \_\_\_ PARTIAL RELEASE OF LIEN
  - \_\_\_ WARRANTY DEED
  - \_\_\_ POWER OF ATTORNEY
  - OIL & GAS DEED OF TRUST (Walter Oil & Gas)
  - \_\_\_ OIL & GAS EXTENSION OF LIEN
  - \_\_\_ UCC-1 - standard
  - \_\_\_ UCC-1 - non-standard
  - \_\_\_ UCC-3
  - \_\_\_ BILL OF SALE
  - \_\_\_ TITLE
    - \_\_\_ certificate of title
    - \_\_\_ odometer statement
    - \_\_\_ form 130U
- OCS-4137

Also enclosed is our Cashier's Check in the amount of \$ ~~35.00~~ to cover your fee.  
25.00

Thank you for your assistance in this matter.

Sincerely,

*Debbie Bowles*  
Debbie Bowles

Corporate Loan Services

RECEIVED

DEC 9 1987

Minerals Management Service  
Leasing & Environment

K-4137  
March 17, 1988

**OIL AND GAS PROPERTIES  
DEED OF TRUST, MORTGAGE AND ASSIGNMENT  
AND FINANCING STATEMENT**

WALTER OIL & GAS CORPORATION

(hereinafter called "Grantor" whether one or more), for and in consideration of the sum of Ten Dollars (\$10.00) to Grantor in hand paid by Paul N. Davis

(hereinafter called the "Trustee"), in order to secure the payment of the indebtedness hereinafter referred to and the performance of the obligations, covenants, agreements and undertakings of the Grantor hereinafter described, does hereby grant, bargain, sell, convey, transfer, assign and set over to the Trustee the following:

A. The oil, gas and/or mineral interests and estates which are described in Exhibit A attached hereto and made a part hereof, and all interests of Grantor in all other oil, gas and/or mineral interests with which any of the interests and estates described in Exhibit A are now or hereafter may be unitized, in whole or in part, together with all "proceeds of runs" from these properties (as this term is defined herein) and all oil, gas, hydrocarbons or other minerals produced therefrom wherever located, whether as being stored in tanks, lines, plants or otherwise;

B. All of Grantor's interests in and to all wells, casing, tubing, rods, flow lines, pipelines, derricks, tanks, separators, pumps, machinery, tools, equipment, camp sites, buildings and all other personal property and fixtures now or hereafter located upon or used in connection with any of the properties described in Exhibit A or properties unitized therewith;

C. All of Grantor's interests in, to and under all contracts, operating agreements, rights of way, easements, surface leases, permits, licenses, pooling or unitization agreements, pooling designations and pooling orders now or hereafter affecting any of the interests now or hereafter covered hereby or which are useful or appropriate in drilling for, producing, treating, handling, storing, transporting or marketing oil, gas or other minerals from any of the properties described in Exhibit A or properties unitized therewith; and

D. All of Grantor's right, title and interest of every nature whether now owned or hereafter acquired in and to the properties, described in A, B and C, including without limitation said properties as they may be enlarged by the discharge of any payments out of production or by the removal of encumbrances; any renewal and extensions of said properties; all contracts and agreements amending or given in substitution for said properties; and any and all additional interests of any kind hereafter acquired by Grantor in said properties.

(All of the properties, interests and rights described in Headings A, B, and C and D are being hereinafter referred to as the "Mortgaged Properties.")

TO HAVE AND TO HOLD the Mortgaged Properties, together with all rights, estates, powers and privileges appurtenant or incident thereto unto the Trustee and his successors or substitutes in this trust and to his or their successors and assigns, in trust, to hold the same subject to the terms and provisions herein set forth.

**ARTICLE I  
SECURED INDEBTEDNESS**

**Minerals Management Service  
Leasing & Environment  
dated December 1, 1986,**

1.01 - This Deed of Trust, Mortgage and Assignment (hereinafter called this "Mortgage") is made to secure and enforce the payment of the following notes, obligations, indebtedness and liabilities: (a) one certain promissory note, ~~dated December 1, 1986, in the principal amount of Fifteen Million and no/100 - - - - - Dollars (\$15,000,000.00)~~ dated December 1, 1986, in the principal amount of Fifteen Million and no/100 - - - - - Dollars (\$15,000,000.00) made by Grantor and payable to the order of BANK CORPUS CHRISTI, F.A., a national banking association with offices in Corpus Christi, Texas (hereinafter called the "Bank"), with interest at the rates therein provided both principal and interest, being payable as provided therein ~~TEXT~~ and containing a provision for the payment of an additional amount as attorneys' fees, and all other notes given in substitution thereof or in renewal and extension thereof, in whole or in part; such note and all other notes given in substitution, renewal and extension thereof, in whole or in part, being hereinafter called the "Note," and the Bank and all subsequent holders of the Note or any part thereof or any interest therein being hereinafter called the "Noteholder"; (b) all indebtedness incurred or arising pursuant to the provisions of this Mortgage; and (c) all other loans and future advances made by the Noteholder to Grantor and all other debts, obligations and liabilities of every kind and character now or hereafter owing by Grantor to the Noteholder, whether direct or indirect, primary or secondary, fixed or contingent, and whether originally payable to the Noteholder or to a third party and subsequently acquired by the Noteholder.

1.02 - The indebtedness referred to in subheadings (a), (b) and (c) of Section 1.01 and all renewals and extensions thereof and all substitutions therefor are hereinafter sometimes referred to as the "secured indebtedness."

**ARTICLE II  
REPRESENTATIONS, WARRANTIES AND COVENANTS**

2.01 - Grantor represents, warrants and covenants that Grantor is the lawful owner of the Mortgaged Properties and has good right and authority to grant, bargain, sell, transfer, assign and mortgage the same; that all oil, gas and/or mineral leases and oil and gas leasehold estates described in Exhibit A attached hereto are valid and subsisting and are in full force and effect and that Grantor's net revenue interest is at least the interest shown in Exhibit A attached hereto; that all rents and royalties due and payable thereunder and all severance and production taxes payable with respect to the production therefrom have been duly paid; that the Mortgaged Properties are free and clear from all liens and encumbrances except the lien evidenced by this Mortgage and except as shown in Exhibit A; that all producing wells located on the Mortgaged Properties or properties unitized therewith have been drilled, operated and produced in conformity with all applicable laws and rules, regulations and orders of all regulatory authorities having jurisdiction and are subject to no penalties on account of past production (except as noted in Exhibit A), none of such wells are deviated from the vertical more than the maximum permitted by applicable laws, rules and regulations, and such wells are in fact bottomed under and are producing from, and the well bores are wholly within, the Mortgaged Properties or properties unitized therewith; and that Grantor will warrant and forever defend the title to the Mortgaged Properties against the claims of all persons, whomsoever claiming or to claim the same or any part thereof.

2.02 - So long as the secured indebtedness or any part thereof remains unpaid, Grantor covenants and agrees with the Noteholder as follows: (a) that Grantor will make prompt payment, as the same become due, of the Note and of all installments of principal and interest thereon and of all other secured indebtedness, and of all other amounts which hereunder or under the provisions of the Note Grantor agrees to pay; (b) that Grantor, if a corporation, will continuously maintain Grantor's corporate existence and Grantor's right to do business in the State of Texas and in each other state where any part of the Mortgaged Properties is situated, and that Grantor will promptly pay all income, franchise and other taxes owing by Grantor and any stamp taxes which may be required to be paid with respect to the Note, this Mortgage or any other instrument evidencing or securing any or the secured indebtedness; (c) that Grantor will cause the Mortgaged Properties to be operated in a good and workmanlike manner in accordance with all applicable laws and rules, regulations and orders promulgated by all duly constituted authorities and in accordance with the provisions of the oil, gas and/or mineral leases or other instruments described in Exhibit A, and will maintain all of the Mortgaged Properties in good operating condition, causing all necessary repairs, renewals, replacements, additions and improvements to be promptly made; (d) that Grantor will comply with all of the terms and provisions, express or implied, of the oil, gas and/or mineral leases, agreements and other instruments described in Exhibit A and, except with the prior written consent of the Noteholder, will not amend or terminate any of such agreements, or surrender, abandon or release any of such leases in whole or in part so long as any well situated thereon, or located on any unit containing all or any part of such leases, is capable of producing oil, gas, other hydrocarbons or other minerals in paying quantities, and will not sell or otherwise dispose of the Mortgaged Properties, or any part thereof without the consent of Noteholder; (e) that Grantor will cause all debts and liabilities of any character, including without limitation all debts and liabilities for labor, material and equipment incurred in the operation and development of the Mortgaged Properties to be promptly paid, and will promptly discharge all obligations to the holders of royalty interests and of other interests in the properties described in Exhibit A; (f) that Grantor will keep such part of the Mortgaged Properties which is of an insurable nature and of a character usually insurable by persons operating similar properties insured with companies of recognized responsibility satisfactory to the Noteholder against loss or damage by fire and from other causes customarily insured against, and all policies evidencing such insurance shall contain clauses providing that the proceeds thereof shall be payable to the Noteholder as its interest may appear; and in the event of any loss under any of said policies, the Noteholder shall have the right to collect the same, and all amounts so received shall be applied toward costs, charges and expenses, if any, incurred in the collection thereof, then to the payment of the Note and all other secured indebtedness, and any balance remaining shall be subject to the order of Grantor; provided, however, that Grantor, if the Noteholder consents thereto in writing, may receive all or a portion of said proceeds so collected for the reimbursement of Grantor for expenditures made in repairing or restoring the damaged property, and the Noteholder is hereby authorized but not obligated to enforce in its name or in the name of Grantor payment of any or all of said policies or to settle or compromise any claim in respect thereof, and to collect and make receipts for the proceeds thereof; (g) that if the validity or priority of this Mortgage or of any rights, titles, liens or interests created or evidenced hereby with respect to the Mortgaged Properties or any part thereof shall be endangered or questioned or shall be attacked directly or indirectly or if any legal proceedings be instituted against Grantor with respect thereto, Grantor will give written notice thereof to the Noteholder and at Grantor's own cost and expense will diligently endeavor to cure any defect that may be developed or claimed, and will take all necessary and proper steps for the defense of such legal proceedings, including but not limited to the employment of counsel, the prosecution or defense of litigation, and the release or discharge of all adverse claims, and the Trustee and the Noteholder, or either of them (whether or not named as parties to legal proceedings with respect thereto) are hereby authorized and empowered to take such additional steps as in their judgment and discretion may be necessary or proper for the defense of any such legal proceedings, including but not limited to the employment of independent counsel, the prosecution or defense of litigation, and the compromise or discharge of any adverse claims made with respect to the Mortgaged Properties, and all expenses so incurred of every kind and character shall be a

...manu obli...tion by Gran... and... from the date of...enture into paid... rate as is provided... in the Note for in...  
...rest on past due principal and shall be secured by the... evidenced by this Mortgage and the party... such expense shall be sub...gated to...  
...all rights of the person receiving such payment, that Grantor will not, without the prior written consent of the Noteholder, suffer or permit any... to...  
...be hereafter claimed or created on any of the Mortgaged Properties, and should a lien become attached hereafter in any manner to any part of the Mortgaged Properties without the prior written consent of the Noteholder, Grantor will cause such lien to be promptly discharged; (ii) that Grantor will cause payment to be made promptly as the same become due of all ad valorem taxes assessed against the Mortgaged Properties, and of all... production, severance and occupation taxes on the production of oil, gas, other hydrocarbons or other minerals that accrue to the Mortgaged Properties; (iii) that Grantor will keep accurate books and records in accordance with sound accounting principles in which full, true and correct entries shall be promptly made as to all operations on the Mortgaged Properties, and all such books and records shall at all times during reasonable business hours be subject to inspection by Noteholder and its duly accredited representatives, and if and as often as requested by the Noteholder, Grantor shall make reports of operations in such form as the Noteholder prescribes, setting out full data as to production and revenues from the Mortgaged Properties; (iv) that Grantor will, on request of the Noteholder, promptly correct any defect, error or omission which may be discovered in the contents of this Mortgage or in the execution or acknowledgment thereof, and will execute and deliver any and all additional instruments as may be requested by the Noteholder to correct such defect, error or omission, or to identify any, additional properties which are or become subject to this Mortgage; (v) that Grantor will pay all applicable fees, recording fees, taxes, abstract fees, attorney's fees, and all other costs and expenses of every character incurred by Grantor or the Noteholder in connection with the closing of this loan, and will reimburse the Noteholder for all expenses incurred by it, and will indemnify and hold harmless the Trustee and the Noteholder from and against all claims, demands, liabilities and causes of action asserted against either of them on account of any act performed or omitted to be performed hereunder, or on account of any transaction arising out of or in any way connected with the Mortgaged Properties or with this Mortgage or any of the secured indebtedness, save and except for their willful misconduct.

2.03 - As to any part of the Mortgaged Properties which is not a leasehold or working interest, Grantor agrees to take all such action and to exercise all rights and remedies as are available to Grantor to cause the owner or owners of the working interest in such properties to comply with the covenants and agreements contained herein.

2.04 - Grantor agrees that if Grantor fails to perform any act, or to take any action which hereunder Grantor is required to perform or take, or to pay any money which hereunder Grantor is required to pay, the Noteholder, in Grantor's name or in its own name may but shall not be obligated to perform or cause to be performed such act or fail to do such action or pay such money, and any expenses incurred by the Noteholder and any money so paid by the Noteholder shall be a demand obligation owing by Grantor and shall bear interest from the date of making such payment until paid, at the same rate as is provided in the Note for interest on past due principal, and shall be a part of the secured indebtedness and shall be secured by this Mortgage and by any other instrument securing the secured indebtedness, and the Noteholder, upon making such payment, shall be subrogated to all of the rights of the person, corporation or body politic receiving such payment.

**ARTICLE III  
ASSIGNMENT OF PRODUCTION,  
ACCOUNT CONTRACT RIGHTS AND PROCEEDS**

3.01 - For the purpose of additionally securing the payment of all secured indebtedness and to facilitate the discharge of such indebtedness, and as cumulative of any and all rights and remedies hereinafter provided for, Grantor hereby bargains, sells, transfers, conveys, assigns, and delivers to the Noteholder all oil, gas, other hydrocarbons and other mineral products from or allocated to the Mortgaged Properties which accrue after the Effective Date (as herein defined) to Grantor's interest, in said production and all proceeds thereof and all accounts and contract rights of Grantor under which such proceeds may arise. All such accounts, contracts, rights and proceeds herein after referred to as the "proceeds of runs," and Grantor hereby assigns and warrants any and all purchasers of the oil, gas, other hydrocarbons and other minerals produced from or allocated to the Mortgaged Properties to pay to the Noteholder all of such proceeds of runs owing to Grantor's interest until such time as such purchase has been fully paid. In evidence that all secured indebtedness has been paid and that the liens evidenced hereby have been released, Grantor authorizes the Noteholder to receive and collect all proceeds of money derived from the proceeds of runs assigned hereunder, and no purchaser of the production attributed to the Mortgaged Properties shall have any responsibility for the application of any funds paid to the Noteholder. The office where the records of Grantor with respect to the accounts and contract rights concerning the Mortgaged Properties are kept is located at the address shown below the signature of Grantor to this Mortgage, and Grantor agrees that the location at which such records are kept will not be changed without the prior written consent of Noteholder.

3.02 - Independent of the foregoing provisions and authorities herein granted, Grantor agrees to execute and deliver any and all transfer orders, divisions orders and other instruments that may be requested by the Noteholder, or that may be required by any purchaser of the production from any of the Mortgaged Properties for the purpose of effectuating payment of the proceeds of runs to the Noteholder. If under any existing sales agreements, other than division orders or transfer orders, any proceeds of runs are required to be paid by the purchaser to Grantor so that under such existing agreement payment cannot be made of such proceeds of runs to the Noteholder, Grantor's interest in all proceeds of runs under such sales agreements and in all other proceeds of runs which for any reason may be paid to Grantor shall when received by Grantor constitute trust funds in Grantor's hands and shall be immediately payable to the Noteholder.

3.03 - So long as no default has occurred hereunder, all proceeds of runs received by the Noteholder during the first nine (9) days of any given calendar month and after the ninth day or the preceding calendar month shall be held by the Noteholder in escrow until the tenth day of such given calendar month, at the option of the Noteholder, until any earlier date) at which time such proceeds of runs shall be applied by the Noteholder as follows: First, such proceeds of runs shall be applied to the payment of all unpaid installments of interest on the Note maturing prior to or on such application date; Second, to the payment of all matured principal owing on the Note; Third, to the payment of all matured interest and principal on all other secured indebtedness; Fourth, to the prepayment (without penalty) of principal of the Note and of any other secured indebtedness; and Fifth, the remainder of the proceeds of runs shall be paid over to Grantor or to Grantor's order. After an event of default has occurred, all proceeds of runs in the hands of the Noteholder shall be applied by it toward the payment of all secured indebtedness, principal, interest and attorney's fees, at such times and in such amounts as the Noteholder deems advisable.

3.04 - Should any person now or hereafter purchasing or taking oil, gas, other hydrocarbons or other minerals attributed to the Mortgaged Properties fail to make payment promptly to the Noteholder of the hereby assigned proceeds of runs, the Noteholder shall have the right to make, or to require Grantor to make, a change of connection and the right to designate or approve the purchaser with whose facilities a new connection shall be made, without liability or responsibility in connection therewith, so long as ordinary care is used in making such designation, and Grantor agrees to pay to the Noteholder in order and in writing therefor from the Noteholder, if the amount of any proceeds of runs not promptly paid to the Noteholder by any person having responsibility for payment thereof.

3.05 - The Noteholder, and its successors and assigns are hereby absolved from all liability for failure to enforce collection of the proceeds of runs and from all other responsibility in connection therewith, except the responsibility to account to Grantor for funds actually received. Grantor agrees to indemnify and hold harmless the Noteholder against any and all liabilities, actions, claims, judgments, costs, charges and attorney's fees by reason of the assertion that it received either before or after payment in full of the secured indebtedness funds from the production of oil, gas, other hydrocarbons, or other minerals claimed by third persons and the Noteholder shall have the right to defend against any such claims or actions, employing attorneys of its own selection and if not furnished with indemnity satisfactory to it, the Noteholder shall have the right to compromise and adjust any such claims, actions, and judgments, and in addition the rights to be exercised as herein provided, all amounts paid by the Noteholder in compromise, satisfaction or discharge of any such claim, action or judgment and all court costs, attorney's fees and all other expenses of every character incurred by Noteholder pursuant to the provisions of this section shall be a demand obligation owing by Grantor and shall bear interest from date of expenditure until paid at the same rate as is provided in the Note for interest on past due principal and shall be part of the secured indebtedness and shall be secured by this Mortgage and by any other instrument securing the secured indebtedness.

3.06 - Nothing herein contained shall detract from or limit the absolute obligation of Grantor to make prompt payment of all principal and interest owing on the Note and of all other secured indebtedness when and as the same become due, regardless of whether the proceeds of runs herein assigned are sufficient to pay the same, and the right under this assignment shall be cumulative of all other security of any and every character now or hereafter existing to secure the payment of the Note and all other secured indebtedness.

**ARTICLE IV  
WAIVER AND PARTIAL RELEASE**

4.01 - The Noteholder may at any time and from time to time in writing (a) waive compliance by Grantor with any covenant herein made by Grantor to the extent and in the manner specified in such writing; (b) consent to Grantor doing any act which would render Grantor prohibited from doing, or to Grantor failing to do any act which hereunder Grantor is required to do to the extent and in the manner specified in such writing; or (c) release any part of the Mortgaged Properties, or any interest therein, or any proceeds of runs from the lien of this Mortgage without the joinder of the Trustee. No such act shall in any way impair the rights of the Noteholder hereunder except to the extent specifically agreed to by the Noteholder in such writing.

4.02 - The lien and other security rights of the Noteholder hereunder shall not be impaired by any indulgence including but not limited to (a) any renewal, extension, or modification which the Noteholder may grant with respect to any secured indebtedness, or (b) any surrender, compromise, release, renewal, extension, exchange or substitution which the Noteholder may grant in respect of any item of the Mortgaged Properties or any part thereof, or any interest therein, or any of the proceeds of runs, or (c) any release or indulgence granted to any endorser, guarantor or surety of any secured indebtedness.



**ARTICLE V**  
**POSSESSION UNTIL DEFAULT, DEFEASANCE**

5.01 - Unless a default specified in Section 6.01 hereof shall occur and be continuing, Grantor shall remain in full possession of the Mortgaged Properties (except the oil, gas, hydrocarbons and other minerals) and shall manage, operate, lease, convey and every part thereof, subject, however, to all of the terms and conditions of this Mortgage.

5.02 - If all of the secured indebtedness to be paid as the same becomes due and payable and if the covenants, warranties, undertakings and agreements made in this Mortgage are kept and performed, then and in that event only all rights under this Mortgage shall terminate and the properties hereby conveyed shall become wholly clear of the liens, conveyances and assignments evidenced hereon, and such liens shall be released by the Noteholder in due form at Grantor's cost.

**ARTICLE VI**  
**REMEDIES IN EVENT OF DEFAULT**

6.01 - The term "default" as used in this Mortgage shall mean the occurrence of any of the following events: (a) the failure of Grantor to make due and punctual payment of the Note or of any other secured indebtedness or of any installment of principal or interest, or any part thereof, as the same shall become due and payable, whether at maturity or when accelerated pursuant to any power to accelerate contained in the Note or elsewhere; (b) the failure of Grantor to pay over to the Noteholder within five (5) days after receipt of written demand any proceeds of the sale of the oil, gas, other hydrocarbons and other minerals produced, saved and sold from or allocated to the Mortgaged Properties which are paid to Grantor rather than the Noteholder as provided in Section 3.02 hereof except proceeds of runs paid over to Grantor by the Noteholder under clause Fifth of Section 3.03; (c) the failure of Grantor timely and properly to observe, keep or perform any covenant, agreement, warranty, or condition herein required to be observed, kept or performed, if such failure continues for thirty (30) days after written notice and demand by the Noteholder for the performance of such covenant, agreement, warranty or condition; (d) Grantor shall be or become insolvent or unable to pay debts as they mature or makes an assignment for the benefit of creditors; (e) a receiver is appointed for all or substantially all of the properties of Grantor or for any of the Mortgaged Properties, and, if not requested by or acquiesced in by Grantor, is not vacated or superseded within thirty (30) days; or (f) any surety of the indebtedness herein institutes any proceeding for relief pursuant to Title 11, USC, the Bankruptcy Code of 1978, or Grantor or any surety transfers any property in fraud of the rights of his or her respective creditors, or requests, either by way of petition or answer, that Grantor or such surety be allowed or granted a composition, arrangement, extension, reorganization or other relief under any non-bankruptcy law or under any other law for the relief of debtors now or hereafter existing.

6.02 - Upon the occurrence of a default, the Noteholder shall have the option by giving notice to Grantor or declaring all secured indebtedness in its entirety to be immediately due and payable and the liens evidenced hereby shall be subject to foreclosure in any manner provided for herein as provided for by law as the Noteholder may elect. However, in the case of Section 6.01(d), 6.01(e) or 6.01(f), above, default shall constitute an automatic acceleration and the entire indebtedness secured hereby shall become immediately due and payable.

6.03 - Upon the occurrence of a default, the Trustee or the Noteholder is authorized prior or subsequent to the institution of any foreclosure proceedings to enter upon the Mortgaged Properties, or any part thereof, and to exercise without interference from Grantor any and all rights which Grantor has with respect to the management, possession and operation of the Mortgaged Properties. All costs, expenses and liabilities of every character incurred by the Trustee or the Noteholder in managing, operating and maintaining such properties shall constitute a debt and obligation owing by Grantor and shall draw interest from the date of expenditure until paid at the same rate as is provided in the Note for interest on past due principal, all of which shall constitute a portion of the secured indebtedness.

6.04 - Upon the occurrence of a default, the Trustee, his successor or substitute, is authorized and empowered and it shall be his special duty at the request of the Noteholder to sell the Mortgaged Properties or any part thereof situated in the State of Texas at the courthouse door of any county in the State of Texas in which any part of the Mortgaged Properties is situated, at public vendue to the highest bidder in cash after having given notice of such sale in accordance with the statutes of the State of Texas then in force governing sales of real estate under powers conferred by deed of trust. Any sale made by the Trustee hereunder may be for an entirety or in such parcels as the Noteholder may request, and any sale may be adjourned by announcement at the time and place appointed for such sale without further notice except as may be required by law. After each sale the Trustee shall make to the purchaser or purchasers at such sale good and sufficient conveyances in the name of Grantor, conveying the property so sold to the purchaser or purchasers in fee simple with general warranty of title, and shall receive the proceeds of such sale or sales and apply the same as herein provided. The power of sale granted herein shall not be exhausted by any sale held hereunder by the Trustee or his substitute or successor, and such power of sale may be exercised from time to time and as many times as the Noteholder may deem necessary until all of the Mortgaged Properties have been fully sold and all secured indebtedness has been fully paid. Any and all statements of fact or other recitals made in any deed or deeds given by the Trustee or any successor or substitute appointed hereunder as to nonpayment of the indebtedness or as to the occurrence of any event of default or as to the Noteholder having declared all of said indebtedness to be due and payable, or as to the request to sell, or as to notice of time, place and terms of sale and the properties to be sold having been duly given, or as to the refusal, failure or inability to act of the Trustee or any substitute or successor, or as to the appointment of any substitute or successor trustee, or as to any other act or thing having been duly done by Noteholder or by such Trustee, substitute or successor, shall be taken as prima facie evidence of the truth of the facts so stated and recited and shall be accepted without question. The Trustee, his successor or substitute, may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale held by the Trustee, including the posting of notices and the conduct of sale, but in the name and on behalf of the Trustee, his successor or substitute.

6.05 - This instrument shall be effective as a mortgage as well as a deed of trust and may be foreclosed as to any of the properties covered hereby in any manner permitted by the laws of the State of Texas or of any other state in which any part of the Mortgaged Properties is situated, and any foreclosure suit may be brought by the Trustee or by the Noteholder. In addition to all other remedies herein provided for, Grantor agrees that after an event of default has occurred the Trustee or the Noteholder shall as a matter of right be entitled to the appointment of a receiver or receivers for all or any part of the Mortgaged Properties, whether such receivership be incident to a proposed sale of such property or otherwise and Grantor does hereby consent to the appointment of such receiver or receivers and agrees not to oppose any application therefor by the Trustee or the Noteholder; provided, however, that the appointment of any receiver, trustee or other appointee by virtue of any court order, statute or regulation shall not impair or in any manner prejudice the rights of the Noteholder to receive payment of proceeds of runs as herein provided.

6.06 - The proceeds of any sale held by the Trustee or any receiver or public officer in foreclosure of the liens evidenced hereby shall be applied: First, to the payment of all necessary costs and expenses incident to such foreclosure sale, including but not limited to all court costs and charges of every character in the event foreclosed by suit, and a reasonable fee to the Trustee acting under the provisions of Section 6.04 if foreclosed by power of sale as provided in said section not exceeding five percent (5%) to be estimated upon the amount realized at such sale; Second, to the payment in full of the secured indebtedness in such order as the Noteholder may elect; and Third, the remainder, if any there shall be, shall be paid to Grantor or to Grantor's successors or assigns.

6.07 - The Noteholder shall have the right to become the purchaser at any sale held by any Trustee or substitute or successor or by any receiver or public officer, and any Noteholder purchasing at any such sale shall have the right to credit upon the amount of the bid made therefor, to the extent necessary to satisfy such bid, the secured indebtedness owing to such Noteholder, or if such Noteholder holds less than all of such indebtedness the pro rata part thereof owing to such Noteholder, according to all other Noteholders not joining in such bid in cash for the portion of such bid or bids apportionable to such non-bidding Noteholder or Noteholders.

6.08 - All remedies herein expressly provided for are cumulative of any and all other remedies existing at law or in equity, and the Trustee and the Noteholder shall in addition to the remedies herein provided, be entitled to avail themselves of all such other remedies as may now or hereafter exist at law or in equity for the collection of said indebtedness and the enforcement of the covenants herein and the foreclosure of the liens evidenced hereby, and the resort to any remedy provided for hereunder or provided for by law shall not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies.

6.09 - The Noteholder may resort to any security given by this Mortgage or to any other security now existing or hereafter given to secure the payment of the secured indebtedness in whole or in part, and in such portions and in such order as may seem best to the Noteholder in its sole and uncontrolled discretion, and any such action shall not in anywise be considered as a waiver of any of the rights, benefits, or liens evidenced by this instrument. It is understood and agreed that all rights of Grantor or any person claiming under Grantor to a marshaling of assets, or to a sale in inverse order of alienation, in connection with any foreclosure made under this instrument, whether judicial foreclosures or power-of-sale foreclosures, are waived.

6.10 - To the full extent Grantor may do so, Grantor agrees that Grantor will not at any time insist upon, plead, claim or take the benefit or advantage of any law now or hereafter in force providing for any appraisal, valuation, stay, extension or redemption, and Grantor for Grantor, Grantor's heirs, devisees, representatives, successors and assigns, and for any and all persons ever claiming any interest in the Mortgaged Properties to the extent permitted by law hereby waives and releases all rights of redemption, valuation, appraisal, stay of execution, notice of election to mature or declare due the whole of the secured indebtedness and marshaling in the event of foreclosure of the liens hereby created. If any law referred to in this section and now in force, of which Grantor or Grantor's successors might take advantage despite this section, shall hereafter be repealed or cease to be in force, such law shall not thereafter be deemed to preclude the application of this section.

**ARTICLE VII**  
**MISCELLANEOUS**

7.01 - This instrument is a deed of trust and mortgage of both real and personal property, a security agreement, a financing statement and an assignment, and also covers proceeds and fixtures. All or parts of the Mortgaged Properties are or are to become fixtures on the real estate described in Exhibit A, and all or part of the oil, gas, hydrocarbons and other minerals and the accounts resulting from the sale thereof will be financed at the wellhead or minehead or wells or mines located on the real estate described in Exhibit A. This Oil and Gas Properties Deed of Trust, Mortgage and Assignment is to be filed for record, among other places, in the real estate records of the counties in which such real estate is situated. Grantor is the owner of record of the interests in the real estate described in Exhibit A.



7.02 - The Trustee may resign by instrument in writing addressed to the Noteholder or removed at any time with or without cause by an instrument in writing addressed to the Noteholder. In case of the death, resignation or removal of the Trustee, a successor Trustee may be appointed by the Noteholder by instrument in writing complying with any applicable requirements of law and in the absence of any such requirement, without order of court, by an appointment and designation in writing executed by the Noteholder. Such appointment and designation shall be full evidence of the right and authority to make the same and of facts thereon required, and upon the making of any such appointment and designation, all of the powers, privileges, immunities and duties herein conferred upon the Trustee shall vest in the named successor Trustee. The signature of any person succeeded to all the rights, powers, privileges, immunities and duties herein conferred upon the Trustee shall be deemed to refer to the Trustee as deemed to refer to the Trustee including any successor appointed and designated as herein provided from time to time according hereunder.

7.03 - All options and rights in this section herein provided for the benefit of the Noteholder shall survive, and the failure to exercise any such option or right or election upon a particular date or breach of any subsequent default or breach of any subsequent obligation shall not be construed as waiving the right to exercise such option or election at any later date. No exercise of the rights and powers herein contained shall constitute any admission in the exercise of such rights and powers and shall be held to constitute the same or be construed as a waiver thereof, and every such right and power may be exercised at any time and from time to time.

7.04 - The Note and all other secured indebtedness which may be owing hereunder at any time by Grantor shall be payable at the office of the Noteholder in Corpus Christi, Nueces County, Texas, or at such other place as the Noteholder may designate in writing.

7.05 - Any provision contained herein or in the Note or in any other instrument evidencing or relating to any secured indebtedness to the contrary notwithstanding, it is not intended that the Grantor shall be required to pay with the Note or be permitted to collect interest on the secured indebtedness in excess of the maximum permitted by law held to be applicable to this transaction, and if any excess of interest is provided for, or shall have been collected or shall be adjudicated to be so provided for, required, or permitted, the Grantor shall not pay such interest in excess of the amount permitted by law. It is therefore agreed that the aggregate of all interest and other charges constituting interest under applicable law and contract for, chargeable or receivable shall never exceed the maximum amount of interest, nor produce a rate on the secured indebtedness in excess of the maximum contract rate of interest, that Noteholder may charge Grantor under applicable law and in regard to which the Grantor may not successfully assert the claim or defense of usury, and if any excess interest is provided for, it shall be deemed a mistake and the same shall be first credited on the unpaid principal amount of the secured indebtedness, the balance shall be refunded to the Grantor, and the instruments evidencing the secured indebtedness shall be automatically deemed reformed so as to permit only the collection of the maximum legal contract rate and amount of interest. If any provision of the Note or of any other such instrument shall ever be construed or held to permit the collection or to require the payment of any amount of interest in excess of that permitted by the laws of the State of Texas, as superseded by federal law, the provisions of this Section 7.05 shall control and shall override any contrary or inconsistent provision of the Note or other instrument.

7.06 - Any notice, request, demand or other instrument which may be required or permitted to be given or furnished to or served upon Grantor shall be addressed to Grantor at the address shown below the signature of Grantor to this Mortgage, or to such different address within the State of Texas as Grantor shall have designated by written notice actually received by the Noteholder at least ten (10) days in advance of the date upon which such change of address shall be effective under the provisions of this Section 7.06.

7.07 - The terms, provisions, covenants and conditions hereof shall be binding upon Grantor and the heirs, devisees, representatives, successors and assigns of Grantor, and shall inure to the benefit of the Trustee and the Noteholder and their respective successors and assigns and shall constitute covenants running with the land.

7.08 - The "Effective Date" of this instrument is 7:00 p.m., October 1, 1987

7.09 - It is understood and agreed that by this instrument Grantor, in addition to fixing and creating a Deed of Trust lien upon and against the Mortgaged Properties and proceeds of runs herein described, also has created and granted to Noteholder pursuant to the Uniform Commercial Code of Texas a security interest in the herein described personal property, including, but not limited to, the proceeds of runs, goods, equipment, fixtures, general intangibles and accounts herein described, regardless of the manner in which the same are or are not attached to the herein described real property and that in the event of a foreclosure sale, whether made by the Trustee, or successor in title, under the terms of this Oil and Gas Properties Deed of Trust, Mortgage and Assignment, or under judgment of a court, all of which real and personal property may, at the option of the Noteholder, be sold as a whole and that there shall not be necessary to have present at the place of sale the property in any part thereof.

7.10 - This instrument may be executed in multiple counterparts for recording in the respective counties in which the properties are located, and each counterpart may be executed in any county in Exhibit A, and all such counterparts shall be deemed to constitute but one and the same instrument.

7.11 - Additional provisions:

as of the 1st day of October 1987

GRANTOR: WALTER OIL & GAS CORPORATION  
By J. C. Walter, Jr., President  
Address: 1212 Main Street, 240 Main Building  
Houston, Texas 77002

ATTEST: [Signature]

BANK: BEAN, CORPUS CHRISTI, N.A.  
By John W. Norris  
John W. Norris (Name)  
Senior Vice President (Title)

ATTEST: [Signature]

Address: 500 North Shoreline  
Corpus Christi, Texas 78401

THE STATE OF TEXAS §  
COUNTY OF HARRIS §

BEFORE ME, the undersigned authority, on this day personally appeared J. C. WALTER, JR., President of WALTER OIL & GAS CORPORATION known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed. In the capacity therein stated and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 11th day of October 1987

[Signature]  
Notary Public, State of Texas  
Pat A. Wilson  
Typed or Printed Name  
My Commission Expires: 10-17-88

THE STATE OF TEXAS §  
COUNTY OF DUECES §

BEFORE ME, the undersigned authority, on this day personally appeared JOHN W. NORRIS, Senior Vice President of BANK CORPUS CHRISTI, N.A. a national banking association, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated and as the act and deed of said national banking association.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 12th day of September 1987

[Signature]  
NOTARY PUBLIC, State of Texas  
JANIE LIRIEBAS  
Typed or Printed Name  
My Commission Expires: 2-10-87

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Leasing & Environment

EXHIBIT A

Attached to and made a part of  
Oil and Gas Properties Deed of Trust, Mortgage  
and Assignment and Financing Statement dated  
as of October 1, 1987, executed by  
Walter Oil & Gas Corporation, as Grantor,  
to Paul N. Davis, as Trustee for the benefit of  
MBank Corpus Christi, N.A.

The Mortgaged Properties referred to in the foregoing Oil and Gas Properties Deed of Trust, Mortgage and Assignment and Financing Statement include all of Grantor's right, title and interest in and to the following described Oil and Gas Leases and the land covered thereby, to-wit:

LEASE NO. 1: United States Oil and Gas Lease of Submerged Lands under the Outer Continental Shelf Lands Act, OCS-G 4137, dated October 1, 1979, from the United States of America, as Lessor, to Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Lessees, covering that portion of Block 557 seaward of the Three Marine League Line, Matagorda Island Area, as shown on OCS Official Leasing Map, Texas Map No. 4, **INSOFAR AND ONLY INSOFAR** as said lease covers the Northeast Quarter (NE/4) of Block 557, Matagorda Island Area, as shown on OCS Official Leasing Map, Texas Map No. 4, containing 1,440 acres, more or less, below the stratigraphic equivalent of 10,200 feet as shown at a measured depth of 11,727 feet on the Dual Induction Focused Log Run #3, in Elf Aquitaine, Inc.'s Well No. A-4, Block 557, Matagorda Island Area.

Grantor's interest in the above-described Oil and Gas Lease is that interest to be acquired by Grantor pursuant to the terms of the following Farmout Agreement, to-wit:

Farmout Agreement dated January 12, 1987 by and between Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Farmors, and Walter Oil & Gas Corporation, and TXP Operating Company, as Farmees.

Grantor represents and warrants that it has earned the right to an Assignment pursuant to the terms of the above-described Farmout Agreement, and Grantor further agrees that the Mortgaged Properties referenced in the foregoing Oil and Gas Properties Deed of Trust, Mortgage and Assignment and Financing Statement includes the interest to be assigned to Grantor pursuant to the terms of the Farmout Agreement.



The Mortgaged Properties are subject to the terms of the Farmout Agreement. There is expressly excluded from the Mortgaged Properties the interests in the Farmout Agreement and the Assignment to be executed pursuant thereto which Grantor is required to assign to third parties pursuant to the following agreements, to-wit:

(1) Joint Venture Agreement styled The Walter Oil & Gas Corporation 1986 Exploration Program Agreement dated effective as of January 1, 1986, between Walter Oil & Gas Corporation, as Program Manager, and Rowan Petroleum, Inc., I. P. Petroleum Company, Inc. and Lignum Oil Company, as Participants;

(2) Walter Oil & Gas Offshore Development Joint Venture dated effective as of June 15, 1984, between Walter Oil & Gas Corporation, et al, and Walter/NM Limited Partnership; and

(3) Participation Agreement dated September 18, 1986, between Walter Oil & Gas Corporation and TXP Operating Company.

LEASE NO. 2: United States Oil and Gas Lease of Submerged Lands under the Outer Continental Shelf Lands Act, OCS-G 4137, dated October 1, 1979, from the United States of America, as Lessor, to Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Lessees, covering that portion of Block 557 seaward of the Three Marine League Line, Matagorda Island Area, as shown on OCS Official Leasing Map, Texas Map No. 4, **INSOFAR AND ONLY INSOFAR** as said lease covers the Federal portion of the Northwest Quarter (NW/4) of Block 557, Matagorda Island Area, as shown on OCS Official Leasing Map, Texas Map No. 4, containing 1,300 acres, more or less.

Grantor's interest in the above-described Oil and Gas Lease is that interest to be acquired by Grantor pursuant to the terms of the following Farmout Agreement, to-wit:

Farmout Agreement dated February 1, 1986, by and between Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Farmers, and Walter Oil & Gas Corporation, as Farmee, as amended.

Grantor represents and warrants that it has earned the right to an Assignment pursuant to the terms of the above-described Farmout Agreement, and Grantor further agrees that the Mortgaged Properties referenced in the foregoing Oil and Gas Properties Deed of Trust, Mortgage and Assignment and Financing Statement includes the interest to be assigned to Grantor pursuant to the terms of the Farmout Agreement.

The Mortgaged Properties are subject to the terms of the Farmout Agreement. There is expressly excluded from the Mortgaged Properties the interests in the Farmout Agreement and the Assignment to be executed pursuant thereto which Grantor is required to assign to third parties pursuant to the following agreements, to-wit:

(1) Joint Venture Agreement styled The Walter Oil & Gas Corporation 1986 Exploration Program Agreement dated effective as of January 1, 1986, between Walter Oil & Gas Corporation, as Program Manager, and Rowan Petroleum, Inc., I. P. Petroleum Company, Inc. and Lignum Oil Company, as Participants;

(2) Walter Oil & Gas Offshore Development Joint Venture dated effective as of June 15, 1984, between Walter Oil & Gas Corporation, et al, and Walter/NM Limited Partnership; and

(3) Participation Agreement dated September 18, 1986, between Walter Oil & Gas Corporation and TXP Operating Company.

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**DEC 9 1987**

**Minerals Management Service  
Leasing & Environment**

**BRACEWELL & PATTERSON**

2900 SOUTH TOLSON PENNSYLVANIA PLACE  
HOUSTON, TEXAS 77002-2781  
713 223 2900  
CABLE BRACEPAT HOU  
TELEX 78 2141

*4137*

2000 K STREET N.W.  
WASHINGTON, D.C. 20006-1208  
202 828 8800  
TELEX 89 2873  
22 GROSVENOR SQUARE  
LONDON W1X 0DY  
01 491 4805  
TELEX 73488  
100 CONGRESS AVENUE  
AUSTIN, TEXAS 78701-4042  
512 472 7800

December 14, 1988

By Federal Express

Minerals Management Services  
1201 Elmwood Park Boulevard  
Suite 102  
New Orleans, Louisiana 70123

Re: Recordation of Deeds of Trust

Dear Sirs:

Please find enclosed one (1) original and six (6) copies of a certain Deed of Trust, Security Agreement, Assignment of Security Interests and Liens, Assignment of Production and Financing Statement dated December 12, 1988, executed by Walter Oil and Gas Corporation to Gray H. Muzzy, Trustee for the benefit of Citibank, N.A. The security interests include seven federal lease properties; these properties are included in Exhibit "A" to the Deed of Trust and are as follows:

- (i) OCS-G-4721;
- (ii) OCS-G-9047;
- (iii) OCS-G-8132;
- (iv) OCS-G-4259;
- (v) OCS-G-4138;
- (vi) OCS-G-4137; and
- (vii) OCS-G-6055.

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Minerals Management Service  
Leasing & Environment

Please file a copy of the Deed of Trust in each of the above-referenced lease files.



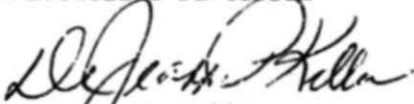
Mineral Management Services  
December 14, 1988  
Page 2

Enclosed is a check in the amount of \$175.00 to cover recordation fees.

Your prompt attention in this matter is greatly appreciated.

Very truly yours,

Bracewell & Patterson



DeJeanne P. Koller

DPK:lqd  
Enclosures  
2DP/KW/T

**DEED OF TRUST, SECURITY AGREEMENT, ASSIGNMENT  
OF SECURITY INTERESTS AND LIENS,  
ASSIGNMENT OF PRODUCTION AND  
FINANCING STATEMENT**

**THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY AND FUTURE  
ADVANCE PROVISIONS.**

**THIS INSTRUMENT COVERS THE INTEREST OF DEBTOR IN MINERALS OR  
THE LIKE (INCLUDING OIL AND GAS) BEFORE EXTRACTION AND THE  
SECURITY INTEREST CREATED BY THIS INSTRUMENT ATTACHES TO  
SUCH MINERALS AS EXTRACTED AND TO THE ACCOUNTS RESULTING  
FROM THE SALE THEREOF AT THE WELLHEAD. THIS INSTRUMENT  
COVERS THE INTEREST OF DEBTOR IN FIXTURES. THIS FINANCING  
STATEMENT IS TO BE FILED FOR RECORD, AMONG OTHER PLACES, IN  
THE REAL ESTATE RECORDS. PRODUCTS OF THE COLLATERAL ARE  
ALSO COVERED.**

**THIS INSTRUMENT INCLUDES AN ASSIGNMENT OF SECURITY INTERESTS  
AND LIENS OF DEBTOR ARISING UNDER ARTICLE 9-319 of the TEXAS  
BUSINESS AND COMMERCE CODE.**

**STATE OF TEXAS            §  
                                  §  
COUNTY OF \_\_\_\_\_ §**

**This instrument is executed and delivered by WALTER IL  
& GAS CORPORATION, a Texas corporation ("Debtor") to Gray M.  
Muzzy, Trustee, for the benefit of CITIBANK, N.A. ("Secured  
Party"). The addresses of Debtor, Secured Party and the  
Trustee appear in Section 7.14 of this instrument.**

**ARTICLE I  
Definitions**

**1.1 "Collateral" means the Realty Collateral, Person-  
ality Collateral and Fixture Collateral.**

**1.2 "Contracts" means all contracts and agreements  
described in Exhibit "A" and all other contracts, operating  
agreements, farm-out or farm-in agreements, sharing agree-  
ments, mineral purchase agreements, rights-of-way, ease-  
ments, surface leases, permits, franchises, licenses,  
pooling or unitization agreements, unit designations and  
pooling orders now in effect or hereafter entered into by**

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**DEC 15 1988**

**Minerals Management Service  
Leasing & Environment**

Debtor affecting any of the Oil and Gas Properties, Operating Equipment, Fixture Operating Equipment, or Hydrocarbons now or hereafter covered hereby, or which are useful or appropriate in drilling for, producing, treating, handling, storing, transporting or marketing oil, gas or other minerals produce" from any of the property affected by the Oil and Gas Properties.

1.3 "Event of Default" shall have the meaning set forth in Article V hereof.

1.4 "Fixture Collateral" means all of Debtor's interest now owned or hereafter acquired in and to all Fixture Operating Equipment and all proceeds, products, renewals, increases, profits, substitutions, replacements, additions, amendments and accessions thereof, thereto or therefor.

1.5 "Fixture Operating Equipment" means any of the items described in the first sentence of paragraph 1.9 which as a result of being incorporated into realty or structures or improvements located therein or thereon, with the intent that they remain there permanently, constitute fixtures under the laws of the state in which such equipment is located.

1.6 "Hydrocarbons" means the oil, gas, casinghead gas, other liquid or gaseous hydrocarbons and all other minerals in and under or attributable to and that may be produced, obtained or secured from, the lands covered and affected by the Oil and Gas Properties, and all products refined therefrom.

1.7 "Obligations" means

(a) All obligations of Debtor to Secured Party pursuant to the terms and conditions of that certain Credit Agreement of even date herewith between Debtor and Secured Party (the "Credit Agreement"), including but not limited to (i) all obligations under that certain Promissory Note of even date herewith in the original principal amount of \$9,000,000.00 executed by Debtor payable to the order of Secured Party, which Note is due and payable in full on or before September 1, 1991 and (ii) all other "Obligations" (as defined in the Credit Agreement).

(b) All promissory notes evidencing additional loans which Secured Party may hereafter make to Debtor



(although it is understood that Secured Party is under no obligation to do so) other than loans made by Secured Party pursuant to Chapter 4 of the Texas Credit Code, as amended;

(c) All other indebtedness, obligations and liabilities, and all renewals and extensions thereof, or any part thereof, now or hereafter owed to the Secured Party by Debtor, arising in connection with, by virtue of, or pursuant to the Credit Agreement, whether such indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, liquidated, unliquidated, joint, several or joint and several;

(d) All sums advanced or costs or expenses incurred by Secured Party (whether by it directly or on its behalf by the Trustee), which are made or incurred pursuant to, or allowed by, the terms of this instrument plus interest thereon from the date of the advance until reimbursement of Secured Party, charged at the lesser of the maximum nonusurious rate per annum permitted by applicable law or 2% per annum above the Base Rate (as defined in the Credit Agreement) in effect from time to time; and

(e) All renewals or extensions, amendments, whether or not Debtor executes any such renewal or extension agreement, and any amendments and substitutions to the above.

1.8 "Oil and Gas Property or Properties" means (a) the oil, gas and/or mineral leases, mineral estates, subleases, farmouts, royalties, overriding royalties, net profits interests, production payments and similar mineral interests described in Exhibit "A" attached hereto and made a part hereof for all purposes including, but not limited to, the net revenue interests warranted in Exhibit "A", (b) any production unit or units which may affect all or any portion of such mineral interests including, without limitation, those units which may be described or referred to on Exhibit "A" or any unit created under orders, regulations, rules or other official acts of any Federal, state or other governmental body or agency having jurisdiction, (c) any other interest in, to or relating to (i) all or any part of the land described either in Exhibit "A" or in the documents

described in Exhibit "A" or (ii) any of the estates, property rights or other interests referred to above, and (d) any instrument executed in amendment, correction, modification, confirmation, renewal or extension of the same.

1.9 "Operating Equipment" means all surface or subsurface machinery, equipment, facilities, supplies or other property of whatsoever kind or nature (excluding drilling rigs, trucks, automotive equipment or other property taken to the premises to drill a well or for other similar temporary uses) now or hereafter located on any of the property affected by the Oil and Gas Properties which are useful for the production, treatment, storage or transportation of Hydrocarbons, including, but not limited to, all oil wells, gas wells, water wells, injection wells, casing, tubing, rods, pumping units and engines, christmas trees, derricks, separators, gun barrels, flow lines, tanks, gas systems (for gathering, treating and compression), water systems (for treating, disposal and injection), power plants, poles, lines, transformers, starters and controllers, machine shops, tools, storage yards and equipment stored therein, buildings and camps, telegraph, telephone and other communication systems, roads, loading racks and shipping facilities. Operating Equipment shall not include any items incorporated into realty or structures or improvements located therein or thereon in such a manner that they no longer remain personalty under the laws of the state in which such equipment is located.

1.10 "Personalty Collateral" means all of Debtor's interest now owned or hereafter acquired in and to (i) all Operating Equipment, (ii) all Hydrocarbons severed and extracted from or attributable to the Oil and Gas Properties, including oil in tanks, (iii) all accounts (including, but not limited to, accounts resulting from the sale of Hydrocarbons at the wellhead), contract rights and general intangibles now or hereafter arising in connection with the sale or other disposition of any Hydrocarbons, (iv) all Contracts and all general intangibles now or hereafter arising in connection with or resulting from Contracts, (v) all proceeds and products of the Realty Collateral, and (vi) all proceeds, products, renewals, increases, profits, substitutions, replacements, additions, amendments and accessions of, to or for all of the property described in this subparagraph.

1.11 "Realty Collateral" means all of Debtor's interest now owned or hereafter acquired in and to the Oil and Gas

Properties and all unsevered and unextracted Hydrocarbons (even though Debtor's interest therein be incorrectly described in, or a description of a part or all of such interest be omitted from, Exhibit "A").

ARTICLE II  
Creation of Security

2.1 Conveyance and Grant of Lien. In consideration of the advance or extension by Secured Party to Debtor of the funds or credit constituting the Obligations, and in further consideration of the mutual covenants contained herein, Debtor, by this instrument grants, sells and conveys unto Trustee for the benefit of Secured Party the Realty Collateral and the Fixture Collateral.

To have and to hold the Realty Collateral and Fixture Collateral unto the Trustee and his successors or substitutes in this Trust and to his and their assigns in accordance with the terms hereof, together with all and singular the rights and appurtenances thereto in anywise belonging, to secure payment of the Obligations and the performance of the covenants of Debtor contained in this instrument. Debtor does hereby bind itself, its successors and permitted assigns, to warrant and forever defend all and singular the Realty Collateral and the Fixture Collateral unto the Trustee and his successors or substitutes in this Trust, against every person whomsoever, lawfully claiming or to claim the same, or any part thereof.

2.2 Security Interest. For the same consideration and to further secure the Obligations, Debtor hereby grants to Secured Party a security interest in and to the Personalty Collateral and the Fixture Collateral.

2.3 Assignment of Liens and Security Interests. For the same consideration and to further secure the Obligations, Debtor, to the extent it has the power to do so, hereby assigns and conveys to Secured Party the security interests held by Debtor arising under Section 9.319(a) of the Texas Business and Commerce Code and the liens granted to Debtor pursuant to Section 9.319(d) attributable to the interest of Debtor in the Hydrocarbons.



ARTICLE III  
Proceeds from Production

3.1 Assignment of Production.

(a) Debtor, in order to further secure the Obligations effective as of the date hereof at 7:00 a.m. local time at the location of each of the respective Oil and Gas Properties, has assigned, transferred, conveyed and delivered and does hereby assign, transfer, convey and deliver unto Secured Party, all of Debtor's interest, now owned or hereafter acquired, in and to all of the Hydrocarbons (or the proceeds therefrom), the same to be delivered into pipelines connected to the Oil and Gas Properties, or to any other purchaser thereof to the credit of the Secured Party.

(b) All parties producing, purchasing, taking, possessing, processing or receiving any production from the Oil and Gas Properties, or having in their possession any such production or the proceeds of runs for which they or others are accountable to Secured Party by virtue of the provisions of this Article 3.1, are authorized and directed by the Debtor to treat and regard Secured Party as the assignee and transferee of Debtor and entitled in its place and stead to receive all of Debtor's interest, now owned or hereafter acquired, in and to the Hydrocarbons and the proceeds thereof.

(c) Debtor directs and instructs each purchaser of production from the Oil and Gas Properties to pay to Secured Party all of the proceeds of all of Debtor's interest, now owned or hereafter acquired, in and to the Hydrocarbons until such time as such purchaser has been furnished evidence that all of the Obligations have been paid and that the lien evidenced hereby has been released. Debtor authorizes Secured Party to receive and collect all sums of money derived from the proceeds of all of Debtor's interest, now owned or hereafter acquired, in and to the Hydrocarbons, and no purchaser of any production from the Oil and Gas Properties shall have any responsibility for the application of any funds paid to Secured Party.

(d) Secured Party may endorse and cash any and all checks and drafts payable to the order of Debtor or

Secured Party for the account of Debtor, received from or in connection with the proceeds of the Hydrocarbons affected hereby, and the same may be applied as provided herein. Secured Party may execute any transfer or division orders in the name of Debtor or otherwise, with reasonable and customary warranties and indemnities binding on Debtor; provided that Secured Party shall not be held liable to Debtor for, nor be required to verify the accuracy of, Debtor's interests as represented therein.

(e) Secured Party shall have the right at Secured Party's election and in the name of Debtor, or otherwise, to prosecute and defend any and all actions or legal proceedings deemed advisable by Secured Party in order to collect such funds and to protect the interests of Secured Party and/or Debtor, with all costs, expenses and attorneys fees incurred in connection therewith being paid by Debtor. In addition, should any purchaser taking production from the Oil and Gas Properties fail to pay promptly to Secured Party in accordance with this Article, Secured Party shall have the right to demand a change of connection and to designate another purchaser with whom a new connection may be made without any liability on the part of Secured Party in making such election, so long as ordinary care is used in the making thereof.

(f) The foregoing provisions of this Section 3.1 shall constitute an absolute and present assignment of all Debtor's interest in the Hydrocarbons. Secured Party, however, grants to Debtor a conditional license to receive and sell such Hydrocarbons, and the proceeds therefrom, and to use the same until the occurrence of an Event of Default (as defined hereunder) at which time such conditional license shall automatically terminate. The existence or exercise of the conditional license shall not operate to subordinate the assignment contained in this Section 3.1, in whole or in part, to any subsequent assignment by Debtor permitted hereunder, and any such subsequent assignment by Debtor shall be subject to the rights of Secured Party hereunder.

**3.2 Application of Proceeds.** All payments received by Secured Party pursuant to this Article III attributable to the interest of Debtor in and to the Hydrocarbons shall either be held by Secured Party in a cash collateral account

as additional Collateral or, at the option of Secured Party, applied at the time of receipt, or from time to time at the discretion of Secured Party if held in such cash collateral account, as follows:

(a) First, to the satisfaction of all reasonable costs and expenses incurred in connection with the collection of such proceeds;

(b) Second, to the payment of all accrued interest on the Obligations;

(c) Third, to the payment of any then due and owing principal constituting part of the Obligations; and

(d) The balance, if any, shall be released to Debtor, if not retained by Secured Party in the cash collateral account.

**3.3 Debtor's Payment Duties.** Nothing contained herein will limit Debtor's absolute duty to make payment of the Obligations when the proceeds received by Secured Party pursuant to this Article are insufficient to pay the interest and principal then owing, and the receipt of proceeds under this Article will be in addition to all other security now or hereafter existing to secure payment of the Obligations.

**3.4 Liability of Secured Party.** Secured Party is hereby absolved from all liability for failure to enforce collection of any of such proceeds, and from all other responsibility in connection therewith except the responsibility to account to Debtor for proceeds actually received by Secured Party, or those liabilities occurring as a result of Secured Party's gross negligence or willful misconduct.

**3.5 Indemnification.** Debtor agrees to indemnify Secured Party against all claims, actions, liabilities, judgments, costs, attorneys fees or other charges of whatsoever kind or nature (hereafter referred to in this Article as "Claims") made against or incurred by Secured Party as a consequence of the assertion either before or after the payment in full of the Obligations that Secured Party received Hydrocarbon or proceeds pursuant to this Article or pursuant to any right to collect proceeds directly from account debtors which are claimed by third persons. Secured Party will have the right to employ attorneys and to defend

against any such Claims and unless furnished with reasonable indemnity, Secured Party will have the right to pay or compromise and adjust all such Claims. Debtor will indemnify and pay to Secured Party all such amounts as may be paid in respect thereof, or as may be successfully adjudicated against Secured Party. The liabilities of Debtor as set forth in this Article will survive the termination of this instrument.

ARTICLE IV  
Debtor's Warranties and Covenants

4.1 Payment of Obligations. Debtor covenants that Debtor shall pay when due all interest and principal comprising the Obligations secured by this instrument.

4.2 Warranties. Debtor warrants as follows:

(a) Debtor has good and marketable title to the Collateral free from all liens, security interests or other encumbrances except as specifically set forth in Exhibit "A", or as permitted by the provisions of Article 4.4(h) below.

(b) Debtor has the full power, authority and legal right to convey the Collateral to the Trustee and the Secured Party without the consent of any person and has all licenses, permits, qualifications and other documentation necessary or appropriate to own, and if Debtor is the operator of any of the Collateral, to operate the Collateral; provided that upon foreclosure hereunder Secured Party acknowledges that consents or approvals may be required.

(c) The representations of Debtor as to quantum and nature of the interest of Debtor in and to the Oil and Gas Properties set forth on Exhibit "A" includes the entire interest of Debtor in the Oil and Gas Properties and are complete and accurate in all respects. There are no "back-in" or "reversionary" interests held by third parties which could reduce the interest of Debtor in the Oil and Gas Properties except as set forth on Exhibit "A."

(d) Except as permitted by Article 4.4(h) below, Debtor has not received any notice of any claim or lien, right, title or interest to any of the Collateral from any third party and Debtor does not have any

knowledge of any facts, circumstances or conditions which could, by lapse of time or otherwise, result in any claim of right, title, lien or interest by any third party in or to the Collateral.

(e) There are no prior consent rights or preferential purchase rights in third parties affecting any part of the Collateral except as may be set forth in any of the Contracts.

(f) No operating or other agreement to which Debtor is a party or by which Debtor is bound affecting any part of the Collateral requires Debtor to bear any of the costs relating to the Collateral greater than the leasehold interest of Debtor in such portion of the Collateral, except in the event Debtor is obligated under an operating agreement to assume a portion of defaulting party's share of costs.

(g) Debtor has not received any prepayment prior to the date hereof under an agreement providing for the sale by Debtor of Hydrocarbons which agreement contains a "take or pay" clause or similar arrangement that obligates Debtor to deliver Hydrocarbons at some future time without then or thereafter receiving full payment therefor.

(h) Except as set forth in Exhibit "A", Debtor is not obligated to "make up" any deliveries of oil or gas to any third party out of the production from any of the Oil and Gas Properties, without being paid therefor.

(i) No approval or consent of any person or of any regulatory or administrative commission or authority or of any other governmental body is necessary under any existing laws or regulations (A) to authorize the execution and delivery of this instrument or of any written instruments constituting part or all of the Obligations or (B) except as may be provided by the rules of the Texas Railroad Commission or the relative State or Federal regulatory authority having jurisdiction over oil and gas operations for the State or Federal waters in which the Oil and Gas Properties are located, to authorize the observance or performance by Debtor of the covenants contained in this instrument or in the written instruments constituting all or part of the Obligations.

(j) To the best of Debtor's knowledge, after due inquiry and investigation, all information contained in statements or reports furnished to Secured Party by or on behalf of Debtor relating to the Collateral was complete and accurate when made or delivered to Secured Party.

(k) Each oil and gas lease constituting a portion of the Collateral is valid and subsisting, all covenants, conditions and obligations contained in each such oil and gas lease and any assignments or agreements relating thereto have been fully performed and complied with, and there exists no unsatisfied demand or dispute between Debtor and any lessor or any party to any such assignment or agreement.

(l) All proceeds from the sale of Debtor's interest in Hydrocarbons are currently being paid in full to Debtor by the purchaser thereof on a timely basis and none of such proceeds are currently being held in suspense by such purchaser or any other party.

(m) The operation of the Oil and Gas Properties and the sale, processing, transportation and marketing of Hydrocarbons has been and is currently being conducted in accordance with all applicable federal, state and local laws, rules, regulations, orders and ordinances.

(n) There is no pending or, to the best knowledge of Debtor, threatened claim, suit, judicial or administrative action or proceeding which involves or may involve the Collateral or any part thereof or the production of Hydrocarbons which, if adversely determined to Debtor, could have a material adverse effect on the Collateral or the ability of Debtor to perform its obligations under this instrument.

(o) All taxes, assessments, and governmental charges imposed upon the Collateral or upon the income and profit of the Collateral have been paid when due.

(p) All expenses incurred in or arising from the operation or development of the Collateral have been paid when due.

(q) The address of Debtor's place of business, principal office, chief executive office and office where



Debtor keeps its records concerning accounts, contract rights and general intangibles as set forth in Article 7.14, and there has been no change in the location of Debtor's place of business, residence, chief executive office and office where it keeps such records and no change of Debtor's name during the four months immediately preceding the date of this instrument.

#### 4.3 Further Assurances.

(a) Debtor covenants that Debtor shall execute and deliver such other and further instruments, and shall do such other and further acts as in the opinion of Secured Party may be necessary or desirable to carry out more effectively the purposes of this instrument, including, without limiting the generality of the foregoing, the following:

(i) Prompt correction of any defect in the execution or acknowledgment of this instrument, any written instrument comprising part or all of the Obligations, or any other document used in connection herewith.

(ii) Prompt correction of any defect which may hereafter be discovered in the title to the Collateral.

(iii) Indemnify and hold Secured Party and/or the Trustee harmless from and against any and all costs and expenses, including, but not limited to, any and all cost, expense, loss, damage or liability which Secured Party may suffer or incur by reason of the failure of title to all or part of the Collateral or by reason of the failure or inability of Debtor, for any reason, to convey the rights, titles and interest which this instrument purports to mortgage, convey, grant or assign.

(iv) Prompt execution and delivery of all division or transfer orders or other instruments which in Secured Party's opinion are required to transfer to Secured Party the proceeds from the sale of all of the Debtor's interest in and to all Hydrocarbons.

(v) Prompt payment of all due and owing of all taxes, assessments and governmental charges imposed on this instrument, upon the interest of Secured Party or the Trustee or upon the income and profits from any of the above.

(b) Debtor covenants that Debtor shall maintain and preserve the lien and security interest herein created so long as any of the Obligations remain unpaid.

(c) Debtor shall immediately notify Secured Party of any discontinuance of or change in the address of Debtor's place of business, residence, chief executive office or office where it keeps records concerning accounts, contract rights and general intangibles.

(d) Debtor covenants that all information to be furnished to Secured Party by or on behalf of Debtor shall be to the best of Debtor's knowledge complete and accurate when made.

**4.4 Operation of Oil and Gas Properties.** As long as any of the Obligations remain unpaid or unsatisfied, and whether or not Debtor is the operator of the Oil and Gas Properties, Debtor shall (at Debtor's own expense)

(a) not enter into any operating agreement, contract or agreement which materially adversely affects the Collateral;

(b) neither abandon, forfeit, surrender, release, sell, assign, sublease, farmout or convey, nor agree to sell, assign, sublease, farmout or convey, nor mortgage or grant security interests in, nor otherwise dispose of or encumber any of the Collateral or any interest therein, except for releases of leases which have expired by their own terms, reassignments under existing contract provisions, or the sale of Hydrocarbons in the ordinary course of business and transactions permitted by the Credit Agreement;

(c) cause the Collateral to be maintained, developed and protected against drainage and continuously operated for the production and marketing of Hydrocarbons in a good and workmanlike manner as a prudent operator would in accordance with generally accepted practices, applicable oil and gas leases and

Contracts, and all applicable Federal, state and local laws, rules and regulations, except those being contested in good faith;

(d) promptly pay or cause to be paid when due and owing (i) all rentals and royalties payable in respect of the Collateral; (ii) all expenses incurred in or arising from the operation or development of the Collateral; (iii) all taxes, assessments and governmental charges imposed upon the Collateral, upon the income and profits from any of the Collateral, or upon Secured Party because of its interest therein; and (iv) all local, state and federal taxes payments and contributions for which Debtor may be liable; and indemnify Secured Party and Trustee from all liability in connection with any of the foregoing;

(e) promptly take all action necessary to enforce or secure the observance or performance of any term, covenant, agreement or condition to be observed or performed by third parties under any Contract, or any part thereof, or to exercise any of its rights, remedies, powers and privileges under any Contract, all in accordance with the respective terms thereof;

(f) cause the Operating Equipment and the Fixture Operating Equipment to be kept in good and effective operating condition, and cause to be made all repairs, renewals, replacements, additions and improvements thereof or thereto, necessary or appropriate in connection with the production of Hydrocarbons from the Oil and Gas Properties;

(g) permit and do all things reasonably necessary or proper to enable the Trustee and Secured Party (through its agents and employees) to enter upon the Oil and Gas Properties for the purpose of investigating and inspecting the condition and operations of the Collateral whenever they so desire;

(h) cause the Collateral to be kept free and clear of liens, charges, security interests and encumbrances of every character other than Liens permitted by Section 5.02(a) of the Credit Agreement provided the indebtedness secured by, or giving rise to, such permitted Liens shall in no event exceed \$50,000.00 in the aggregate;

(4) carry with standard insurance companies and in amount satisfactory to Secured Party the following insurance:

(A) workman's compensation insurance and public liability and property damage insurance in respect of all activities relating to the Collateral in which Debtor might incur personal liability for the death or injury of an employee or third person or damage to or destruction of another's property; and

(B) to the extent such insurance is carried by others engaged in similar undertakings in the same general areas in which the Collateral is located, (i) well control insurance and (ii) insurance in respect of the Operating Equipment and Fixture Operating Equipment against loss or damage by fire, lightning, hail, tornado, explosion and other similar risks;

(j) cause all policies of insurance to provide the maximum prior written notice to Secured Party of cancellation which the insurance company will provide and to name Secured Party as a "loss payee"; permit Secured Party to apply any proceeds of such insurance which it may receive toward part or full satisfaction of any or all of the Obligations secured hereby whether or not they are then due and owing and whether or not they are liquidated or contingent; and permit Secured Party to obtain replacement insurance (which may, but need not, be) single interest insurance in favor of Secured Party if any insurance required hereby expires, is cancelled or is otherwise not in full force and effect;

(k) furnish to Secured Party, upon request, copies of all operating agreements, oil and/or gas purchase contracts, or other contracts or agreements relating to the Collateral; and

(l) promptly perform all covenants express or implied in any Contract.

4.5 Recording. Debtor shall promptly (at Debtor's own expense) record, register, deposit and file this and every other instrument in addition or supplement hereto, including applicable financing statements, in such offices and places

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within the state where the Collateral is located and at such times and as often as may be necessary to preserve, protect and renew the lien and security interest herein created as a first lien or prior security interest on real or personal property as the case may be, and otherwise shall do and perform all matters or things necessary or expedient to be done or observed by reason of any applicable law or regulation of any state or of the United States or any other competent authority for the purpose of effectively creating, maintaining and preserving the lien and security interest create hereby in and on the Collateral.

4.6 Records, Statements and Reports. Debtor shall keep proper books of record and account in which complete and correct entries shall be made of Debtor's transactions in accordance with generally accepted accounting principles and shall furnish or cause to be furnished to Secured Party (i) all reports and information required by the Credit Agreement, and (ii) such other information concerning the operation of the Collateral, the title of Debtor or the interest of Secured Party in the Collateral and the business and affairs and financial condition of Debtor as Secured Party may from time to time request.

#### ARTICLE V Default

5.1 Events of Default. Debtor shall be in default under this instrument upon the occurrence of an Event of Default under the Credit Agreement ("Event of Default").

5.2 Acceleration Upon Default. Upon the occurrence of any Event of Default, or at any time thereafter, Secured Party shall have the right and privilege to exercise all remedies provided hereunder or in the Credit Agreement, including, without limitation, the right to declare the entire unpaid principal of and the interest accrued on the Obligations to be forthwith due and payable, without any further protest, presentment, demand, notice of intent to accelerate, notice of acceleration or further notice of any kind, all of which are hereby expressly waived by Debtor.

#### ARTICLE VI Secured Party's Rights

6.1 Rights to Realty Collateral Upon Default.

(1) Operation of property by Secured Party. Upon the occurrence of an Event of Default or at any time

thereafter, and in addition to all other rights of Secured Party, Secured Party shall have the following rights and powers (but no obligation):

(i) To enter upon and take possession of any of the Realty Collateral, to exclude Debtor therefrom, and to hold, use, administer, manage and operate the same to the extent that Debtor could do so;

(ii) To the extent Debtor has the right to do so, to operate the Realty Collateral, without any liability to Debtor in connection with such operations, except for failure to use ordinary care in the operation of the Realty Collateral; and

(iii) To the extent that Debtor could do so, to collect, receive and receipt for all Hydrocarbons produced and sold from the Realty Collateral, to make repairs, to purchase machinery and equipment, to conduct workover operations, to drill additional wells, and to exercise every power, right and privilege of Debtor with respect to the Realty Collateral.

When and if the expenses of such operation and development (including costs of unsuccessful workover operations or additional wells) have been paid, and the Obligations have been paid, the Realty Collateral shall be returned to Debtor (providing there has been no foreclosure sale).

(b) Judicial proceedings. Upon the occurrence of an Event of Default or at any time thereafter, the Trustee, in lieu of or in addition to exercising the power of sale hereafter given, may proceed by a suit or suits, in equity or at law (i) for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, (ii) for the appointment of a receiver pending any foreclosure hereunder or the sale of the Realty Collateral, or (iii) for the enforcement of any other appropriate legal or equitable remedy; and further, in lieu of the non-judicial power of sale hereafter given for Collateral located in the State of Texas, the Trustee may proceed by suit for a sale of the Realty Collateral.



(c) Foreclosure by Private Power of Sale of Collateral. Upon the occurrence of an Event of Default, or at any time thereafter, the Trustee shall have the right and power to sell, as the Trustee may elect, all or a portion of the Collateral at one or more sales as an entirety or in parcels, in accordance with Section 51.002 of the Texas Property Code. Debtor hereby designates as Debtor's address for the purpose of notice the address set out in Article 7.14. Any purchaser or purchasers will be provided with a general warranty conveyance binding Debtor and Debtor's successors and assigns. Sale of a part of the Realty Collateral will not exhaust the power of sale, and sales may be made from time to time until all of the Realty Collateral is sold or all of the Obligations are paid in full. The Trustee will have the authority to appoint an attorney-in-fact to act as trustee in conducting the foreclosure sale and executing a deed to the purchaser or purchasers.

(d) Certain Aspects of Sale. Secured Party will have the right to become the purchaser at any foreclosure sale and to credit the then outstanding balance of the Obligations against the amount payable by Secured Party as purchaser at such sale. Recitals contained in any conveyance to any purchaser or purchasers at any sale made hereunder will conclusively establish the failure of Debtor to pay the Obligations or perform its covenants under this instrument, advertisement and conduct of such sale in the manner provided herein, appointment of any successor-Trustee hereunder and the truth and accuracy of all other matters stated therein. Debtor does hereby ratify and confirm all legal acts that the Trustee may do in carrying out the Trustee's duties and obligations under this instrument, and Debtor hereby irrevocably appoints Trustee to be the attorney of Debtor and in the name and on behalf of Debtor to execute and deliver any deeds, transfers, conveyances, assignments, assurances and notices which Debtor ought to execute and deliver and do and perform any and all such acts and things which Debtor ought to do and perform under the covenants herein contained and generally to use the name of Debtor in the exercise of all or any of the powers hereby conferred on Trustee. Upon any sale, whether under the power of sale hereby given or by virtue of judicial proceedings, it shall not be necessary for Trustee or any public officer acting under execution or by order of court, to have

physically present or constructively in his possession any of the Collateral, and Debtor hereby agrees to deliver all of such personal property to the purchaser or purchasers at such sale at the date of sale and if it should be impossible or impracticable to make actual delivery of such property, then the title and right of possession to such property shall pass to the purchaser or purchasers at such sale as completely as if the same had been actually present and delivered.

(e) Receipt to Purchaser. Upon any sale made under the power of sale herein granted, the receipt of the Trustee will be sufficient discharge to the purchaser or purchasers at any sale for its purchase money, and such purchaser or purchasers, will not, after paying such purchase money and receiving such receipt of the Trustee, be obligated to see to the application of such purchase money or to be responsible for any loss, misapplication or non-application thereof.

(f) Effect of Sale. Any sale or sales of the Realty Collateral will operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of Debtor, in and to the premises and the Realty Collateral sold, and will be a perpetual bar both at law and in equity, against Debtor, Debtor's successors or assigns, and against any and all persons claiming or who shall thereafter claim, all or any of the Realty Collateral sold by, through or under Debtor, or Debtor's successors or assigns. Nevertheless, if requested by the Trustee so to do, Debtor shall join in the execution and delivery of all proper conveyances, assignments and transfers of the property so sold. The purchaser or purchasers at the foreclosure sale will receive as incident to his, its or their own ownership, immediate possession of the Realty Collateral purchased and the Debtor agrees that if Debtor retains possession of the Realty Collateral or any part thereof subsequent to such sale, Debtor will be considered a tenant at sufferance of the purchaser or purchasers and will be subject to eviction and removal by any lawful means, with or without judicial intervention, and all damages by reason thereof are hereby expressly waived.

(g) Application of Proceeds. The proceeds of any sale of the Realty Collateral or any part thereof, whether under the power of sale herein granted and

conferred or by virtue of judicial proceedings, will be applied as follows:

(A) First, to the payment of all expenses incurred by the Trustee in the performance of his duties including, without limiting the generality of the foregoing, court costs, compensation of agents and employees' and legal fees, plus expenses of any entry or taking of possession, sale, advertising or conveyance thereof;

(B) Second, to the payment of the Obligations; and

(C) Third, the balance, if any, thereafter remaining will be paid to Debtor or Debtor's successor or assigns as their interests may appear.

Debtor shall remain liable for any deficiency remaining after the sale.

(h) Debtor's Waiver of Appraisal, Marshaling. Debtor agrees to the full extent that Debtor may lawfully so agree that Debtor will not at any time insist upon or plead or in any manner whatever claim the benefit of any appraisal, valuation, stay, extension or redemption law, now or hereafter in force in order to prevent or hinder the enforcement or foreclosure of this instrument, the absolute sale of the Realty Collateral, or the possession thereof by any purchaser at any sale made pursuant to this instrument or pursuant to the decree of any court of competent jurisdiction; and Debtor, for Debtor and all who may claim through or under Debtor, hereby waives the benefit of all such laws and, to the extent that Debtor may lawfully do so under any applicable law, any and all rights to have the Realty Collateral marshalled upon any foreclosure of the lien hereof or sold in inverse order of alienation. Debtor agrees that the Trustee may sell the Realty Collateral in part or as an entirety.

6.2 Rights to Personalty Collateral Upon Default. Upon the occurrence of an Event of Default, or at any time thereafter, Secured Party may proceed against the Personalty Collateral in accordance with the rights and remedies granted herein with respect to the Realty Collateral, or

will have all rights and remedies granted by the Uniform Commercial Code and this instrument. Secured Party shall have the right to take possession of the Personalty Collateral, and for this purpose Secured Party may enter upon any premises on which any or all of the Personalty Collateral is situated and, to the extent that Debtor could do so, take possession of and operate the Personalty Collateral or remove it therefrom. Secured Party may require Debtor to assemble the Personalty Collateral and make it available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties. Unless the Personalty Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will send Debtor reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition of the Personalty Collateral is to be made. This requirement of sending reasonable notice will be met if such notice is mailed, postage prepaid, to Debtor at the address designated in Article 7.14 hereof (or such other address as has been designated as provided herein) at least ten days before the time of the sale or disposition. In addition to the expenses of retaking, holding, preparing for sale, selling and the like, Secured Party will be entitled to recover reasonable attorney's fees and legal expenses as provided for in this instrument and in the writings evidencing said Obligations before applying the balance of the proceeds from the sale or other disposition toward satisfaction of the Obligations. Debtor will remain liable for any deficiency remaining after the sale or other disposition.

**6.3 Rights to Fixture Collateral Upon Default.** Upon the occurrence of an Event of Default, or at any time thereafter, Secured Party may elect to treat the Fixture Collateral as either Realty Collateral or as Personalty Collateral (but not both) and proceed to exercise such rights as apply to the type of Collateral selected.

**6.4 Account Debtors.** Secured Party may, in its discretion, before or after the occurrence of an Event of Default, notify any account debtors to make payments directly to Secured Party and contact account debtors directly to verify information furnished by Debtor. Secured Party shall not have any obligation to preserve any rights against prior parties.

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**ARTICLE VII**  
**Miscellaneous**

7.1 Successor Trustees. The Trustee may resign in writing addressed to Secured Party or be removed at any time with or without cause by an instrument in writing duly executed by Secured Party. In case of the death, resignation or removal of the Trustee, a successor Trustee may be appointed by the Secured Party by instrument of substitution complying with any applicable requirements of law, and in the absence of any requirement, without any other formality other than an appointment and designation in writing. The appointment and designation will vest in the named successor Trustee all the estate and title of the Trustee in all of the Collateral and all of the rights, powers, privileges, immunities and duties hereby conferred upon the Trustee. All references herein to the Trustee will be deemed to refer to the successor Trustee from time to time acting hereunder.

7.2 Advances by Secured Party or The Trustee. Each and every covenant of Debtor herein contained shall be performed and kept by Debtor solely at Debtor's expense. If Debtor fails to perform or keep any of the covenants of whatsoever kind or nature contained in this instrument, Secured Party (either directly or on its behalf by the Trustee or any receiver appointed hereunder) may, but will not be obligated to, make advances to perform the same on Debtor's behalf, and Debtor hereby agrees to repay such sums and any attorneys' fees incurred in connection therewith on demand plus interest thereon from the date of the advance until reimbursement of Secured Party at the maximum nonusurious rate per annum permitted by applicable law. In addition Debtor hereby agrees to repay on demand any costs, expenses and attorney's fees incurred by Secured Party or the Trustee which are to be obligations of Debtor pursuant to, or allowed by, the terms of this instrument, including, without limitation, such costs, expenses and attorney's fees incurred pursuant to Article 3.1(e) or Article 7.3 hereof, plus interest thereon from the date of the advance by Secured Party or the Trustee until reimbursement of the Secured Party or the Trustee, respectively, at the maximum nonusurious rate permitted by applicable law. Such amounts will be in addition to any sum of money which may, pursuant to the terms and conditions of the written instruments comprising part of the Obligations, be due and owing. No such advance will be deemed to relieve Debtor from any default hereunder.

7.3 Defense of Claims. Debtor shall promptly notify the Secured Party in writing of the commencement of any legal proceedings affecting Debtor's title to the Collateral or Secured Party's interest in the Collateral, or any part thereof, and shall take such action, employing attorneys agreeable to the Secured Party, as may be necessary to preserve Debtor's, the Trustee's and Secured Party's rights affected thereby. If Debtor fails or refuses to defend Debtor's, the Trustee's or Secured Party's rights to the Collateral, the Trustee or Secured Party may take such action on behalf of and in the name of Debtor and at Debtor's expense. Moreover, Secured Party or the Trustee on behalf of Secured Party, may take such independent action in connection therewith as they may in their discretion deem proper, including, without limitation, the right to employ independent counsel and to intervene in any suit affecting the Collateral. All costs, expenses and attorneys' fees incurred by Secured Party or the Trustee pursuant to this Article 7.3 or in connection with the defense by Secured Party of any claims, demands or litigation relating to Debtor, the Collateral or the transactions contemplated in this instrument shall be paid by Debtor on demand plus interest thereon from the date of the advance by Secured Party or the Trustee until reimbursement of Secured Party or the Trustee, respectively, charged at the lesser of the maximum nonusurious rate per annum permitted by applicable law or 2% per annum above the Base Rate (as defined in the Credit Agreement) in effect from time to time.

7.4 Termination. If all the Obligations are paid in full and the covenants herein contained are well and fully performed then all of the Collateral will revert to Debtor and the entire estate, right, title and interest of the Trustee and Secured Party will thereupon cease; and the Secured Party in such case shall, upon the request of Debtor and the payment by Debtor of all attorneys' fees and other expenses, deliver to Debtor proper instruments acknowledging satisfaction of this instrument.

7.5 Renewals, Amendments and Other Security. Without notice or consent of Debtor, renewals and extensions of the written instruments constituting part or all of the Obligations may be given at any time; and amendments may be made to agreements relating to any part of such written instruments or the Collateral. The acceptance of this instrument by Secured Party shall not waive or impair any other security Secured Party may have or hereafter acquire to secure the payment of the Obligations nor shall the taking of any



additional security for the Obligations waive or impair the lien and security interests herein granted. The Trustee or Secured Party may resort first to such other security or any part thereof, or first to the security herein given or any part thereof, or from time to time to either or both, even to the partial or complete abandonment of either security, and such action will not be a waiver of any rights conferred by this instrument. This instrument may not be amended, waived or modified except in a written instrument executed by both Debtor and Secured Party.

7.6 Assignment and Financing Statement. This instrument will be deemed to be and may be enforced from time to time as an assignment, chattel mortgage, contract, deed of trust, financing statement, real estate mortgage, or security agreement, and from time to time as any one or more thereof if appropriate under applicable state law. As a financing statement this instrument is intended to cover all Personalty Collateral including, but not limited to, Debtor's interest in all Hydrocarbons sold at the wellhead, and Fixture Collateral. This instrument shall be filed in the appropriate records of the county or counties and the state in which the Realty Collateral is located as well as the Uniform Commercial Code records of the Secretary of State or other appropriate office of the state in which any Personalty Collateral or any Realty Collateral is located. At Secured Party's request Debtor shall execute financing statements covering the Personalty Collateral, including but not limited to all Hydrocarbons sold at the wellhead, and Fixture Collateral, which financing statements may be filed in the Uniform Commercial Code records of the Secretary of State or other appropriate office of the state in which any of the Collateral is located.

7.7 Limitation on Interest. It is the intention of the Debtor and Secured Party to conform strictly to usury laws, if any, applicable to the Secured Party. Accordingly, if the transactions contemplated by the Credit Agreement or hereunder would be usurious under applicable law then, in that event, notwithstanding anything to the contrary in the Note (as defined in the Credit Agreement), the Credit Agreement, this instrument or in any other instrument or agreement entered into and in connection with or as security for the Note, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest under law applicable to Secured Party that is contracted for, taken, reserved, charged or received under the Note, the Credit Agreement or under this or any other instrument or agree-

ment, or otherwise in connection with the Note shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be cancelled automatically and if previously paid shall, at Secured Party's option be credited by Secured Party on the principal amount of the Obligations or refunded by Secured Party to Debtor; and (ii) in the event that the maturity of the Note is accelerated by reason of an election of Secured Party resulting from any Event of Default or otherwise or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to Secured Party may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in the Credit Agreement, the Note, this instrument, or otherwise, shall be cancelled automatically as of the date of such acceleration or prepayment and, if previously paid, shall, at Secured Party's option, be credited by Secured Party on the principal amount of the Obligations or refunded by Secured Party to Debtor.

7.8 Unenforceable or Inapplicable Provisions. If any provision hereof is invalid or unenforceable, the other provisions hereof will remain in full force and effect.

7.9 Rights Cumulative. Each and every right, power and remedy herein given to the Trustee or Secured Party will be cumulative and not exclusive, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and as often and in such order as may be deemed expedient by the Trustee, or the Secured Party, as the case may be, and the exercise, or the beginning of the exercise, of any such right, power or remedy will not be deemed a waiver of the right to exercise at the same time or thereafter, any other right, power or remedy. No delay or omission by the Trustee or by Secured Party in the exercise of any right, power or remedy will impair any such right, power or remedy or operate as a waiver thereof or of any other right, power or remedy then or thereafter existing.

7.10 Waiver by Secured Party. Any and all covenants in this instrument may from time to time by instrument in writing by the Secured Party, be waived to such extent and in such manner as the Trustee or Secured Party may desire, but no such waiver will ever affect or impair either the Trustee's or Secured Party's rights hereunder, except to the extent specifically stated in such written instrument. All changes to and modifications of this instrument must be in writing signed by Secured Party.

7.11 Terms. The term "Debtor" as used in this instrument will be construed as singular or plural to correspond with the number of persons executing this instrument as Debtor. If more than one person executes this instrument as Debtor his, her, its, or their duties and liabilities under this instrument will be joint and several. The terms "Secured Party", "Debtor", and "Trustee" as used in this instrument include the heirs, executors or administrators, successors, representatives receiver, trustees and assigns of those parties. This instrument is binding upon Debtor, Debtor's successors and assigns, and will inure to the benefit of the Trustee and the Trustee's successors and Secured Party and its successors and assigns. Unless the context otherwise requires, terms used in this instrument which are defined in the Uniform Commercial Code of Texas are used with the meanings therein defined.

7.12 Counterparts. This instrument may be executed in any number of counterparts, each of which will for all purposes be deemed to be an original, and all of which are identical except that, to facilitate recordation, in any particular counterpart portions of Exhibit "A" hereto which describe properties situated in Counties other than the County in which such counterpart is to be recorded may have been omitted.

7.13 GOVERNING LAW. THIS INSTRUMENT, THE CREDIT AGREEMENT AND THE NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF TEXAS (EXCEPT THAT TEX. REV. CIV. STAT. ANN. ART. 5069, CH. 15 (WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRIPARTY ACCOUNTS) SHALL NOT APPLY TO THIS INSTRUMENT, THE CREDIT AGREEMENT, THE NOTE OR OTHER OBLIGATION OR ANY TRANSACTION CONTEMPLATED HEREBY OR THEREBY, SUBJECT, HOWEVER, TO THE EFFECT OF APPLICABLE FEDERAL LAW (INCLUDING WITHOUT LIMITATION, 12 U.S.C. 85). UNLESS CHANGED IN ACCORDANCE WITH THE LAW, THE APPLICABLE RATE CEILING UNDER TEXAS LAW (TO THE EXTENT RELEVANT, AND WITHOUT WAIVING 12 U.S.C. 85) SHALL BE THE INDICATED (WEEKLY) RATE CEILING FROM TIME TO TIME IN AFFECT AS PROVIDED IN TEX. REV. CIV. STAT. ANN. ART. 5069-1.04, AS AMENDED.

7.14 Notice. All notices required or permitted to be given by Debtor, Secured Party or the Trustee shall be given in writing and may be effected by personal delivery or by placing the same in the U.S. Mail, registered or certified, return receipt requested, postage prepaid and addressed as follows:

Debtor: Walter Oil & Gas Corporation  
240 The Main Building  
1212 Main Street  
Houston, Texas 77002  
Attn: Ms. Emily Herrmann  
(713) 659-1221

Secured Party: Citibank N.A.  
399 Park Avenue  
New York, New York 10043

With a Copy to: Citicorp North America, Inc.  
2100 Citicorp Center  
1200 Smith Street  
Houston, Texas 77002  
Attn: Mr. Dale Griffin

Trustee: Any notices to be given to the  
Trustee shall be delivered to  
Secured Party

Unless otherwise provided hereby, all notices shall be deemed given (i) upon receipt if hand delivered or (ii) if sent by mail, on the date deposited in the mail. Debtor agrees that its address shall be changed only by depositing notice of such change enclosed in a post-paid wrapper in a post office or official depository under the care and custody of the United States Postal Service, certified mail, postage prepaid, return receipt requested, addressed to Secured Party at the address set out above (or to such other address as Secured Party may have designated by notice given as provided above, to Debtor). Any such notice of change of address of Debtor, Trustee or Secured Party or other holder of the Obligations shall be effective five business days after such deposit. If such post office or official depository is located in the State of Texas, otherwise to be effective upon receipt.

7.15 Duties of Trustee. It shall be no part of the duty of the Trustee to see to any recording, filing or registration of this Deed of Trust or any other instrument in addition or supplemental hereto, or to see to the payment of or be under any duty with respect to any tax or assessment or other governmental charge which may be levied or assessed on the Collateral, any part thereof, or against the Debtor, or to see to the performance or observance by the Debtor of any of the covenants and agreements contained herein. Trustee shall not be responsible for the execution,

acknowledgment or validity of this Deed of Trust or of any instrument in addition or supplemental hereto or for the sufficiency of the security purported to be created hereby, and makes no representation in respect thereof or in respect of the rights of the Secured Party. Trustee shall have the right to advise with counsel upon any matters arising hereunder and shall be fully protected in relying as to legal matters on the advice of counsel. Trustee shall not incur any personal liability hereunder except for his own willful misconduct; and the Trustee shall have the right to rely on any instrument, document or signature authorizing or supporting any action taken or proposed to be taken by him hereunder, believed by him in good faith to be genuine.

7.10 Condemnation. All awards and payments heretofore and hereafter made for the taking of or injury to the Collateral, or any portion thereof, whether such taking or injury be done under the power of eminent domain or otherwise, are hereby assigned, and shall be paid to Secured Party. Secured Party is hereby authorized to collect and receive the proceeds of such awards and payments and to give proper receipts and acquittances therefor. Debtor hereby agrees to make, execute and deliver, upon demand, any and all assignments and other instruments sufficient for the purpose of confirming this assignment of the awards and payments to Secured Party free and clear of any encumbrances of any kind or nature whatsoever. Any such award or payment may, at the option of Secured Party, be retained and applied by Secured Party after payment of reasonable attorneys' fees, costs and expenses incurred in connection with the collection of such award or payment toward payment of all or a portion of the Obligations, whether or not the Obligations are then due and payable, or be paid over wholly or in part to Debtor for the purpose of altering, restoring or rebuilding any part of the Collateral which may have been altered, damaged or destroyed as a result of any such taking, or other injury to the Collateral.

EXECUTED this 12th day of December, 1988.

DEBTOR:

WALTER OIL & GAS CORPORATION

By J. C. Walter III  
Name J. C. Walter, III  
Title: Executive Vice President





**EXHIBIT A**

**PREAMBLE  
(Texas)**

This Exhibit A sets forth the description of the Oil and Gas Properties covered by the Deed of Trust, Assignment, Security Agreement, Assignment of Security Interests and Liens, Assignment of Production and Financing Statement (the "Deed of Trust") to which this Exhibit A is attached. Capitalized terms used in this Preamble and not otherwise defined herein shall have the meanings ascribed thereto in the Deed of Trust.

1. Exhibit A consists of descriptions of the oil, gas and mineral leases, overriding royalties and other interests covering lands located within the State of Texas or Federal lands located on the Outer Continental Shelf and offshore of the State of Texas. The heading for each lease or group of leases includes Debtor's internal prospect name.

2. Exhibit A includes one or more pages with the following subheadings:

**Lease:** The description of the lease or leases in which Debtor owns an interest covered by this Exhibit. Where applicable, the original lessor and lessee, Federal Lease Number, the date of the lease, the lands covered by the lease and other descriptive information relating to the lease is set forth.

**Limitations:** The information next to this subheading describes the areas under each lease in which Debtor owns an interest. Such description shall include all of Debtor's right, title and interest in the oil, gas and mineral lease and other interests listed in this Exhibit and not an interest in excess thereof. If "none" appears, there are no limitations on Debtor's interest in the areas or depths under the lease.

**Contract List:** Exhibit A may include one or more pages with the heading "Contract List" which list certain agreements that affect Debtor's interest in the oil, gas and mineral leases and other

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interests, and Debtor's interest in the wells or units described or referred to in the exhibit, which oil, gas and mineral leases and other interests and wells or units are located in the prospect identified in the heading of the page of the exhibit, to the extent such agreements are in force and effect. The reference to such agreements shall not constitute a ratification or other recognition of the validity, or effectiveness of such agreements or otherwise revive same. Such contracts are referred to by the type of agreement that affects Debtor's interest in oil, gas and mineral leases and other interests. Also shown is the date or the effective date of the agreement and amendments thereto, and the parties to the agreement.

Ownership  
Interests:

Exhibit A includes Debtor's Working Interest and the Debtor's Net Revenue Interest for certain wells, units or areas covered by a lease. The wells or units are located in the prospect identified in the heading of the exhibit, and the prospect is located in the county of the State of Texas referred to in the description or on federal lands located on the Outer Continental Shelf and offshore of the State of Texas. The wells or units in the particular prospect are located upon the lands covered by the oil, gas and mineral leases, overriding royalties or other interests described in the exhibit that relate to that prospect or lands pooled therewith. The descriptions include the following:

Well or Unit Name: The particular well or unit located within the prospect identified in the heading.

Working Interest: Debtor's Working Interest.

Net Revenue Interest: Debtor's Net Revenue Interest.

The Working Interest and Net Revenue Interests are computed and set out herein after taking into account all of the terms, provisions and conditions of the agreements and other instruments listed on the "Contract List." It is not the intention of this instrument to cover or include any interest of any party other than Debtor; and it is expressly agreed that any third party whose interest arises under or by virtue of the instruments on the "Contract List", whether delivered or recorded heretofore or hereafter shall not be subject to this instrument, nor shall any further action be required by Debtor or Secured Party to evidence such fact; and Secured Party hereby releases all persons owning such interests insofar as such interests arise under or are conferred on such persons by virtue of the instruments on the "Contract List."

The Debtor's Net Revenue Interest means (i) with respect to a unit for which the Debtor's Net Revenue Interest is stated, that interest in the applicable oil or gas production produced, saved and sold from such unitized, pooled, communitized or participating areas with respect to the existing interval in which the well or wells located on such unit are completed, which is owned by the Debtor by virtue of its ownership of the Debtor's Working Interest in the leases included in whole or in part in such area after deducting all burdens against the production therefrom, and (ii) with respect to a well for which the Debtor's Net Revenue Interest is stated, that interest in the existing interval in which such well is completed for production after deducting all burdens against the production therefrom which is owned by the Debtor by virtue of its ownership of the Debtor's Working Interest in the lease on which such well is located.

"Before Payout" and "After Payout" refer to the Debtor's Working Interest and the Debtor's Net Revenue Interest "before payout" and "after payout" as defined in the applicable joint operating agreement or other instrument affecting the well or unit as denoted in the Exhibit. Debtor's interest may decrease or increase as a result of a reversionary interest, an operation wherein Debtor has paid costs attributable to the interest of a non-consenting party or a consenting party has paid costs attributable to the interest of Debtor as a non-consenting party, and the consenting party is entitled to recover a percentage of its cost, or other circumstance which triggers an increase or decrease in such interest. Debtor makes no undertaking concerning the terms and conditions of the reversion or the status of payout, the costs that may be recovered, whether or when such recovery has occurred or will occur, or, in the case of an election, what election will be made. If more than one reversionary interest, non-consent operation or other circumstance affects a well or unit, "After Payout" refers to the occurrence of the reversion of the last of reversionary interest recouped or such other circumstance.

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GALVESTON STATE LEASE 175-S PROSPECT

**EXHIBIT A**

Lease: The State of Texas Oil and Gas Lease No. 90571 dated October 2, 1984, by and between Garry Mauro, Commissioner of the General Land Office of The State of Texas, Lessor, and Zapata Exploration Company, Pend Oreille Oil & Gas Company and TXP Operating Company, Lessees, covering Tract 175-S, Gulf of Mexico, Galveston County, Texas, containing 640 acres, as shown on the official map of the Gulf of Mexico on file in the General Land Office in Austin, Texas.

Limitations: None

Contract List:

- (a) The Lease.
- (b) Farmout Agreement dated November 24, 1986 between Pend Oreille Oil & Gas Company, as Farmor, and TXP Operating Company and Walter Oil & Gas Corporation, as Farmees.
- (c) Participation Agreement dated December 10, 1986 between TXP Operating Company and Walter Oil & Gas Corporation.
- (d) Assignment of Overriding Royalty Interest dated November 14, 1985 from Pend Oreille Oil & Gas Company, et al., to Floyd F. Foster, Jr. d/b/a/ F. F. Foster & Associates, recorded in the Real Property records of Galveston County, Texas under Film Code No. 004-24-0613.
- (e) Assignment of Oil and Gas Leases dated effective January 1, 1987 from Zapata Exploration Company to Walter Oil & Gas Corporation, recorded in the Real Property Records of Galveston County, Texas, under Film Code No. 005-06-1487.
- (f) Participation Agreement dated January 21, 1987 between Walter Oil & Gas Corporation, on the one hand, and J. C. Walter, III, G. and P. Company, Jack J. Horton, Jr., and J. E. Bishop, Inc., on the other hand.
- (g) Partial Assignment of Oil and Gas Leases dated effective June 6, 1987 from Pend Oreille Oil & Gas Company, as Assignor, to TXP Operating Company and Walter Oil & Gas Corporation, as Assignees, recorded in the Real Property Records of Galveston County, Texas under Film Code No. 005-73-2071.
- (h) Assignment of Overriding Royalty Interest dated effective June 7, 1987 from Walter Oil & Gas Corporation to Robert D. Jolly, et al.
- (i) The Walter Oil & Gas Corporation 1986 Exploration Program Agreement dated effective as of January 1, 1986, between Walter Oil and Gas Corporation, as Program Manager, and Rowan Petroleum, Inc., IP Petroleum Company, Inc. and Lignum Oil Company, as Participant.

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- (j) Assignment dated effective as of June 8, 1987, between Walter Oil & Gas Corporation, as Assignor, and Rowan Petroleum, Inc., et al, as Assignees.
- (k) Texas State Waters Consultant Agreement dated June 15, 1983, by and between F. F. Foster and Associates, Pend Oreille Oil & Gas Company and Zapata Exploration Company, as amended by Letter Agreements dated July 15, 1983, July 19, 1983 and October 12, 1983, and by Letter Agreements dated June 15, 1984 and May 2, 1985, by and between F. F. Foster and Associates, Pend Oreille Oil & Gas Company, Zapata Exploration Company and TXP Operating Company.
- (l) Texas State Waters Operating Agreement dated September 28, 1983, but effective June 15, 1983, by and between Pend Oreille Oil & Gas Company and Zapata Exploration Company.
- (m) Letter Participation Agreement dated March 26, 1984, by and between TXP Operating Company, Zapata Exploration Company and Pend Oreille Oil & Gas Company.
- (n) Letter Agreement dated January 16, 1986, between Walter Oil & Gas Corporation and Zapata Exploration Company.
- (o) Easement on State Land Bearing Misc. Easement No. 870074 dated April 22, 1987, from the State of Texas, as Grantor, to Walter Oil & Gas Corporation, as Grantee.
- (p) Division Order dated July 27, 1987, from Walter Oil & Gas Corporation to Permian Operating Limited Partnership.
- (q) Short Term Gas Purchase Contract dated June 1, 1987, between Southeastern Marketing Company, as Buyer, and Walter Oil & Gas Corporation, as Seller, as amended by Letter Agreement dated December 17, 1987.
- (r) Gas Transportation Agreement dated August 1, 1988, between Winnie Pipeline Company, as Transporter, and Walter Oil & Gas Corporation, as Shipper.

**Ownership Interests:** Walter Oil & Gas Corporation's ownership interests in the above described property are as follows:

Working Interest	15.75521%
Net Revenue Interest	11.42253%

**GALVESTON STATE LEASE 175-S**

## GALVESTON BLOCK 350 PROSECT

Lease: Oil and Gas Lease of Submerged Lands dated September 1, 1981, by and between the United States of America, as Lessor, and Transco Exploration Company, et al, as Lessee, bearing Serial No. OCS-G-4721 covering all of Block 350, Galveston Area, as shown on OCS Official Leasing Map, Texas Map No. 6.

Limitations: Walter Oil & Gas Corporation's interest in the Lease is limited to operating rights covering depths from the surface of the earth down to and including one hundred feet (100') below the stratigraphic equivalent of the base of the Tex W-2 sand, which sand is identified at a measured depth of 7656 feet on the ISF log for the TXP Operating Company OCS-G-4721, Well No. 1 located at surface location of 4704 feet from the south line and 3440 feet from the west line of Block 350, Galveston Area, Offshore, Texas

### Contract List:

- (a) The Lease.
- (b) Farmout Agreement dated July 1, 1987 between TXP Operating Company, Energy Development Corporation, and Oneok Exploration Company, as Farmers, and Walter Oil & Gas Corporation, as Farmer, as amended by Letter Agreements dated August 28, 1987, September 25, 1987 and October 9, 1987.
- (c) Assignment of Operating Rights dated effective as of October 18, 1987 from TXP Operating Company, et al, as Assignors, to Walter Oil & Gas Corporation, as Assignee.
- (d) Assignment of Overriding Royalty Interest dated effective as of October 19, 1987 from Walter Oil & Gas Corporation, as Assignor, to Robert D. Jolly, et al, as Assignees.
- (e) Only as to those parties named in this subparagraph (e), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987 between Walter Oil & Gas Corporation, as Program Manager, and Zilkha Energy Company, IP Petroleum Company and Lignum Oil Company, as Participants.
- (f) Only as to those parties named in this subparagraph (f), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987 between Walter Oil & Gas Corporation, as Program Manager, and Walter Development Corporation, as Participant.
- (g) Only as to those parties named in this subparagraph (g), that certain Development Agreement dated effective as of January 1, 1987 between Walter Oil & Gas Corporation and Walter Development Corporation.



- (h) Assignment of Operating Rights dated effective October 20, 1987 between Walter Oil & Gas Corporation, as Assignor, and Zilkha Energy Company, et al, as Assignees.
- (i) Lateral Line Interconnect and Reimbursement Agreement dated July 5, 1988, between Transcontinental Gas Pipe Line Corporation and Walter Oil & Gas Corporation.

Ownership Interests: Walter Oil & Gas Corporation's ownership interests in the above described property are as follows:

	<u>Before Lessor Profit Sharing</u>	<u>After Lessor Profit Sharing</u>
Working Interest	13.08536%	(1) 6.54268%
Net Revenue Interest	11.48240%	5.35845%

(1) Walter Oil & Gas Corporation's working interest ownership reflected above under the column "After Lessor Profit Sharing" is net of the 50% Net Profit Share interest reserved by the United States of America under the Lease.

GALVESTON BLOCK 351 PROSPECT

Lease: Oil and Gas Lease of Submerged Lands dated effective as of October 1, 1987, by and between the United States of America, as Lessor, and Walter Oil & Gas Corporation, as Lessee, bearing Serial No. OCS-G 9047, covering all of Block 351, Galveston Area, as shown on OCS Official Leasing Map, Texas Map No. 6.

Limitations: None

Contract List:

- (a) The Lease.
- (b) Assignment of Overriding Royalty Interest dated effective as of October 1, 1987 from Walter Oil & Gas Corporation to Robert D. Jolly. et al.
- (c) Only as to those parties named in this subparagraph (c), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987 between Walter Oil & Gas Corporation, as Program Manager, and Zilkha Energy Company, IP Petroleum Company, Inc., and Lignum Oil Company, as Participants
- (d) Only as to those parties named in this subparagraph (d), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation, as Program Manager, and Walter Development Corporation, as Participant.
- (e) Development Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation and Walter Development Corporation.
- (f) Assignment dated effective as of October 2, 1987, between Walter Oil & Gas Corporation, as Assignor, and Zilkha Energy Company, et al, as Assignees.

Ownership Interests: Walter Oil & Gas Corporation's ownership interests in the above described property are as follows:

Working Interest	18.66579%
Net Revenue Interest	15.16595%

## GALVESTON BLOCK 385 PROSPECT

**Lease:** Oil and Gas Lease of Submerged Lands dated November 1, 1985, executed on behalf of the United States of America, as Lessor, in favor of Texas Gas Exploration Corporation, et al, as Lessee, bearing Serial No. OCS-G-8132, covering all of Block 385, Galveston Area, as shown on OCS Official Leasing Map No. 6.

**Limitations:** Walter Oil & Gas Corporation's interest in this Lease is limited to operating rights covering depths from the surface of the earth down to the stratigraphic equivalent of 7,369 feet true vertical depth in the Walter Oil & Gas Corporation OCS-G-8132, Well No. 2, located on Galveston Block 385.

### **Contract List:**

- (a) The Lease.
- (b) Farmout Agreement dated April 6, 1987 between SONAT Exploration Company and CSX Oil & Gas Corporation, as Farmers, and Walter Oil & Gas Corporation, as Farmee, as amended by Letter Agreement dated April 21, 1987.
- (c) Partial Assignment of Operating Rights dated effective as of July 30, 1987 between SONAT Exploration Company, and CSX Oil & Gas Corporation, as Assignors, and Walter Oil & Gas Corporation, as Assignee.
- (d) Assignment of Overriding Royalty Interest dated effective as of July 31, 1987 from Walter Oil & Gas Corporation to Robert G. Jolly, et al.
- (e) Only as to those parties named in this subparagraph (e), that certain Participation Agreement dated June 4, 1987 between Walter Oil & Gas Corporation and Sequoia Associates Limited (predecessor in interest to Bechtel Energy Partners, Ltd.).
- (f) Only as to those parties named in this subparagraph (f), that certain Walter Oil & Gas Corporation Exploration Program Agreement dated as of January 1, 1987 between Walter Oil & Gas Corporation as Program Manager and Zilkha Energy Company, IP Petroleum Company, Inc. and Lignum Oil Company, as Participants.
- (g) Only as to those parties named in this subparagraph (g), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated as of January 1, 1987, between Walter Oil & Gas Corporation and Walter Development Corporation.
- (h) Development Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation and Walter Development Corporation.
- (i) Assignment of Operating Rights dated effective as of September 10, 1987, between Walter Oil & Gas Corporation, as Assignor, and Zilkha Energy Corporation, et al., as Assignees.

Ownership Interests: Walter Oil & Gas Corporation's ownership interests in the above described property are as follows:

	<u>Well No. 2 Before Payout</u>	<u>Well N. 2 After Payout and All Other Production</u>
Working Interest	18.00994%	18.00994%
Net Revenue Interest	13.16977%	12.52591%

Payout: As defined in the Farmout Agreement described in item (b) above.

**GALVESTON BLOCK 385 PROSPECT**

**GALVESTON BLOCK 389 PROSPECT**

**Lease:** Oil and Gas Lease of Submerged Lands dated effective as of December 1, 1979, by and between the United States of America, as Lessor, and Mesa Petroleum Co., as Lessee, bearing Serial No. OCS-G-4259, covering all of Block 389, Galveston Area, as shown on OCS Leasing Map, Texas Map No. 6.

**Limitations:** 72.22222% of Walter Oil & Gas Corporation's interest in this Lease covers record title interest, as to all depths; however, 27.77777% of its interest is limited to operating rights covering depths from the surface of the earth down to a depth 100 feet below the stratigraphic equivalent of a true vertical depth of 7,700 feet as seen in the Walter Oil & Gas Corporation OCS-G-4259, Well No. 1, located on Galveston Block 389.

**Contract List:**

- (a) The Lease.
- (b) Assignment dated effective October 1, 1984, from Texaco Inc., as Assignor, to Walter Oil & Gas Corporation, as Assignee.
- (c) Assignment dated effective July 18, 1984, from Mesa Petroleum Co., as Assignor, to Walter Oil & Gas Corporation, as Assignee.
- (d) Sublease Agreement dated June 29, 1984, between Texaco Inc. and Walter Oil & Gas Corporation.
- (e) Farmout Agreement dated June 6, 1984, between Mesa Petroleum Company and Walter Oil & Gas Corporation.
- (f) Assignment of Overriding Royalty Interest dated effective as of October 2, 1984, from Walter Oil & Gas Corporation, as Assignor, to Robert D. Jolly, et al, as Assignees.
- (g) As applicable, that certain Walter Oil & Gas Corporation 1982-1984 Exploration Program Agreement dated April 1, 1982, between Walter Oil & Gas Corporation and Rewan Petroleum, Inc.; Walter Oil & Gas Corporation 1983-1984 Exploration Program Agreement dated December 1, 1983, by and between Walter Oil & Gas Corporation and Stamper Drilling Corporation, et al; Walter Oil & Gas Corporation 1983-1984 Exploration Program Agreement dated January 1, 1983, between Walter Oil & Gas Corporation and William Cecil DeArman; Walter Oil & Gas Corporation 1983-1984 Exploration Program Agreement dated January 1, 1983, between Walter Oil & Gas Corporation and Jimmy F. Howell, M. D.; Walter Oil & Gas Corporation 1984 Exploration Program Agreement dated April 12, 1984, between Walter Oil & Gas Corporation and San Tome Venture Corporation; Walter Oil & Gas Corporation 1984 Exploration Program Agreement dated June 1, 1984, between Walter Oil & Gas Corporation and IP Petroleum

Company, Inc.; Walter Oil & Gas Corporation 1984 Exploration Agreement dated April 12, 1984, between Walter Oil & Gas Corporation and Harold H. Hammer.

- (h) Joint Venture Agreement dated June 15, 1984, as amended, between Walter Oil & Gas Corporation and various "Walter Participants" identified therein, on the one hand, and Walter/NM Limited Partnership, on the other hand, creating the Walter Oil & Gas Offshore Development Joint Venture.
- (i) Participation Agreement dated November 1, 1984, between Walter Oil & Gas Corporation and Walter Oil & Minerals Corporation.
- (j) Assignments of Operating Rights dated effective as of October 3, 1984, from Walter Oil & Gas Corporation, as Assignee, to Rowan Petroleum, Inc., et al, as Assignees.
- (k) Offshore Operating Agreement dated effective as of June 29, 1984, between Walter Oil & Gas Corporation, as Operator, and Sequoia Associates Limited, as Nonoperator.
- (l) Sales Agreement dated effective May 1, 1985, between Walter Oil & Gas Corporation, as Buyer, and JKR Energy, Inc., as Seller.
- (m) Condensate Handling Agreement dated June 1, 1985, between Marathon Oil Company and Sun Oil Company, on the one hand, and Walter Oil & Gas Corporation and Sequoia Associates Limited, on the other hand.
- (n) Division Order dated April 30, 1987, from Walter Oil & Gas Corporation to JM Petroleum Corporation.
- (o) Platform Use Agreement dated effective as of July 1, 1985, between Houston Oil & Minerals and Kerr-McGee Corporation, on the one hand, and Walter Oil & Gas Corporation, on the other hand.
- (p) Service and Maintenance Agreement dated July 21, 1985, between Walter Oil & Gas Corporation and Tenneco Oil Company, as amended by Letter Agreement dated October 3, 1986.
- (q) Agreement dated December 30, 1986, between Seagull Energy E&P, Inc., Walter Oil & Gas Corporation and Sequoia Associates Limited.
- (r) Assignment of Easements and Bill of Sale dated effective December 31, 1986, between Walter Oil & Gas Corporation and Sequoia Associates Limited, as Sellers, and Seagull Energy E&P, Inc., as Buyer.

GALVESTON BLOCK 389 PROSPECT

Ownership Interest: Walter Oil & Gas Corporation's ownership interests in the above described Property are as follows:

Working Interest	5.90285%
Net Revenue Interest	4.72337%

GALVESTON BLOCK 389



**MATAGORDA BLOCK 525-L PROSPECT**

**Lease:** Oil and Gas Lease bearing No. M-92454 dated April 7, 1987, from the State of Texas, as Lessor, to Walter Oil & Gas Corporation, as Lessee, covering Tract 525-L, SE/4, Gulf of Mexico, Matagorda County, Texas, containing 1440 acres, as shown on the official map of the Gulf of Mexico then on file in the General Land Office, Austin, Texas, and recorded in Volume 154, Pages 288-294 of the Official Records of Matagorda County, Texas.

**Limitations:** None

**Contract List:**

- (a) The Lease.
- (b) Assignment of Overriding Royalty Interest dated effective as of April 8, 1987 from Walter Oil & Gas Corporation, as Assignor, to Robert D. Jolly, et al, as Assignees.
- (c) Only as to those parties named in this subparagraph (c), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation, as Program Manager, and Zilkha Energy Company, IP Petroleum Company, Inc. and Lignum Oil Company, as Participants.
- (d) Only as to those parties named in this subparagraph (d), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation, as Program Manager, and Walter Development Corporation, as Participant.
- (e) Only as to those parties named in this subparagraph (e), that certain Participation Agreement dated June 16, 1987, between Walter Oil & Gas Corporation, on the one hand, and J. C. Walter, Jr., J. C. Walter, III, and J. E. Bishop, Inc., on the other hand.
- (f) Only as to those parties named in this subparagraph (f), that certain Development Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation and Walter Development Corporation.
- (g) Assignment dated effective as of April 9, 1987, between Walter Oil & Gas Corporation, as Assignor, and Zilkha Energy Company, et al., as Assignees.
- (h) Gas Supply Contract dated February 12, 1988, between Walter Oil & Gas Corporation, as Seller, and Entex, as Buyer, as amended by Letter Agreements dated February 15, 1988 and July 26, 1988.
- (i) Gas Transportation Agreement dated effective as of February 14, 1988, between Texas Offshore Matagorda Commet and Transco Company, as Transporter, and Walter Oil & Gas Corporation, as Shipper.

- (j) Condensate Separator and Gas Dehydration Facilities Agreement dated February 12, 1988, between Tejas Power Corporation and Walter Oil & Gas Corporation, as amended by Letter Agreement dated April 7, 1988.
- (k) Letter Agreement dated June 7, 1988, between Texas Offshore Matagorda Conmet and Transco Company, and Walter Oil & Gas Corporation.

Ownership Interests: Walter Oil & Gas Corporation's ownership interests in the above described property are as follows:

Working Interest	27.42954%
Net Revenue Interest	20.05785%

**MATAGORDA BLOCK 523-L PROSPECT**

MATAGORDA ISLAND BLOCKS 565/568 PROSPECT

Lease: Oil and Gas Lease of Submerged Lands bearing Serial No. OCS-G-4138, by and between the United States of America, as Lessor, and Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Lessee, dated effective as of October 1, 1979, covering that portion of Blocks 558 and 565 seaward of the Three Marine League Line, Matagorda Island Area, as shown on OCS Official Leasing Map, Texas Map No. 4.

Limitations: Walter Oil & Gas Corporation's interest in the Lease is limited to depths from the surface of the earth down to a true vertical depth of 8,500 feet beneath the surface.

Contract List:

- (a) The Lease.
- (b) Assignment dated effective as of September 24, 1984, between Marathon Oil Company, as Assignor, and Walter Oil & Gas Corporation, as Assignee.
- (c) Letter Agreement dated September 24, 1984, between Marathon Oil Company and Walter Oil & Gas Corporation.
- (d) Assignment dated effective as of April 24, 1986, between Amerada Hess Corporation, as Assignor, and Walter Oil & Gas Corporation, as Assignee.
- (e) Agreement dated effective as of April 24, 1986, between Amerada Hess Corporation and Walter Oil & Gas Corporation, as amended by Letter Agreements dated May 8, 1986, June 24, 1986, October 15, 1986 and December 23, 1986.
- (f) Assignment of Operating Rights dated effective as of December 31, 1986, between Walter Oil & Gas Corporation, as Assignor, and Marathon Oil Company and Amerada Hess Corporation, as Assignees.
- (g) Letter Agreement dated April 19, 1988, between Walter Oil & Gas Corporation, on the one hand, and Amerada Hess Corporation and Marathon Oil Company, on the other hand, as amended by Letter Agreement dated June 16, 1988.
- (h) Assignment of Overriding Royalty Interest dated effective as of April 25, 1986, from Walter Oil & Gas Corporation, Assignor, to Robert D. Jolly, et al, as Assignees.
- (i) As applicable: that certain Walter Oil & Gas Corporation 1982-1984 Exploration Program Agreement dated April 1, 1982, between Walter Oil & Gas Corporation and Rowan Petroleum, Inc., Walter Oil & Gas Corporation 1983-84 Exploration Program Agreement dated December 1, 1983, by and between Walter Oil & Gas Corporation and Stamper Drilling Corporation, et al., Walter Oil & Gas Corporation 1983-84 Exploration Program Agreement dated January 1, 1983, between Walter Oil & Gas Corporation

and William Cecil DeArman, Walter Oil & Gas Corporation 1983-84 Exploration Program Agreement dated January 1, 1983, between Walter Oil & Gas Corporation and Jimmy F. Howell, M.D., Walter Oil & Gas Corporation 1984 Exploration Program Agreement dated April 12, 1984, between Walter Oil & Gas Corporation and San Tome Venture Corporation, Walter Oil & Gas Corporation 1984 Exploration Program Agreement dated June 1, 1984, between Walter Oil & Gas Corporation and IP Petroleum Company, Inc., Walter Oil & Gas Corporation 1984 Exploration Program Agreement dated April 12, 1984, between Walter Oil & Gas Corporation and Harold H. Hammer.

- (j) That certain Joint Venture Agreement dated June 15, 1984 as amended, between Walter Oil & Gas Corporation and various "Walter Participants" identified therein, on the one hand, and Walter/NM Limited Partnership, on the other hand, creating the Walter Oil & Gas Offshore Development Joint Venture.
- (k) Assignment of Operating Rights dated effective as of April 26, 1986, between Walter Oil & Gas Corporation, as Assignor, and Rowan Petroleum, Inc., et al. as Assignees.
- (l) Easement on State Land bearing Misc. Easement No. ME 860136 dated August 21, 1986, between The State of Texas, as Grantor, and Walter Oil & Gas Corporation, as Grantee.
- (m) Letter Agreement dated June 30, 1988, between Walter Oil & Gas Corporation and The Northwestern Mutual Life Insurance Company, pertaining to OCS-G-4138, Well No. 11.
- (n) Participation Agreement dated July 11, 1988, between Walter Oil & Gas Corporation, on the one hand, and J. C. Walter, Jr., J. C. Walter, III, and Carole W. Looke, on the other hand, pertaining to OCS-G-4138, Well No. 11.
- (o) Letter Agreement dated July 5, 1988, between Walter Oil & Gas Corporation and Walter Development Corporation, pertaining to OCS-G-4138, Well No. 11.
- (p) Interconnect Agreement dated September 29, 1986, between Matagorda Pipeline Partnership and Walter Oil & Gas Corporation.
- (q) Transportation Agreement dated September 17, 1986, between Matagorda Pipeline Partnership and Walter Oil & Gas Corporation, as amended by Letter Agreements dated September 19, 1986, January 8, 1988, and October 20, 1988.
- (r) Division Order dated January 13, 1987, from Walter Oil & Gas Corporation to JM Petroleum Corporation

MATAGORDA ISLAND BLOCKS 565 '558 PROSPECT

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- (s) Gas Transportation Agreement dated as of February 14, 1988, between Texas Offshore Matagorda Commet and Transco Company, as Transporter, and Walter Oil & Gas Corporation, as Shipper.
- (t) Condensate Separation and Gas Dehydration Facilities Agreement dated February 12, 1988, between Tejas Power Corporation and Walter Oil & Gas Corporation, as amended by Letter Agreement dated April 7, 1988.

Ownership Interests: Walter Oil & Gas Corporation's ownership interests in the above described Property are as follows:

	<u>Well No. 11</u>		<u>All Production Other than from Well No. 11</u>	
	<u>Before Payout</u>	<u>After Payout</u>	<u>Before Payout</u>	<u>After Payout</u>
Working Interest	30.41971%	30.41971%	26.0000%	26.00847%
Net Revenue Interest	22.00359%	21.22408%	18.7861%	18.14632%

**Payout:** For Well No. 11, as defined in the Letter Agreement described in item (g) above, and for all production other than from Well No. 11, as defined in the Assignment of Overriding Royalty Interest described in item (h) above.

**MATAGORDA ISLAND BLOCKS 565/558**

MATAGORDA BLOCK 557 PROSPECT

Lease: Oil and Gas Lease No. OCS-G-4137, from the United States of America, as Lessor, to Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Lessees, dated effective as of October 1, 1979, covering that portion of Block 557 seaward of the Three Marine League Line, Matagorda Island Area, as shown on OCS Official Leasing Map, Texas Map No. 4, containing 5620 acres.

Limitations:

- (a) As to the Northwest Quarter (NW/4) of the Lease; operating rights from the surface of the earth down to and including the stratigraphic equivalent of 10,100 feet T.V.D., as shown at a measured depth of 13,700 feet on the Dual Induction log for the Walter Oil & Gas Corporation OCS-G-4137, Well No. 3.
- (b) As to the Northeast Quarter (NE/4) of the Lease; operating rights from the surface of the earth down to and including the stratigraphic equivalent of 10,200 feet T.V.D., as shown at a measured depth of 11,727 feet on the Dual Induction Focused Log Run #3, in Elf Aquitaine, Inc.'s Well No. A-4, located on Block 557, Matagorda Island Area, down to and including the stratigraphic equivalent 9,865 feet T.V.D., as shown at a measured depth 13,100 feet on the Dual Induction log for the Walter Oil & Gas Corporation OCS-G-4137, Well No. 4, STH No. 3.

Contract List:

- (a) The Lease.
- (b) Farmout Agreement dated February 1, 1986, between Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Farmers, and Walter Oil & Gas Corporation, as Farmee, covering the NW/4 of the Lease (1,300 acres), as amended by Agreement dated March 17, 1986.
- (c) Farmout Agreement dated January 12, 1987, between Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Farmers, and Walter Oil & Gas Corporation and TXP Operating Company, as Farmees, covering the NE/4 of the Lease (1,440 acres).
- (d) Participation Agreement dated September 18, 1986, between Walter Oil & Gas Corporation and TXP Operating Company, as amended by Letter Agreement dated April 19, 1988.

- (e) Letter Agreement dated January 28, 1987, between Walter Oil & Gas Corporation, on the one hand, and Elf Aquitaine, Inc. and BeNorth Petroleum Corporation, on the other hand.
- (f) The Walter Oil & Gas Corporation 1986 Exploration Program Agreement dated effective as of January 1, 1986, between Walter Oil & Gas Corporation, as Program Manager, and Rowan Petroleum, Inc., IP Petroleum Company and Lignum Oil Company, as Participants.
- (g) Joint Venture Agreement dated June 15, 1984, as amended, between Walter Oil & Gas Corporation and various "Walter Participants" identified therein, on the one hand, and Walter/NM Limited Partnership, on the other hand, creating the Walter Oil & Gas Offshore Development Joint Venture.
- (h) Assignment of Operating Rights in Oil and Gas Lease dated effective as of May 22, 1987, between Marathon Oil Company, Amerada Hess Corporation and The Louisiana Land and Exploration Company, as Assignors, and Walter Oil & Gas Corporation and TXP Operating Company, as Assignees, covering the NW/4 of the Lease.
- (i) Assignment of Operating Rights in Oil and Gas Lease dated effective as of July 18, 1987, between Marathon Oil Company, Amerada Hess Corporation, and The Louisiana Land and Exploration Company, as Assignors, and Walter Oil & Gas Corporation and TXP Operating Company, as Assignees, covering the NE/4 of the Lease.
- (j) Assignment of Overriding Royalty Interest dated effective as of July 19, 1987, between Walter Oil & Gas Corporation and TXP Operating Company, as Assignors, and Robert D. Jolly, et al, as Assignees.
- (k) Assignments of Operating Rights dated effective as of July 20, 1987, between Walter Oil & Gas Corporation, as Assignor, and Rowan Petroleum, Inc. and Walter/NM Limited Partnership, as Assignees, covering the NW/4 of the Lease.
- (l) Assignments of Operating Rights dated effective as of July 20, 1987, between Walter Oil & Gas Corporation, as Assignor, and Rowan Petroleum, Inc. and Walter/NM Limited Partnership, as Assignees, covering the NE/4 of the Lease.
- (m) Gas Transportation Agreement dated as of February 14, 1988, between Texas Offshore Matagorda Commet and Transco Company, as Transporter, and Walter Oil & Gas Corporation, as Shipper.
- (n) Condensate Separation and Gas Dehydration Facilities Agreement dated February 12, 1988, between Tejas Power Corporation and Walter Oil & Gas Corporation, as amended by Letter Agreement dated April 7, 1988.

MATAGORDA ISLAND BLOCK 557 PROSPECT



- (o) Crude Oil Purchase Agreement dated March 22, 1988, between Marathon Petroleum Company, as Buyer, and Walter Oil & Gas Corporation, as Seller, as amended by Letter Agreements dated April 29, 1988, June 8, 1988 and September 30, 1988.

Ownership Interests: Walter Oil & Gas Corporation's ownership interests in the above described property are as follows:

- (a) Northwest Quarter of Block 557

	<u>Well No. 3 Before Payout</u>	<u>Well No. 3 After Payout and All Other Production</u>
Working Interest	16.16253%	16.16253%
Net Revenue Interest	11.79865%	11.28679%
Payout: As defined in the Farmout Agreement described in item (b) above.		

- (b) Northeast Quarter of Block 557

	<u>Well No. 4 Before Payout</u>	<u>Well No. 4 After Payout and All Other Production</u>
Working Interest	16.16253%	16.16253%
Net Revenue Interest	11.79865%	11.28679%
Payout: As defined in the Farmout Agreement described in item (c) above.		

NOTE: Walter Oil & Gas Corporation is overproduced by an amount of 305,392 MCF on production through October 31, 1988, in accordance with the terms of the Operating Agreement incorporated into the Participation Agreement described in (d) above.

MATAGORDA ISLAND BLOCK 557

## MATAGORDA ISLAND BLOCK 699 PROSPECT

**Lease:** Oil and Gas Lease of Submerged Lands dated October 1, 1983, by and between the United States of America, as Lessor, and Champlin Petroleum Company, Pioneer Production Company, Energy Development Corporation, and Williams Exploration Company, as Lessees, bearing Serial No. OCS-G-6055, covering all of Block 699, Matagorda Island Area, OCS Leasing Map, Texas Map No. 4, containing approximately 5,670 acres.

**Limitations:** Walter Oil & Gas Corporation's interest in the Lease is limited to operating rights from the surface of the earth down to the stratigraphic equivalent of 9,800 feet true vertical depth, as found in the OCS-G-6055, Well No. 2, located on Matagorda Island Block 699.

### **Contract List:**

- (a) The Lease.
- (b) Farmout Agreement dated August 3, 1987, between Union Pacific Resources Company, Fina Oil and Chemical Company, and American Cometra, Inc. as Farmers, and Walter Oil & Gas Corporation, as Farmer, as amended by Letter Agreement dated October 27, 1987.
- (c) Operating Agreement dated effective as of October 1, 1983, between Union Pacific Resources Company, as Operator, and Williams Exploration Company, et al, as Non-Operators.
- (d) Notice of Joint Operating Agreement dated August 3, 1987, between Union Pacific Resources Company, Fina Oil and Chemical Company, and American Cometra, Inc., on the one hand, and Walter Oil & Gas Corporation, on the other hand, recorded in the Real Property Records of Aransas County, Texas under File No. 157367.
- (e) Only as to those parties named in this subparagraph (e), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation, as Program Manager, and Zilkha Energy Company, IP Petroleum Company and Lignum Oil Company, as Participants.
- (f) Only as to those parties named in this subparagraph (f), that certain Walter Oil & Gas Corporation 1987 Exploration Program Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation, as Program Manager, and Walter Development Corporation, as Participant.
- (g) Only as to those parties named in this subparagraph (g), that certain Development Agreement dated effective as of January 1, 1987, between Walter Oil & Gas Corporation and Walter Development Corporation.

- (h) Participation Agreement dated September 8, 1987, between Walter Oil & Gas Corporation, on the one hand, and J. C. Walter, Jr., J. C. Walter, III and Carole Walter Looke, on the other hand.
- (i) Assignment of Operating Rights dated effective as of September 25, 1987, between Union Pacific Resources Company, Fina Oil and Chemical Company, American Cometra, Inc. and Corexcal, Inc. as Assignors, and Walter Oil & Gas Corporation, as Assignee.
- (j) Assignment of Overriding Royalty Interest dated effective as of September 26, 1987, between Walter Oil & Gas Corporation, as Assignor, and Robert D. Jolly, David A. Putska, and Rodney L. Cottrell, as Assignees.
- (k) Assignment of Operating Rights dated effective as of September 27, 1987, between Walter Oil & Gas Corporation, as Assignor, and Zilkha Energy Company, IP Petroleum Company and Lignum Oil Company, as Assignees.
- (l) That certain Agreement dated September 22, 1988, between Enron Gas Pipeline Operating Company and Walter Oil & Gas Corporation styled "Enron Gas Pipeline Operating Company, Lateral Line Interconnect and Operation Agreement, Matagorda Island Block 699 Project".
- (m) Ratification and Joinder-In Agreement for the Ownership and Operation of the Matagorda Offshore Pipeline System Onshore Liquid Handling Facility, Refugio County, Texas, dated effective as of November 1, 1988, between Oxy USA, Inc. (Operator), et al, on the one hand, and Walter Oil & Gas Corporation, on the other hand.

Ownership Interests: Walter Oil & Gas Corporation's ownership interests in the above described property are as follows:

	<u>Well No. 2 Before Payout</u>	<u>Well No. 2 After Payout and All Other Production</u>
Working Interest	14.61538%	14.61538%
Net Revenue Interest	10.68750%	10.30750%

Payout: As defined in the Farmout Agreement described in item (b) above.

**MATAGORDA ISLAND BLOCK 699 PROSPECT**

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