

BUTLER & BINION

A REGISTERED LIMITED LIABILITY PARTNERSHIP

SUITE 1600

1000 LOUISIANA

HOUSTON TEXAS 77002-5093

713 237-3111

TELECOPIER 713 237-3202

February 13, 1992

OCS-G 11940

WASHINGTON DC

202 466 6900

DALLAS

214 220-3100

SAN ANTONIO

512 227-2200

ATTORNEYS AT LAW

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FEB 19 1992

MINERALS MANAGEMENT SERVICE
LEASING & ENVIRONMENT

Ms. LaNelle Boehm
Adjudications Section LE-3
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394

Dear Ms. Boehm:

Enclosed is an original counterpart of Act of Collateral Mortgage, Security Agreement, Financing Statement, Pledge and Assignment of Production ("Collateral Mortgage") dated December 19, 1991, by British-Borneo Exploration, Inc. unto Any Future Holder or Holders which affects the record title and/or operating rights interests of British-Borneo Exploration, Inc. in each of the following Oil and Gas Leases from the United States of America:

1. Dated effective June 1, 1990, to King Ranch Oil and Gas, Inc. and British-Borneo Petroleum, Inc., bearing Serial No. OCS-G 11815, covering all of Block 596, West Cameron Area.
2. Dated effective May 1, 1990, to Cockiell Resources, Inc., bearing Serial No. OCS-G 11940, covering all of Block 78, Eugene Island Area.
3. Dated effective May 1, 1991, to Energy Development Corporation and British-Borneo Petroleum, Inc., bearing Serial No. OCS-G 12817, covering all of Block 34, East Cameron Area.
4. Dated effective May 1, 1991, to Energy Development Corporation, et al., bearing Serial No. OCS-G 12820, covering all of Block 75, East Cameron Area.
5. Dated effective June 1, 1991, to Energy Development Corporation, et al., bearing Serial No. OCS-G 12821, covering all of Block 76, East Cameron Area.

Please file the enclosed Collateral Mortgage with a copy of this letter, in Case File No. OCS-G 11815. In addition, please file a copy of this letter in Case File Nos. OCS-G 11940, OCS-G 12817, OCS-G 12820 and OCS-G 12821 in order to notify third parties

Ms. LaNelle Boehm
February 13, 1992
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of the existence of the Collateral Mortgage which has been filed in
Case File No. OCS-G 11815.

Also, enclosed is our firm's check in the amount of \$125.00 in
payment for the filing of the Collateral Mortgage and the notice
letters as requested above.

Should you have any questions regarding this request, please
call me at 1-800-999-0529.

Sincerely,



Mark P. Glanowski
Senior Legal Assistant

Enclosures

MPGL0292\MISC\Boehm2.1tr

Ms. LaNelle Boehm
February 13, 1992
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RECEIPT

The undersigned acknowledges receipt of this letter and the Act of Collateral Mortgage, Security Agreement, Financing Statement, Pledge and Assignment of Production dated December 19, 1991, by British-Borneo Exploration, Inc. for filing in Case File No. OCS-G 11815, with copies of this notice letter attached hereto to be filed in Case File Nos. OCS-G 11940, OCS-G 12817, OCS-G 12820, and OCS-G 12821.

MINERALS MANAGEMENT SERVICE

By:

LaNelle Boehm

Date:

2-19-92

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Minerals Management Service
Leasing & Environment

FINANCING STATEMENT

This Statement is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code of Louisiana:

1. Name and address of Debtor:

WALTER OIL & GAS CORPORATION
1021 Main Street
Suite 2200
Houston, Texas 77002

2. Debtor's Federal Taxpayer Number is 74-2180343.

3. Name and address of Secured Party:

CITIBANK, N.A.
399 Park Avenue
New York, New York 10043

4. This Financing Statement covers the following types of property ("Collateral"):

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) accounts and accounts receivable (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, (vi) all Fixture Operating Equipment, and (vii) all proceeds, products, increases, profits, substitutions, replacements, renewals, additions, amendments and accessions of, to and for all of the above described property.

It is not the intention of this Financing Statement to cover or include hereunder any interest other than the undivided percentage interest of Debtor in

and to the Collateral identified as the "Mortgaged Interest" in Exhibit "A", plus any and all interests the Debtor may hereafter acquire in any of the Collateral hereunder; and it is expressly agreed that interests identified on Exhibit "A" as "Third Party Interests", whether such interests have heretofore been assigned or delivered to such third parties, or evidenced of record, shall not be subject to the security interest evidenced hereby, nor shall any further action be required by Debtor or Secured Party to evidence such fact; and Secured Party hereby releases all such "Third Party Interests" from the security interest evidenced hereby; provided that, should Debtor hereafter acquire any of such "Third Party Interests", then, but at no time prior, such interests shall be subject hereto.

5. As used herein, the following terms have the meanings set out below:

a. "Oil and Gas Property or Properties" means (i) 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", (ii) 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, (iii) any other interest in, to or relating to (A) all or any part of the land described either in Exhibit "A" or (B) any of the estates, property rights or other interests referred to above, and (iv) any instrument executed in amendment, correction modification, confirmation, renewal or extension of the same.

b. "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 from the lands covered

by the Oil and Gas Properties, and all products refined therefrom.

c. "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 for temporary use) 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. Operating Equipment shall not include any items placed on an immovable which become component parts of land, buildings, structures or improvements located therein or thereon in such a manner that they no longer remain movables under the laws of the State of Louisiana.

d. "Fixture Operating Equipment" means any of the items described in the first sentence of subparagraph (c) above which as a result of being placed on an immovable which become component parts of land, buildings, structures or improvements located therein or thereon and used in the conduct of commercial and industrial activity, constitute fixtures under the laws of the State of Louisiana.

e. "Contracts" means all contracts, operating agreements, farm-out or farm-in agreements, sharing agreements, mineral purchase agreements, rights-of-way, easements, surface leases, permits, franchises, licenses, pooling or unitization agreements, unit designations and pooling orders now in effect or hereafter entered into by 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 produced from any of the property affected by the Oil and Gas Properties.

f. "Realty Collateral" means all of Debtor's interest in and to the Oil and Gas Properties and unsevered and unextracted Hydrocarbons.

6. The security interest perfected by this Financing Statement attaches to the interest of Debtor in minerals or the like (including oil and gas) as such minerals are extracted and to the accounts resulting from the sale thereof at the wellhead of the wells located on the properties described in Exhibit "A".

7. This instrument covers the interest of Debtor in fixtures.

8. Products of collateral are also covered.

DEBTOR:

WALTER OIL & GAS CORPORATION

By: J.C. Walter, III
J.C. Walter, III
President

DPK/16911/2012
06 1355.B

EXHIBIT A

EUGENE ISLAND BLOCK 78

Lease: Oil and Gas Lease of Submerged Lands bearing Serial No. OCS-G 11940 dated effective May 1, 1990 between the United States of America, as Lessor, and Cockrell Resources, Inc., as Lessee, covering all of Block 78, Eugene Island Area, OCS Official Map, Louisiana Map No. 4, containing 5,000 acres.

Limitations: None

Contract List:

- (a) The Lease.
- (b) Participation Agreement dated February 11, 1991, among Cockrell Oil Corporation, Cockrell Resources, Inc., Ernest H. Cockrell, Carol C. Curran and Walter Oil & Gas Corporation.
- (c) Operating Agreement dated February 11, 1991, between Cockrell Oil Corporation, as Operator, and Ernest H. Cockrell, Carol C. Curran, Walter Oil & Gas Corporation and Samedan Oil Corporation, as Non-Operators.
- (d) Eight (8) Assignments of Overriding Royalty all dated February 8, 1991, from Cockrell Resources, Inc. to eight certain employees of Cockrell Oil Corporation (namely W. Fred Deusinger, Ben T. Faulk, Clifford S. Foss, Jr., Daniel F. Gayle, Milton T. Graves, Feldor H. Hollenshead, Charles W. Hubbard, and Robert W. Kelsey) assigning overriding royalties totaling 2.125% of "Assignor's Net Revenue Interest".
- (e) Assignment dated effective February 11, 1991, between Cockrell Resources, Inc., as Assignor, and Ernest H. Cockrell, Carol C. Curran, Walter Oil & Gas Corporation and Samedan Oil Corporation, as Assignees.
- (f) Assignment of Overriding Royalty Interest dated effective February 12, 1991, from Walter Oil & Gas Corporation, as Assignor, in favor of David A. Pustka, Rodney L. Cottrell, James H. Dick, Kurt G. Sommer, and Walter Oil & Gas Corporation, as Assignees, being the conveyance of the "Walter Employees Override" as provided for under documents h, i, j and k below.
- (g) Assignment dated effective February 13, 1991, between Walter Oil & Gas Corporation, as Assignor, and British-Borneo Exploration, Inc., Columbus Mills, Inc., J. F. Howell, and Walter Energy Corporation, as Assignees.
- (h) Only as to the parties named in this subparagraph, that certain 1990-91 Program Agreement dated as of August 1, 1990 between Walter Oil & Gas Corporation, as Program Manager, and Columbus Mills, Inc., as Participant.

EUGENE ISLAND BLOCK 78

- (i) Only as to the parties named in this subparagraph, that certain 1991 Program Agreement dated as of January 1, 1991 between Walter Oil & Gas Corporation, as Program Manager, and British-Borneo Exploration, Inc., as Participant.
- (j) Only as to the parties named in this subparagraph, that certain 1991 Program Agreement dated as of January 1, 1991 between Walter Oil & Gas Corporation, as Program Manager, and J. F. Howell, as Participant.
- (k) Only as to the parties named in this subparagraph, that certain 1991 Program Agreement dated as of January 1, 1991 between Walter Oil & Gas Corporation, as Program Manager, and Walter Energy Corporation, as Participant.
- (l) That certain Development Agreement dated as of January 1, 1991, between Walter Oil & Gas Corporation and Walter Energy Corporation.
- (m) As to the parties named in this subparagraph, the Conveyance of Overriding Royalty Interest dated effective February 14, 1991, from Walter Energy Corporation, as Assignor, in favor of Leeway & Co., et al., as Assignees.

EUGENE ISLAND BLOCK 78

Ownership Interest:

	<u>Working Interest</u>	<u>Revenue Interest</u>
<u>MORTGAGED INTEREST:</u>		
Walter Oil & Gas Corporation (1)	5.03665%	4.05765%
<u>THIRD PARTY INTERESTS:</u>		
Walter Energy Corporation (Exp.)	11.30022	9.10374
Walter Energy Corporation (Dev.) (1)	1.24125	0.99998
J. F. Howell	1.50370	1.21384
Columbus Mills, Inc.	8.37054	6.74352
British-Borneo Exploration, Inc.	10.04464	8.09221
Ernest H. Cockrell	18.75000	15.29297
Carol C. Curran	18.75000	15.29297
Samedan Oil Corporation	25.00000	20.39062
David A. Pustka	-0-	0.10500
Rodney L. Cottrell	-0-	0.10500
James H. Dick	-0-	0.10500
Kurt G. Sommer	-0-	0.04800
WOGC ORR Pool	-0-	0.01200
Cockrell Staff ORR (2)	-0-	1.77083
United States of America	-0-	16.66667
	<u>100.00000%</u>	<u>100.00000%</u>

(1) Estimated interest subject to adjustment pursuant to the Development Agreement described in item (1) above.

(2) Being the parties identified in item (d) above.

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Minerals Management Service
Leasing & EnvironmentACT OF COLLATERAL CHATTEL MORTGAGE AND
COLLATERAL MORTGAGE, PLEDGE AND ASSIGNMENTTHE STATE OF TEXAS §
§
COUNTY OF HARRIS §

Be it known that on this 28th day of October, 1991, before me, the undersigned Notary Public, duly commissioned and qualified in and for the County and State aforesaid, and therein residing, and in the presence of the undersigned competent witnesses, whose names are subscribed hereto,

Personally came and appeared **WALTER OIL & GAS CORPORATION**, a Texas corporation, appearing herein through J. C. Walter, III, its duly authorized President, acting pursuant to resolutions of the Board of Directors of such corporation, a certified extract of which are attached hereto ("Mortgagor");

which Mortgagor through its representative declared unto me, Notary, that, desiring to secure funds and obtain other credit from any person, firm or corporation willing to loan and provide same, and for such purpose, Mortgagor does by these presents declare and acknowledge a debt in the principal sum of EIGHTEEN MILLION AND NO/100 DOLLARS (\$18,000,000.00) and to evidence such indebtedness, has executed, under date of December 12, 1988, that one certain Collateral Mortgage and Collateral Chattel Mortgage Note ("Note") in the principal sum of EIGHTEEN MILLION AND NO/100 DOLLARS (\$18,000,000.00) with interest thereon at the rate of eighteen percent (18%) per annum from and after the date thereof until paid, dated at Houston, Texas, payable to Bearer, due on demand at 399 Park Avenue, New York, New York 10043 or at such other place as the Holder may from time to time designate in writing, which Note, after having been paraphrased "Ne Varietur" by me, Notary, for identification herewith, was delivered to Mortgagor who acknowledges receipt thereof. Mortgagor further declared that the Note would be pledged and delivered for the purpose of raising funds and obtaining other credit as heretofore stated, and Mortgagor does by these presents acknowledge to be indebted unto any future holder or holders of the Note ("Holder") in the full amount thereof, together with interest, attorneys' fees, insurance premiums, taxes, expenses and costs as provided for hereunder, if any should accrue.

ARTICLE I
Definitions

Mortgagor agrees that, as used in this instrument, the following terms shall have the following meanings:

1.1 "Bank" means Citibank, N.A., 399 Park Avenue, New York, New York 10043.

1.2 "Base Rate" means a fluctuating interest rate per annum as shall be in effect from time to time, which rate per annum shall at all times be equal to the higher of:

(a) the rate of interest announced publicly by the Bank in New York, New York, from time to time, as the Bank's base rate; and

(b) 1/2 of one percent (1/2%) per annum above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average being determined weekly on each Monday (or, if any such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by the Bank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by the Bank from three New York certificate of deposit dealers of recognized standing selected by the Bank, in either case adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent.

1.3 "Business Day" means a day of the year on which banks are not required or authorized to close in New York City.

1.4 "Collateral" means all of Mortgagor's interest as set forth on Exhibit "A" or as hereafter acquired, legal or beneficial, in and to (a) the Oil and Gas Properties; (b) all unsevered and unextracted Hydrocarbons; (c) all Operating Equipment; (d) all Hydrocarbons severed and extracted from the Oil and Gas Properties including oil in tanks; (e) all accounts and accounts receivable now or hereafter arising in connection with the sale or other disposition of any Hydrocarbons; (f) all Contracts; (g) all rents, issues, profits, proceeds, products, revenues and

other income from or attributable to the Oil and Gas Properties and to all unsevered and unextracted Hydrocarbons; (h) all Immovable Operating Equipment; and (i) all proceeds, products, renewals, increases, profits, substitutions, replacements, additions, amendments and accessions thereof, thereto or therefor.

1.5 "Contracts" means all contracts, agreements, operating agreements, farm-out or farm-in agreements, sharing agreements, mineral purchase agreements, rights-of-way, servitudes, easements, surface leases, permits, franchises, licenses, pooling, communitization or unitization agreements, unit designations and pooling orders now in effect or hereafter entered into by Mortgagor affecting any of the Oil and Gas Properties, Operating Equipment, Immovable 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 produced from any of the property affected by the Oil and Gas Properties.

1.6 "Default Rate" means a rate of interest equal to the lesser of the Base Rate plus two percent (2%) or the maximum non-usurious rate permitted by applicable law.

1.7 "Event of Default" shall have the meaning set forth in Article 5.2 hereof.

1.8 "Hydrocarbons" means 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 by the Oil and Gas Properties, and all products refined therefrom.

1.9 "Immovable Operating Equipment" means any of the items described in the first sentence of paragraph 1.12 which as a result of being incorporated into realty or structures or improvements located therein or thereon, constitute immovables under the laws of the State of Louisiana

1.10 "Obligations" means (a) the indebtedness evidenced by the Note according to its terms and tenor thereof, and all sums owing and that might become due and owing thereon or thereunder, including, but not limited to, all principal, interest and attorneys' fees provided for therein, as well as any and all renewals, extensions, amendments, substitutions, and rearrangements of the Note or any part thereof; (b) the observance and

performance of all covenants, agreements and stipulations contained in this instrument; and (c) all sums advanced or costs or expenses incurred by Holder hereunder.

1.11 "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, (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.

1.12 "Operating Equipment" means all surface or subsurface machinery, fixtures, equipment, facilities, supplies or other property of whatsoever kind or nature now or hereafter located on any of 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 movable property, whether corporeal or incorporeal, under the laws of the State of Louisiana.

ARTICLE II
Creation of Privilege

2.1 **Mortgage and Pledge.** In order to secure the full and punctual payment and performance of the obligations, Mortgagor does by these presents specially mortgage, pledge, assign and hypothecate unto and in favor of Holder, Mortgagor being bound to warrant and defend the right to so mortgage, pledge, assign and hypothecate such property, all and singular, Mortgagor's interest in and to the Collateral, it being Mortgagor's intention to include hereunder all of the property, rights, titles and interests described in Article 1.4 whether immovable, movable or mixed and insofar as possible, to render by this instrument all of such properties described in Article 1.1 immovable by law.

2.2 **Mortgagor as Holder.** This instrument is executed and granted for the equal benefit and security of any and all future Holders of the Note and the interest thereon for whatever period or for whatever cause the Note may be issued or reissued for any reason whatsoever; it being understood and agreed that possession of the Note at any time by Mortgagor shall not in any manner extinguish the Note or this instrument, but that Mortgagor shall have the right to issue and reissue the Note from time to time as its interest or convenience may require, without in any manner extinguishing or affecting the obligation of the Note or the security of this instrument.

2.3 **Interests Not Owned.** It is not the intention of this Act of Collateral Chattel Mortgage and Collateral Mortgage, Pledge and Assignment to cover or include hereunder any interest other than the undivided percentage interest of Mortgagor identified as the "Mortgaged Interest" in Exhibit "A" in and to the Collateral, plus any and all interests the Mortgagor may hereafter acquire in any of the properties mortgaged hereunder; and it is expressly agreed that any third party whose interests are identified on Exhibit "A" as "Third Party Interests", whether such interests have heretofore been assigned, delivered or recorded shall not be subject to this instrument, the liens created hereby, nor shall any further action be required by Mortgagor or Holder to evidence such fact; and Holder hereby releases all such "Third Party Interests" from the lien evidenced hereby; provided that, should Mortgagor hereafter acquire any of such "Third Party Interests", then, but at no time prior, such interests shall be subject hereto.

ARTICLE III
Proceeds from Production

3.1 Assignment of Production.

(a) Mortgagor, in order to further secure the Obligations, effective as of the date hereof, has pledged, pawned, assigned, transferred, conveyed and delivered and does hereby pledge, pawn, assign, transfer, convey and deliver unto Holder, all of Mortgagor's interest, now owned or hereafter acquired, in and to 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 Holder.

(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 Holder by virtue of the provisions of this Article 3.1, are authorized and directed by Mortgagor to treat and regard Holder as the assignee and transferee of Mortgagor and entitled in its place and stead to receive Mortgagor's interest, now owned or hereafter acquired, in and to the Hydrocarbons and the proceeds of runs to the extent that Mortgagor would receive the same.

(c) Mortgagor directs and instructs each purchaser of production from the Oil and Gas Properties to pay to Holder all of the proceeds of Mortgagor'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 or extinguished and that the privilege evidenced hereby has been released. Mortgagor authorizes Holder to receive and collect all sums of money derived from the proceeds of runs assigned hereunder, and no purchaser of any production from the Oil and Gas Properties shall have any responsibility for the application of any funds paid to Holder.

(d) Holder may (i) endorse and cash any and all checks and drafts payable to the order of Mortgagor or Holder for the account of Mortgagor, received from or in connection with the revenues and proceeds of the Hydrocarbons affected hereby, and the same may be applied as provided herein and (ii) execute any transfer or division orders in the name of Mortgagor or otherwise, with warrants

and indemnities binding on Mortgagor; provided that Holder shall not be held liable for, nor be required to verify, the accuracy of Mortgagor's interests as represented therein.

(e) Holder shall have the right at Holder's election and in the name of Mortgagor, or otherwise, to prosecute and defend any and all actions or legal proceedings deemed advisable by Holder in order to collect such funds and to protect the interests of Holder and/or Mortgagor, with all reasonable costs, expenses and attorneys fees incurred in connection therewith being paid by Mortgagor.

(f) The foregoing provisions of this Section 3.1 shall constitute an absolute and present assignment of all Mortgagor's interest in the Hydrocarbons. Holder grants to Mortgagor 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 such conditional license shall not operate to subordinate this assignment, in whole or in part, to any subsequent assignment by Mortgagor permitted hereunder, and any such subsequent assignment by Mortgagor shall be subject to the rights of Holder hereunder.

3.2 Application of Proceeds. All payments received by Holder pursuant to this Article III shall either be held by Holder in a cash collateral account as additional Collateral or, at the option of Holder, applied at the time of receipt, or from time to time at the discretion of Holder, as follows:

(a) First, to satisfaction of all costs and expenses incurred in connection with the collection of such proceeds, and the payment of any part of the Obligations not represented by a written instrument;

(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 Mortgagor, if not retained by Holder in the cash collateral account.

3.3 Release of Proceeds. Holder or any future Holder or Holders of the Note may at any time and from time to time release to Mortgagor or its order all or any portion of the funds received from the proceeds of oil, gas or other minerals as provided in this Article III without in any wise impairing, releasing or discharging the lien, privilege and security of this instrument, and the pledge and assignment herein provided for or affecting the validity thereof.

3.4 Mortgagor's Payment Duties. Nothing contained herein will limit Mortgagor's absolute duty to make payment of any indebtedness represented by the Obligations when the proceeds received by Holder 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 any indebtedness represented by the Obligations.

3.5 Liability of Holder. Holder 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 Mortgagor for proceeds actually received.

3.6 Indemnification. Mortgagor agrees to indemnify Holder 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 Holder as a consequence of the assertion either before or after the payment in full of the Obligations, that Holder received Hydrocarbons or proceeds pursuant to this Article III which were claimed by third persons. Holder will have the right to employ attorneys and to defend against any such Claims and unless furnished with reasonable indemnity, Holder will have the right to pay or compromise and adjust all such Claims. Mortgagor will indemnify and pay to Holder all such amounts as may be paid in respect thereof, or as may be successfully adjudicated against Holder and all such amounts shall be a part of the Obligation secured by this instrument. The liabilities of Mortgagor as set forth in this Article will survive the termination of this instrument.

ARTICLE IV
Mortgagor's Warranties and Covenants

4.1 **Payment and Performance of Obligations.** Mortgagor covenants and agrees that Mortgagor shall punctually pay when due all interest and principal comprising the Obligations secured by this instrument and all other amounts and indebtedness secured and to be secured hereby and will perform all of the terms, covenants and provisions of any loan or other agreement entered into by Mortgagor and Holder in connection herewith.

4.2 **Warranties.** Mortgagor warrants as follows:

(a) Mortgagor 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(i) below.

(b) Mortgagor has the full power, authority and legal right to mortgage, pledge, assign and hypothecate the Collateral to Holder without the consent of any person and has all licenses, permits, qualifications and other documentation necessary or appropriate to own, and if Mortgagor is the operator of any of the Collateral, to operate the Collateral.

(c) The representations of Mortgagor as to quantum and nature of the interest of Mortgagor in and to the Oil and Gas Properties set forth on Exhibit "A" includes the entire interest of Mortgagor 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 Mortgagor in the Oil and Gas Properties except set forth on Exhibit "A."

(d) Except as permitted by Article 4.4(h) below, Mortgagor has not received any notice of any claim of lien, privilege, right, title or interest to any of the Collateral from any third party and Mortgagor 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, privilege, 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 set forth in the Agreements described in Exhibit "A".

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

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

(h) Except as set forth in Exhibit "A", Mortgagor 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.

(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 Louisiana Department of Conservation or the relative state regulatory authority having jurisdiction over oil and gas operations in Louisiana, to authorize the observance or performance by Mortgagor of the covenants contained in this instrument or in the written instruments constituting all or part of the Obligations.

(j) All information contained in statements or reports furnished to Holder by or on behalf of Mortgagor relating to the Collateral was complete and accurate when made or delivered to Holder.

(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 Mortgagor and any lessor or any party to any such assignment or agreement.

(l) All proceeds from the sale of Mortgagor's interest in the Hydrocarbons are currently being paid in full to Mortgagor 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 Mortgagor, 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 Mortgagor, could have a material adverse effect on the Collateral or the ability of Mortgagor 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 or will be paid when due.

4.3 Further Assurances.

(a) Mortgagor covenants that Mortgagor shall execute and deliver such other and further instruments, and shall do such other and further acts as in the opinion of Holder 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) To indemnify and hold Holder 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 Holder 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 Mortgagor, for any reason, to convey the rights, titles and interest which this instrument purports to mortgage, pledge, hypothecate, convey, grant or assign.

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

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

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

(c) Mortgagor covenants that all information to be furnished to Holder by or on behalf of Mortgagor shall be 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 Mortgagor is the operator of the Oil and Gas Properties, Mortgagor shall (at Mortgagor's own expense)

(a) not enter into any operating agreement, contract or agreement which is burdensome on Mortgagor's interest and 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 a privilege or security interest in, nor otherwise dispose of or encumber any of the Collateral or any interest therein, except for the sale of Hydrocarbons in the ordinary course of business and the Mortgagor may agree to farmouts (provided that such farmouts do not negatively affect the value of the Oil and Gas Properties and do not affect the perfection or priority of any lien in favor of the Holder); and the Mortgagor may release or drop expired leases which have no net value as determined by an engineer acceptable to the Holder;

(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 to the extent necessary to be exercised 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 Holder because of its interest therein; and (iv) all local, state and federal taxes, payments and contributions for which Mortgagor may be liable; and indemnify Holder 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 Immovable Operating Equipment to be kept in good and effective operating condition, and 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 necessary or proper to enable Holder (through its agents and employees) to enter upon the Oil and Gas Properties at its sole risk 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, privileges, charges, security interests and encumbrances of every character other than liens:

(i) for taxes, assessments or other governmental charges on the Collateral if the same shall be inchoate, or are being contested in good faith and by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles have been provided on the books of the Mortgagor;

(ii) imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which are inchoate or are being contested in good faith and by appropriate proceedings;

(iii) arising under operating agreements that are described in Exhibit "A" and are inchoate or are being contested in good faith and by appropriate proceedings;

(iv) in favor of the Holder pursuant to this instrument; and

(v) predial servitudes, liens, restrictions and other similar encumbrances that, in the aggregate, do not materially interfere with the use, operation or ownership of the property subject thereto or materially impair the value thereof;

(i) carry with standard insurance companies and in amounts satisfactory to Holder 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 the Mortgagor 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 Immovable 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 Holder of cancellation which the insurance company will provide and to name Holder as an additional named insured or as a "loss payee"; permit Holder 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 permit Holder to obtain replacement insurance (which may, but need not, be) single interest insurance in favor of Holder if any insurance required hereby expires, is cancelled or is otherwise not in full force and effect;

(k) furnish to Holder, 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.** Mortgagor covenants and agrees to promptly (at Mortgagor's own expense) record, register, deposit and file this and every other instrument in addition or supplemental thereto, in such offices and places within the State of Louisiana and with the Minerals Management Service and at such times and as often as may be necessary to preserve, protect and renew the privilege and security interest herein created as a prior privilege or security interest on real or personal property, whether movable or immovable, 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 privilege and security interest created hereby in and on the Collateral.

4.6 **Records, Statements and Reports.** Mortgagor agrees and covenants to keep proper books of record and account in which complete and correct entries shall be made of Mortgagor's transactions in accordance with generally accepted accounting principles and to furnish or cause to be furnished to Holder upon request or, if such reports are prepared by third parties, when available after request by Holder, in addition to any information, schedules and reports required by any loan agreements entered into by Holder and Mortgagor in connection herewith, the following:

(a) Quarterly reports showing payment of all applicable severance, ad valorem and other similar taxes and taxes assessed under the Windfall Profit Tax Act of 1980, as amended; and

(b) Such other information concerning operation of the Collateral, the title of Mortgagor to or the interest of Holder in the Collateral and the business and affairs and financial condition of Mortgagor as Holder may from time to time reasonably require.

5.1 **Foreclosure.** Upon the occurrence of an Event of Default (as hereinafter defined), Holder shall have the right and power to proceed by suit or suits for specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted or for any foreclosure hereunder or for the sale of the Collateral under the judgment or decree of any court or courts of competent jurisdiction, or for the appointment of a receiver pending any foreclosure hereunder or the sale of the Collateral under the order of a court or courts of competent jurisdiction or under executory or other legal process, or for the enforcement of any other appropriate remedy. Mortgagor agrees that, in the event any proceedings are taken under this instrument by way of executory process or otherwise, any and all declarations of the facts made by authentic act before a notary public and in the presence of two witnesses, by a person declaring that such facts lie within his knowledge, shall constitute authentic evidence of such facts for the purpose of executory process.

5.2 **Events of Default.** Mortgagor will be in default under this instrument upon the happening of any of the following events or conditions ("Event of Default"):

(a) Mortgagor or any endorser, guarantor, surety, accommodation party, or other person liable upon or for payment of any of the Obligations secured hereby fails to pay when due any of the Obligations secured hereby or to perform punctually any other obligation, covenant, term, or provision contained in or referred to in this instrument or any other instrument executed in connection herewith;

(b) Any warranty or representation made in this instrument by Mortgagor or furnished to Holder on behalf of Mortgagor is determined by Holder to be untrue in any material respect;

(c) Mortgagor's title to the Collateral or any substantial part thereof becomes the subject matter of litigation which would or might, in Holder's opinion, upon final determination result in substantial impairment or loss of the security provided by this instrument; or

(d) Except as specifically authorized herein, there is substantial damage to or destruction of or sale of any of the Collateral or if the Collateral is subjected to any privilege, lien or encumbrances not permitted under subsection 4.4(h) and which, in Holder's good faith judgment, materially affects the privilege and security interest granted herein.

5.3 **Seizure.** Mortgagor for itself and its successors and assigns, agrees and stipulates that it shall be lawful for and Mortgagor authorizes Holder without making a demand or putting in default, putting in default being expressly waived, to cause all and singular the Collateral to be seized and sold by executory or other legal process without appraisal (appraisal being hereby expressly waived) either in its entirety or in lots, or parcels as Holder may determine to the highest bidder for cash or on such terms as Holder may direct, Mortgagor for itself, its successors and assigns, hereby confessing judgment for the full amount of said Note in principal and interest and all other Obligations.

5.4 **Keeper Provisions.** Upon the occurrence of an Event of Default, Holder is authorized prior or subsequent to the institution of any foreclosure proceedings, to enter upon the

Collateral, or any part thereof, and to exercise without interference from Mortgagor any and all rights which Mortgagor has with respect to the management, possession and operation of the Collateral, it being the intention to confer on Holder or Holder's agent, all of the rights granted to keepers of mineral interests by LSA R.S. 9:5131, et seq. All costs, expenses and liabilities of every character incurred by Holder in managing, operating and maintaining such Collateral shall constitute a demand obligation owing by Mortgagor to Holder, shall draw interest thereon from date of expenditure until date paid at the Default Rate, all of which shall constitute a portion of the Obligations secured by the privilege and lien evidenced by this instrument.

5.5 Waiver. Mortgagor hereby expressly waives:

(a) The benefit of appraisal as provided for in Articles 2332, 2336, 2723 and 2724 of the Louisiana Code of Civil Procedure and all other laws conferring the same;

(b) The demand and three (3) days delay accorded by Articles 2639 and 2721 of the Louisiana Code of Civil Procedure;

(c) The notice of seizure required by Articles 2293 and 2721 of the Louisiana Code of Civil Procedure; and

(d) The benefit of any other provisions of Articles 2331, 2722 and 2723 of the Louisiana Code of Civil Procedure;

and Mortgagor agrees to the immediate seizure of the property subject hereto in the event of suit hereon, and further, Holder and any future Holder or Holders of the Note shall be entitled to all of the rights and remedies provided in Articles 9:4301-4304 of the Louisiana Revised Statutes and by Articles 197-204 of the Louisiana Mineral Code.

5.6 Accumulation of Rights. Every right, power and remedy herein given to Holder shall be cumulative of and in addition to every other right, power and remedy herein specifically given and now or hereafter existing; and each and every right, power and remedy, whether specifically given or otherwise existing, may be exercised from time to time and so often and in such order as may be deemed expedient by Holder, and the exercise or the beginning of the exercise of any such right, power or remedy shall 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 Holder in the exercise of any right, power or remedy shall 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 and no single sale or series of sales under this Article V shall exhaust Holder's power of sale, but such power shall continue to exist for so long as, and may be exercised in the manner hereinabove provided as often as, the circumstances require to give Holder full relief hereunder.

5.7 Marshalling. Mortgagor, for itself and all who may claim through or under Mortgagor waives, to the extent that Mortgagor may lawfully do so under applicable law of the State of Louisiana, any and all rights to have the Collateral marshalled upon any foreclosure of the lien and privilege hereof, or sold in inverse order of alienation, and Mortgagor agrees that Holder may cause the Collateral to be sold as an entirety or in parcels as Holder may direct.

ARTICLE VI **Miscellaneous**

6.1 Advances by Holder. Each and every covenant of Mortgagor herein contained shall be performed and kept by Mortgagor solely at Mortgagor's expense. If Mortgagor fails to perform or keep any of the covenants of whatsoever kind or nature contained in this instrument, Holder may, but will not be obligated to, make advances to perform the same on Mortgagor's behalf, and Mortgagor 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 paid at the Default Rate. In addition, Mortgagor hereby agrees to repay on demand any reasonable costs, expenses and attorney's fees incurred by Holder which are to be obligations of the Mortgagor pursuant to, or allowed by, the terms of this instrument, including, without limitation, such costs, expenses and attorney's fees incurred pursuant to Articles 3.2, 3.6, 5.1 or 5.4 hereof, plus interest thereon from the date of the advance until paid at the Default Rate. Any such amounts so paid by Holder shall be considered part of the Obligations secured hereby and shall be secured by this instrument and the amount and nature of any such payment by Holder and the date when paid shall be held to be fully and authentically established by affidavit of Holder or its or their agents, servants or employees, and such amounts shall be paid as part of the Obligations out of the proceeds of the sale of the Collateral in the event of foreclosure or other proceedings together with interest

thereon at the rate provided for above; provided, however (a) that the amount of that portion of the Obligations secured and to be secured hereby which is comprised of advances for insurance premiums, taxes, fees or other expenses shall in no event exceed an amount equal to the original principal amount of the Note and (b) that the exercise of any right or advancement or payment of cost or expenses by Holder shall in no manner be construed as a waiver of the rights of Holder to demand payment on the Note. Holder and any future Holder or Holders of the Note shall be and are hereby subrogated to all rights, liens and privileges securing payment of any debt or claim for the payment of which Holder may make advances pursuant to the terms hereof.

6.2 Defense of Claims. Mortgagor shall promptly notify Holder in writing of the commencement of any legal proceedings affecting Mortgagor's title to the Collateral or the lien and privilege created hereby, and shall take such action, employing attorneys agreeable to the Holder, as may be necessary to preserve Mortgagor's and Holder's rights herein if they are materially affected thereby. If Mortgagor fails or refuses to defend Mortgagor's or Holder's rights in and to the Collateral, Holder may take such action on behalf of and in the name of Mortgagor and at Mortgagor's expense. Moreover, Holder may take such independent action in connection therewith as it may in its 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 Holder pursuant to this Article 6.2 shall be paid by Mortgagor on demand plus interest thereon from the date of the advance by Holder until paid at the Default Rate.

6.3 Partial Releases. The Holder at all times shall have the right to release any part of the Collateral now or hereafter subject to the lien and privilege hereof or any part of the proceeds of production or any income herein or hereafter assigned or pledged or any other security it now has or may hereafter have securing said indebtedness, without releasing any other part of said Collateral, proceeds, income or security and without affecting the lien hereof as to the parts or parties not released, or the right to future proceeds and income.

6.4 Unenforceable or Inapplicable Provisions. If any provision hereof is invalid or unenforceable, the other provisions hereof will remain in full force and effect and will be liberally construed in favor of Holder in order to carry out the provisions hereof.

6.5 Rights Cumulative. Each and every right, power and remedy herein given to Holder 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 Holder, 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 Holder 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.

6.6 Waiver by Holder. Any and all covenants in this instrument may from time to time by instrument in writing by the Holder, be waived to such extent and in such manner as Holder may desire, but no such waiver will ever affect or impair Holder'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 by authentic act and signed by Holder.

6.7 Terms. The term "Mortgagor" as used in this instrument will be construed as singular or plural to correspond with the number of persons executing this instrument as Mortgagor. If more than one person executes this instrument as Mortgagor, their duties, covenants, warranties and liabilities under this instrument will be joint, several and in solido, and any occurrence of an Event of Default as to one Mortgagor shall be deemed an Event of Default as to each Mortgagor. The terms "Holder" and "Mortgagor" as used in this instrument include the heirs, executors or administrators, successors, representatives, receivers, and assigns of those parties. This instrument is binding upon Mortgagor, Mortgagor's successors and assigns, as well as upon any person, firm or corporation hereafter acquiring title to any of the Collateral by, through or under Mortgagor and will inure to the benefit of Holder and its successors and assigns.

6.8 Governing Law. THIS INSTRUMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF LOUISIANA, SUBJECT, HOWEVER, TO THE EFFECT OF APPLICABLE FEDERAL LAW (INCLUDING, WITHOUT LIMITATION, 12 U.S.C. 85).

6.9 Notice. All notices required or permitted to be given by Mortgagor or Holder 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:

Mortgagor: WALTER OIL & GAS CORPORATION
 1021 Main Street
 Suite 2200
 Houston, Texas 77002

Holder: 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: Ms. Anne Marie Drummond

Unless otherwise provided herein, 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.

6.10 Waiver of Notary's Certificates. The parties hereto expressly waive the production of mortgage, conveyance or tax certificates and hereby relieve and release me, said Notary, and agree to hold me harmless from and by reason of the nonproduction and nonannexation thereof to this instrument.

6.11 Subrogation. This instrument is made with full substitution and subrogation of Holder, its successors and assigns, in and to all covenants, warranties and representations by others heretofore given or made with respect to title in and to the Collateral or any part thereof whether recorded or unrecorded by contract or otherwise, to the extent that such covenants, warranties and representations may be so subrogated and to any liens or privileges covering any property or properties of Mortgagor securing the payment of any indebtedness which is fully or partially discharged by funds made available to Mortgagor and secured hereby, to the full extent that such subrogation of liens and privileges is allowed under applicable state law.

And now into these presents personally came and appeared Ms. Anne Marie Drummond ("Intervenor") acting and appearing

herein as Holder for and on behalf of any and all future Holders of the Note, who does hereby accept this Act of Collateral Chattel Mortgage and Collateral Mortgage, Pledge and Assignment and agrees to all terms and provisions hereof.

Thus done and passed in my office in Houston, Harris County, Texas, this 28th day of October, 1991 in the presence of the undersigned competent witnesses who hereunto sign their names with the Mortgagor, Intervenor and me, Notary, after due reading of the whole.

MORTGAGOR

Witnesses to all
signatures:

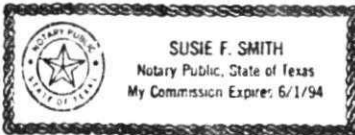
Lauren Hagerty
Robert Smith

Walter Oil & Gas Corporation

By: J. C. Walter, III
J. C. Walter, III
President

INTERVENOR

By: Anne Marie Drummond
Anne Marie Drummond
Banker



Susie F. Smith
Notary Public in and for
The State of TEXAS
Name: SUSIE F. SMITH
My Commission Expires: 6/1/94

(Signature Page to Act of Collateral Chattel Mortgage
and Collateral Mortgage, Pledge and Assignment)

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EXHIBIT "A"

PREAMBLE LOUISIANA

This Exhibit "A" sets forth the description of the Oil and Gas Properties covered by the Act of Collateral Chattel Mortgage and Collateral Mortgage, Pledge and Assignment 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 Mortgage.

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

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

Leases: The description of the lease or leases in which Mortgagor 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 Mortgagor owns an interest. Such description shall include all of Mortgagor's right, title and interest in the oil, gas and mineral leases and other interests listed in this Exhibit and not any interest in excess thereof. If "none" appears, there are no limitations on Mortgagor'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 Mortgagor's interest in the oil, gas and mineral leases and other interests, and Mortgagor'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 give same. Such contracts are referred to by the type of agreement and affects Mortgagor'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 Mortgagor's Working Interest and the Mortgagor's Net Revenue Interest (identified as Mortgagor's 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 parish of the State of Louisiana referred to in the description or on federal lands located on the Outer Continental Shelf and offshore of the State of Louisiana. 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 relates to that prospect or lands pooled therewith. The descriptions include the followir .

Well or

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

Working

Interest: Mortgagor's Working Interest.

Net Revenue

Interest: Mortgagor's Net Revenue Interest.

The Working Interests and Net Revenue Interests are computed and set out herein after taking into account all of the terms, provisions and condi-

tions of the agreements and other instruments listed on the "Contract List".

The Mortgagor's Net Revenue Interest means (i) with respect to a unit for which the Mortgagor'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 Mortgagor by virtue of its ownership of the Mortgagor'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 Mortgagor'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 Mortgagor by virtue of its ownership of the Mortgagor's Working Interest in the lease on which such well is located.

"Before Payout" and "After Payout" refer to the Mortgagor's Working Interest and the Mortgagor'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. Mortgagor's interest may decrease or increase as a result of a reversionary interest, an operation wherein Mortgagor has paid costs attributable to the interest of a non-consenting party or a consenting party has paid costs attributable to the interest of Mortgagor 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. Mortgagor 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 the reversionary interest, recoupment or such other circumstance.

Exhibit "A" also identifies the "Third Party Interests" that are not subject to the lien and security interest of this Mortgage. These interests may or may not be held of record in the name of the entities set forth in Exhibit "A". They are set forth herein solely for the purpose of identifying those interests that are not subject to the Mortgage and nothing herein shall constitute a representation, warranty, acknowledgement or affirmation that such individual interests are correct. In the event Mortgagor should at any time hereafter acquire all or any portion of the "Third Party Interests" whether by assignment, through any non-consent provision, or by any other means, the acquired interest shall thereafter be automatically subject to the lien of this Mortgage.

EUGENE ISLAND BLOCK 78

Lease: Oil and Gas Lease of Submerged Lands bearing Serial No. OCS-G 11940 dated effective May 1, 1990 between the United States of America, as Lessor, and Cockrell Resources, Inc., as Lessee, covering all of Block 78, Eugene Island Area, OCS Official Map, Louisiana Map No. 4, containing 5,000 acres.

Limitations: None

Contract List:

- (a) The Lease.
- (b) Participation Agreement dated February 11, 1991, among Cockrell Oil Corporation, Cockrell Resources, Inc., Ernest H. Cockrell, Carol C. Curran and Walter Oil & Gas Corporation.
- (c) Operating Agreement dated February 11, 1991, between Cockrell Oil Corporation, as Operator, and Ernest H. Cockrell, Carol C. Curran, Walter Oil & Gas Corporation and Samedan Oil Corporation, as Non-Operators.
- (d) Eight (8) Assignments of Overriding Royalty all dated February 8, 1991, from Cockrell Resources, Inc. to eight certain employees of Cockrell Oil Corporation (namely W. Fred Deusinger, Ben T. Faulk, Clifford S. Foss, Jr., Daniel F. Gayle, Milton T. Graves, Feldor H. Hollenshead, Charles W. Hubbard, and Robert W. Kelsey) assigning overriding royalties totaling 2.125% of "Assignor's Net Revenue Interest".
- (e) Assignment dated effective February 11, 1991, between Cockrell Resources, Inc., as Assignor, and Ernest H. Cockrell, Carol C. Curran, Walter Oil & Gas Corporation and Samedan Oil Corporation, as Assignees.
- (f) Assignment of Overriding Royalty Interest dated effective February 12, 1991, from Walter Oil & Gas Corporation, as Assignor, in favor of David A. Pustka, Rodney L. Cottrell, James H. Dick, Kurt G. Sommer, and Walter Oil & Gas Corporation, as Assignees, being the conveyance of the "Walter Employees Override" as provided for under documents h, i, j and k below.
- (g) Assignment dated effective February 13, 1991, between Walter Oil & Gas Corporation, as Assignor, and British-Borneo Exploration, Inc., Columbus Mills, Inc., J. F. Howell, and Walter Energy Corporation, as Assignees.
- (h) Only as to the parties named in this subparagraph, that certain 1990-91 Program Agreement dated as of August 1, 1990 between Walter Oil & Gas Corporation, as Program Manager, and Columbus Mills, Inc., as Participant.

EUGENE ISLAND BLOCK 78

- (i) Only as to the parties named in this subparagraph, that certain 1991 Program Agreement dated as of January 1, 1991 between Walter Oil & Gas Corporation, as Program Manager, and British-Borneo Exploration, Inc., as Participant.
- (j) Only as to the parties named in this subparagraph, that certain 1991 Program Agreement dated as of January 1, 1991 between Walter Oil & Gas Corporation, as Program Manager, and J. F. Howell, as Participant.
- (k) Only as to the parties named in this subparagraph, that certain 1991 Program Agreement dated as of January 1, 1991 between Walter Oil & Gas Corporation, as Program Manager, and Walter Energy Corporation, as Participant.
- (l) That certain Development Agreement dated as of January 1, 1991, between Walter Oil & Gas Corporation and Walter Energy Corporation.
- (m) As to the parties named in this subparagraph, the Conveyance of Overriding Royalty Interest dated effective February 14, 1991, from Walter Energy Corporation, as Assignor, in favor of Leeway & Co., et al., as Assignees.

EUGENE ISLAND BLOCK 78

Ownership Interest:

	<u>Working Interest</u>	<u>Revenue Interest</u>
<u>MORTGAGED INTEREST:</u>		
Walter Oil & Gas Corporation (1)	5.03665%	4.05765%

THIRD PARTY INTERESTS:

Walter Energy Corporation (Exp.)	11.30022	9.10374
Walter Energy Corporation (Dev.) (1)	1.24125	0.99998
J. F. Howell	1.50670	1.21384
Columbus Mills, Inc.	8.37054	6.74352
B rish-Borneo Exploration, Inc.	10.04464	8.09221
Ernest H. Cockrell	18.75000	15.29297
Carol C. Curran	18.75000	15.29297
Samedan Oil Corporation	25.00000	20.39062
David A. Pustka	-0-	0.10500
Rodney L. Cottrell	-0-	0.10500
James H. Dick	-0-	0.10500
Kurt G. Sommer	-0-	0.04800
WOGC ORR Pool	-0-	0.01200
Cockrell Staff ORR (2)	-0-	1.77083
United States of America	-0-	16.66667
	<u>100.00000%</u>	<u>100.00000%</u>

(1) Estimated interest subject to adjustment pursuant to the Development Agreement described in item (1) above.

(2) Being the parties identified in item (d) above.

CERTIFICATE OF CORPORATE RESOLUTIONS

The undersigned, Assistant Secretary of **WALTER OIL & GAS CORPORATION**, a Texas corporation ("Company"), does hereby certify to **CITIBANK, N.A.** ("Bank") as follows:

1. The following is a true and correct copy of the resolutions duly adopted by the Board of Directors of the Company, and such resolutions have not been altered, amended, rescinded or repealed and are now in full force and effect:

WHEREAS, the Company did on December 12, 1988, execute and deliver to Citibank, N.A. ("Bank") that certain Collateral Mortgage and Collateral Chattel Mortgage Note, in bearer form, in the principal sum of \$18,000,000.00 ("Collateral Mortgage Note"), which Collateral Mortgage Note was pledged as collateral to secure certain indebtedness of the Company to the Bank pursuant to a Collateral Pledge Agreement dated December 12, 1988, as amended by (i) a First Amended, Restated, Modified and Reaffirmed Collateral Pledge Agreement dated April 12, 1990, (ii) a Second Amended, Restated, Modified and Reaffirmed Collateral Pledge Agreement dated effective as of July 20, 1990, and (iii) a Third Amended, Restated, Modified and Reaffirmed Collateral Pledge Agreement dated effective as of June 24, 1991 (as amended, the "Pledge Agreement"), and which Collateral Mortgage Note was and is secured by one or more Acts of Collateral Chattel Mortgage and Collateral Mortgage, Pledge and Assignment (collectively, the "Mortgage") covering certain properties owned by the Company as described therein and was paraphrased "Ne Varietur" for identification with each Mortgage;

WHEREAS, the Company wishes to mortgage additional properties owned by the Company to secure the Collateral Mortgage Note;

NOW THEREFORE, the Board of Directors of the Company does hereby ratify and affirm the execution and delivery of the Collateral Mortgage Note to the Bank as security for the payment of all indebtedness owed by the Company to the Bank, including specifically, but not by way of limitation, that certain Promissory Note dated December 12, 1988, payable to the order of Bank, executed by the Company in the

original principal amount of \$9,000,000.00 and any note given in substitution, replacement, amendment, renewal or extension thereof including, but not limited to, (v) that certain Promissory Note dated April 12, 1990 in the original principal amount of \$10,150,000.00, (w) that certain Promissory Note dated as of April 12, 1990, in the original principal amount of \$13,200,000.00, (x) that certain Promissory Note dated as of September 1, 1990, in the original principal amount of \$13,200,000.00, (y) that certain Promissory Note dated as of June 24, 1991, in the original principal amount of \$15,000,000.00, and (z) that certain Promissory Note dated as of September 1, 1991, in the original principal amount of \$15,000,000 (the "Note"), each executed by the Company payable to the order of the Bank, and does hereby ratify and reaffirm all liens and other collateral heretofore given as security for the payment of the Collateral Mortgage Note, including specifically, without limitation, the Mortgage; and

RESOLVED, that the Board of Directors of the Company does hereby authorize the Company to execute and deliver to the Bank (i) the Note, (ii) an Act of Collateral Chattel Mortgage and Collateral Mortgage, Pledge and Assignment ("New Mortgage") covering certain additional properties owned by the Company as described therein, (iii) a Fourth Amendment to Louisiana Security Agreement, Assignment of Production and Financing Statement ("Security Agreement") covering certain property and property rights as described therein, and (iv) a Fourth Amended, Restated, Modified and Reaffirmed Collateral Pledge Agreement ("Pledge Agreement"), all in substantially the forms presented to this meeting, with such changes therein as the person executing the same shall approve, such approval to be conclusively evidenced by his execution thereof; and further

RESOLVED, that each officer of the Company is hereby authorized to execute and deliver on behalf of the Company, in such forms as the Bank may require any and all other agreements, instruments and documents which may be requested or required by the Bank to take any and all other action relating to or in connection

with the Collateral Mortgage Note, Note, Mortgage, New Mortgage, Pledge Agreement or Security Agreement; and further

RESOLVED, that any and all documents, instruments and agreements executed by an officer of the Company pursuant to these resolutions may contain such terms and conditions as the person executing the same shall approve, including confessions of judgment, pacts de non alienando, waivers of appraisement, and waivers of notice and delay, such approval to be conclusively evidenced by his execution thereof; and further

RESOLVED, that the signature of any officer of the Company on any agreement, instrument or document is sufficient to bind the Company, and no other signature shall be required; and further

RESOLVED, that the Bank may rely on these resolutions and these resolutions shall remain in full force and effect until such time as notice to the contrary is duly delivered to the Bank and received for in writing by a Vice President of the Bank.

2. The person who, as an officer of the Company, executed the Collateral Mortgage Note, Note, Mortgage, New Mortgage, Pledge Agreement and Security Agreement that are referred to in such resolutions was at the time of such signing and delivery, and is now duly elected, qualified and acting as such officer and the signature appearing on such Collateral Mortgage Note, Note, Mortgage, New Mortgage, Pledge Agreement and Security Agreement is the genuine signature of such officer.

3. The Collateral Mortgage Note, Note, Pledge Agreement, New Mortgage, Mortgage, and Security Agreement actually executed by the Company and delivered to the Bank are in substantially the forms of the documents submitted to and approved by the Board of Directors of the Company pursuant to such resolutions.

IN WITNESS HEREOF, I have hereunto signed my name and set
the seal of the Company this 28th of October, 1991.

By: Emily W. Herrmann
Emily W. Herrmann
Assistant Secretary

Corporate Seal

(Signature Page to Certificate of Corporate Resolutions)

NOTARIAL CERTIFICATION

I certify that a copy of these resolutions, certified by the Assistant Secretary of Walter Oil & Gas Corporation is attached to an Act of Collateral Chattel Mortgage and Collateral Mortgage Pledge and Assignment, executed by said corporation before me, Notary this 28 day of October, 1991.



Susie F. Smith
Notary Public
For the State of TEXAS
My commission expires: 6/1/94

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WALTER OIL & GAS CORPORATION

OCS-G 11940

October 28, 1991

RECEIVED

OCT 28 1991

Minerals Management Service
Leasing & Environment

United States Department of the Interior
Minerals Management Service
Attention: Mrs. La Nelle Boehm
Adjudication Unit, LE-3-1
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2304

RE: Federal Lease No. OCS-G 11940
Block 78, Eugene Island Area
Federal Offshore Louisiana

Ladies and Gentlemen:

Enclosed you will find an executed copy of the following described Assignment of Overriding Royalty Interest affecting the captioned lease and filing:

Assignment of Overriding Royalty Interest dated effective February 12, 1991, executed on behalf of Walter Oil & Gas Corporation, as Assignor, in favor of David A. Pustka, Rodney L. Cottrell, James H. Dick, Kurt G. Sommer, and Walter Oil & Gas Corporation, as Assignees, affecting Federal Lease OCS-G 11940, Block 78, Eugene Island Area, Federal Offshore Louisiana.

We are enclosing our check in the amount of \$25.00 to cover the filing fee for the above assignment.

We request that the above Assignment of Overriding Royalty Interest be placed in the file affecting the captioned lease, and that you evidence such filing by date stamping and returning the enclosed copy of this assignment.

Very truly yours,

Ron A. Wilson

RAW:hf

Enclosures

RECEIVED

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

OCT 31 1991

BLOCK 78 {
EUGENE ISLAND AREA {
FEDERAL OFFSHORE LOUISIANA {

Minerals Management Service
Leasing & Environment

WHEREAS, WALTER OIL & GAS CORPORATION, a Texas corporation, whose address is 240 The Main Building, 1212 Main Street, Houston, Texas, 77002, is the owner of an undivided thirty-seven and one-half (37.50%) share of the record title interest in and to the following identified lease:

Oil and Gas Lease of Submerged Lands bearing Serial No. OCS-G 11940 dated effective May 1, 1990, between the United States of America, as Lessor, and Cockrell Resources, Inc., as Lessee, covering all of Block 78, Eugene Island Area, OCS Official Map, Louisiana Map No. 4, containing 5,000 acres.

The above-described oil and gas lease is hereinafter sometimes referred to as the "Lease".

NOW, THEREFORE, WALTER OIL & GAS CORPORATION, (hereinafter referred to as "Assignor"), for and in consideration of the mutual advantages accruing to the parties hereto, and for Ten and NO/100 Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby TRANSFER, ASSIGN, SET OVER AND DELIVER unto the assignees hereinafter named, overriding royalty interests equal to an aggregate 0.37500% of 6/6ths in and to all oil, gas, other hydrocarbons, and all other minerals produced, saved and sold from the lands covered by the Lease.

The overriding royalty interests herein assigned shall be owned by the following parties in the proportions set forth next to their respective names (herein collectively called "Assignee", whether one or more) as follows:

David A. Pustka 5916 Annapolis Houston, Texas 77005	28.00%
Rodney L. Cottrell 2915 Woodland Ridge Kingwood, Texas 77345	28.00%
James H. Dick 19823 Gulfwind Court Houston, Texas 77094	28.00%
Kurt G. Sommer 2118 Mountain Lake Drive Kingwood, Texas 77345	12.80%
Walter Oil & Gas Corporation The Main Building 2 Main Street Houston Texas 77002	3.20%

TO HAVE AND TO HOLD said overriding royalty interests unto Assignee, his successors and assigns; and for the same consideration Assignor agrees to warrant and defend title to said overriding royalty interests unto Assignee against all claims arising by, through and under Assignor, but not otherwise. This Assignment is made subject to the terms and conditions of the Lease and all other documents whereby Assignor acquired its interest in the Lease, as well as the following terms and provisions, to-wit:

1.

Fuel oil and gas for operating the premises, and for treating and handling the products therefrom (and the proportionate part of fuel oil and gas consumed in a central plant, should the Lease be operated jointly with other premises through the use of such plant) shall be deducted before said overriding royalties are computed. All ad valorem, production and other taxes chargeable against the overriding royalty ownership or production shall be paid by Assignee. If the Lease covers an interest in the oil, gas and other minerals in and under the lands described therein less than the full and undivided mineral fee interest in said land, then the overriding royalties payable to Assignee shall be proportionately reduced in accordance with the ratio that the mineral interest in said land covered by the Lease bears to the full and undivided mineral fee interest in such land.

2.

The conveyance of the foregoing overriding royalties on oil, gas and other minerals shall never be deemed as imposing any obligation upon Assignor, or its successors or assigns, to conduct any drilling operations whatsoever upon the property above described, or to maintain any such operations after once begun, or production of oil or gas after once established, nor to protect said land from drainage nor to maintain the Lease in effect by payment of delay rentals, drilling operations or otherwise, but all operations, if any, on said premises and the extent and duration thereof, as well as the preservation of the leasehold estates by rental payments or otherwise, shall be solely at the will of Assignor and the overriding royalties hereby conveyed shall be paid only if and when there is any production of oil or gas from the above described lease in accordance with the terms hereof.

3.

Assignor shall have the right and power to combine, pool or unitize the acreage covered by the Lease, or any portion thereof, and the leasehold estate and overriding royalty ownership therein, including the overriding royalty conveyed hereby, with other land, lease or leases, mineral and/or royalty estates in the vicinity thereof when and as often as in Assignor's judgment it is necessary or advisable to do so in order to properly explore, develop and operate said premises to facilitate the orderly development of such interests or to comply with the requirements of any law or governmental order or regulation relating to the spacing of wells for proration of the production therefrom. For purposes of computing the overriding royalty interest conveyed hereby, there shall be allocated to the said overriding royalty included in such unit a pro rata portion of the oil, gas and other minerals produced from the pooled unit on the same basis that production from the pool or unit is allocated to the Lease. It is agreed that Assignee shall receive and will accept on production from a unit so pooled or unitized only such proportion of the overriding royalties hereinabove specified as is allocated to the lease as to which this overriding royalty applies. The interest in any such pool or unit attributable to the overriding royalty interest included therein shall be subjected to said overriding royalty interest in the same manner and with the same effect as if such pool or unit and the interest of Assignor therein were specifically described in this conveyance. It is understood and agreed that no formal pooling or declaration need be filed with respect to any such pool or unit but only that the Lease(s) be subjected to a pool, unit or other cooperative agreement for the development of a common reservoir.

4.

The value of oil and gas production which is produced, saved and sold from the lands covered by the Lease and as to which payments to Assignee are made hereunder shall be the same as that upon which the payment of royalties to the lessor under the Lease is based. Assignor may deduct any third party transportation costs and other costs or charges incurred in making oil or gas ready or available for market at the point of sale provided that such costs are deductible from the Lessor's royalty under the terms of the Lease or regulations applicable thereto. However, in no event and under no

circumstances shall Assignee ever have any rights, except those expressly conferred herein or otherwise arising under applicable law, which are conferred upon the Government, as Lessor under the Lease, including but not limited to the right of the Government to take gas or gaseous hydrocarbons from the Lease in kind.

5.

In the event it is determined that the price for the sale of oil, gas or other hydrocarbons and upon which payments have been made hereunder, is in excess of that allowed by rule, order, statute, regulation or other governmental or regulatory determination, Assignee agrees that Assignor shall be allowed to recover, out of the overriding royalties payable hereunder, such amounts as may have been overpaid to Assignee hereunder; provided, however, that prior to commencing any such recoupment, Assignor shall provide Assignee with notice of its intent to institute such recoupment with the details, reasons and amounts relating thereto; and provided further that such recoupment may never be made out of more than fifty percent (50%) of the amount payable to Assignee during any month or other applicable accounting period. Such recoupment shall not prejudice the right of Assignee to institute, nor be a bar to Assignee's instituting, any action to contest or dispute the liability of Assignee for any alleged overpayment of overriding royalties hereunder.

6.

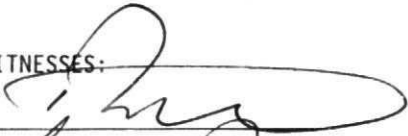
It is hereby stipulated that the overriding royalties assigned hereunder to Walter Oil & Gas Corporation as Assignee shall remain separate and distinct from, and shall not merge with, any other leasehold interest, whether record title, operating rights or otherwise, now or hereafter owned by Walter Oil & Gas Corporation.

7.

The provisions hereof shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors or assigns; however, no change or division in the ownership of said overriding royalty interest shall be binding on Assignor until thirty (30) days after Assignor shall have been furnished with a certified copy or copies of the recorded instrument or instruments evidencing such change in ownership.

IN WITNESS WHEREOF, this instruments executed and delivered this 15th day of October, 1991, but made effective for all purposes as of the 12th day of February, 1991.

WITNESSES:


Lyone M. Depp


WALTER OIL & GAS CORPORATION

By: J. C. Walter, III
J. C. Walter, III
President

STATE OF TEXAS {
COUNTY OF HARRIS {

On this 15th day of October, 1991 before me personally appeared J. C. Walter, III to me personally known, who being by me duly sworn, did say that he is the President of Walter Oil & Gas Corporation, a Texas corporation, and that the said instrument was signed on behalf of said corporation by authority of its Board of Directors, and said appearer acknowledged that he executed the same as the free act and deed of said corporation.

In witness whereof, I have hereunto set my official hand and seal on the date hereinabove written.


Helen Fowler
Notary Public in and for the
State of Texas

My Commission Expires 9/30/92.

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST
BLOCK 78, EUGENE ISLAND AREA
FEDERAL OFFSHORE LOUISIANA