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OTHER LOCATIONS  
DALLAS  
HOUSTON  
FORT WORTH

September 4, 1990

Minerals Management Service  
1201 Elmwood Park Blvd.  
New Orleans, Louisiana 70123-2394

Attention: Ms. Ruby I. Boehm

Re: Act of Partial Release of Multiple Security  
Interests from Bank One, Texas, National  
Association to Zilkha Energy Company, et al.  
Our File No. 02666.0023

Dear Ms. Boehm:

We have this date filed the following document into the  
mortgage records for Federal Lease OCS-G 2933, West Delta Block 63:

Act of Partial Release of Multiple Security  
Interests from Bank One, Texas, National  
Association to Zilkha Energy Company, et al.

The federal leases affected by the aforesaid instrument  
are identified as follows:

- (1) OCS-G 2933;
- (2) OCS-G 3601;
- (3) OCS-G 5408;
- (4) OCS-G 5350;
- (5) OCS-G 4844;
- (6) OCS-G 9428;
- (7) OCS-G 7699;
- (8) OCS-G 7700;
- (9) OCS-G 5395;
- (10) OCS-G 0978;
- (11) OCS-G 5547;
- (12) OCS-G 5218;
- (13) OCS-G 4082;
- (14) OCS-C 8457;
- (15) OCS-G 5366;
- (16) OCS-G 8645;
- (17) OCS-G 5466; and
- (18) OCS-G 0807.

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SEP 07 1990

Minerals Management Service  
Leasing & Environment

It has been our experience with your office in the past  
when dealing with instruments of this nature which affect a number

Minerals Management Service  
September 4, 1990  
Page 2

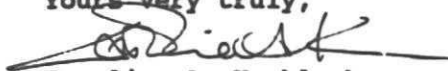
of leases that the procedure to be followed is to file the originals of the instruments in one lease file, and to file letters in the remaining lease files reflecting the filing and referencing the lease file where the instruments can be seen. We therefore request that since the aforesaid original was filed in the lease file for OCS-G 2933 that a copy of this letter be filed in the lease files for OCS-G 3601, OCS-G 5408, OCS-G 5350, OCS-G 4844, OCS-G 9428, OCS-G 7699, OCS-G 7700, OCS-G 5395, OCS-G 0978, OCS-G 5547, OCS-G 5218, OCS-G 4082, OCS-G 8457, OCS-G 5366, OCS-G 8645, OCS-G 5466, and OCS-G 0807. We also request that you indicate on the copy of this letter, the date, time and place of the above filing.

It is our understanding that one drawback to this procedure is the possibility that the lease file for OCS-G 2933 might at some point be placed in the archives, or otherwise destroyed. We do not know under what circumstances that might occur. We would assume that it is possible that OCS-G 2933 could go off production or otherwise terminate while the remaining leases are being maintained. We ask that you make a notation in your files to consult us prior to destroying the files for OCS-G 2933, so that we may make any necessary arrangements to continue the effect of our filing.

We appreciate your assistance with this matter. If you have any questions or difficulties concerning this filing, please do not hesitate to give me a call.

With best wishes, I am

Yours very truly,



Caroline A. Knobloch  
Landman

CAK/sah3940/a

cc: Lisa S. Jaubert  
Vicki G. Wall  
William C. Wallace

RECEIVED THE ABOVE INSTRUMENTS AND FILED SAME IN THE RECORDS OF THE OFFICE OF THE UNITED STATES MINERALS MANAGEMENT SERVICE, NEW ORLEANS, LOUISIANA, THIS \_\_\_\_\_ DAY OF SEPTEMBER, 1990 AT \_\_\_\_\_ O'CLOCK.

UNITED STATES MINERALS MANAGEMENT SERVICE

BY: \_\_\_\_\_



WALTER OIL & GAS CORPORATION

25547

September 11, 1990

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 70123-2394

RE: Federal Lease No. OCS-G 5547  
Block 160, Ship Shoal Area  
Federal Offshore Louisiana

Ladies and Gentlemen:

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

Conveyance of Overriding Royalty Interest dated effective August 31, 1990, executed on behalf of Walter Energy Corporation, as Assignor, in favor of Leeway & Co., Bost & Co., Pitt & Co., Howard Hughes Medical Institute, Pace & Co., and EMP & Co., as Assignees, affecting Federal Lease OCS-G 5547, Block 160, Ship Shoal Area, Federal Offshore Louisiana.

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

We request that the above Conveyance of Overriding Royalty Interest be placed in the file affecting the captioned lease, and that you evidence such filing by signing and returning the enclosed copy of this letter. Also, please date stamp and return the enclosed xerox copy of this conveyance for our files.

Very truly yours,

Ron A. Wilson

RAW:hf  
Enclosures

RECEIVED AND FILED THE ABOVE DESCRIBED  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST  
THIS 13th DAY OF September, 1990.

MINERALS MANAGEMENT SERVICE

BY: La Nelle Boehm  
NAME: La Nelle Boehm  
TITLE: Supervisory Mineral Leasing Specialist

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SEP 13 1990

Minerals Management Service  
Leasing & Environment

**CONVEYANCE OF OVERRIDING ROYALTY INTEREST**

That WALTER ENERGY CORPORATION, a Texas corporation with offices at 240 The Main Building, 1212 Main Street, Houston, Texas 77002 ("*Assignor*"), for and in consideration of Ten and NO/100 Dollars (\$10.00) and other good and valuable considerations to it paid by the Purchasers named on the schedule attached hereto as Exhibit "A" and made a part hereof for all purposes ("*Assignees*"), the receipt and sufficiency of which are hereby acknowledged by Assignor, has Bargained, Sold, Granted, Conveyed, Transferred, Assigned, Set Over, and Delivered, and by these presents does hereby Bargain, Sell, Grant, Convey, Transfer, Assign, Set Over, and Deliver unto Assignees, their successors and assigns in the undivided several proportions as set forth on the said Exhibit "A" (and not jointly or as tenants in common), effective as of the Effective Date, an overriding royalty interest (the "*Overriding Royalty Interest*") in and to the Minerals in and under and produced and saved from the lands covered by the Leases, payable solely out of gross proceeds from the sale of the Subject Minerals produced and saved through the Subject Wells in excess of Manufacturing Proceeds in an amount equal to the Net Cash Flow attributable to the Subject Interests calculated with respect to all of the Subject Interests as a group, all as more fully provided hereinbelow.

TO HAVE AND TO HOLD the Overriding Royalty Interest, together with all and singular the rights and appurtenances thereto in anywise belonging, unto Assignees, their successors and assigns, subject, however, to the following terms and provisions, to-wit:

**ARTICLE I**

As used herein, the following terms shall have the meaning ascribed to them below:

"*Abandonment Costs*" shall mean the costs of plugging and abandoning the Subject Wells, the costs of dismantling and salvaging the platforms, pipelines and other facilities and structures on the Subject Interests and other costs associated with restoration of the Subject Interests in accordance with applicable law (and, if applicable) the rules and regulations of the Minerals Management Service of the U.S. Department of the Interior, net of estimated salvage value of any salvageable equipment or personalty on the Subject Interests.

"*Acquisition Agreement*" shall mean that certain Agreement for Purchase and Sale of Assets dated August 24, 1990, between Assignor and Zilkha Energy Company pursuant to which the Subject Interests were acquired by Assignor.

**RECEIVED**

SEP 13 1990

Minerals Management Service  
Leasing & Environment

"*Assignees*" shall have the meaning attributed to it in the first grammatical paragraph of this Conveyance, it being understood that Assignees shall not be deemed joint tenants, tenants in common or members of any association or mining partnership.

"*Assignor*" shall have the meaning attributed to it in the first grammatical paragraph of this Conveyance.

"*Business Day*" shall mean a day on which any bank to or from which a payment authorized hereunder may be made are not closed as authorized or required by law.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"*Conveyance*" shall mean this Conveyance of Overriding Royalty Interest.

"*Effective Date*" shall mean 7:00 a.m., local time in effect where the Subject Interests are located on August 31, 1990.

"*Independent Petroleum Engineer*" shall mean Raymond S. Hansen, or such other firm of independent petroleum engineers as may be approved by Assignees.

"*Lease Acquisition Costs*" shall have the meaning ascribed to it in the Master Purchase Agreement.

"*Leases*" shall mean all of the oil, gas and other mineral leases, as a group, in which Assignor owns an interest pursuant to the Acquisition Agreement, including, but not limited to, (i) the oil and gas leases, oil, gas, and mineral leases, and other mineral leases described in Exhibit "B" attached hereto and any leasehold interest in any other oil and gas lease, oil, gas, and mineral lease, or other mineral lease derived from the pooling or unitization of such leases with the leases, or any part thereof, described in Exhibit "B" hereto, together with any and all extensions thereof, or any part thereof, in which Assignor acquires or maintains an interest, and (ii) any oil and gas lease, oil, gas, and mineral lease, or other mineral lease, together with any and all extensions thereof or any part thereof in which Assignor acquires or maintains an interest, executed subsequent to the Effective Date, to the extent, but only to the extent, that such subsequent lease (aa) covers all or any portion of the lands covered by the leases referred to in clause (i) of this sentence, and (bb) is acquired by or for the benefit of Assignor either prior to or within one (1) year after the expiration of the leases referred to in clause (i) of this sentence.

**"Manufacturing Costs"** shall mean the costs of manufacturing, processing, or refining operations (but not conventional mechanical liquid-gas separation) that generate Manufacturing Proceeds.

**"Manufacturing Proceeds"** shall mean the excess of (i) proceeds realized from the sale of Subject Minerals, or products thereof, that are the result of any manufacturing, processing, or refining operations over (ii) the part of such proceeds that represents the fair market value at the wellhead (after being separated by a conventional mechanical liquid-gas separator) of such Subject Minerals before any such manufacturing, processing, or refining operation.

**"Master Purchase Agreement"** shall mean that certain Master Purchase Agreement entered into by and between Assignor, Assignees and others effective as of August 24, 1990.

**"Minerals"** shall mean (i) oil, (ii) gas, (iii) casinghead gas, (iv) sulfur, and (v) associated hydrocarbons produced with oil or gas or casinghead gas, but shall exclude coal, lignite, uranium, and all other non-hydrocarbon substances.

**"Net Cash Flow"** shall have the meaning attributed to it in Section 2.3(e).

**"Net Cash Flow Account"** shall mean the account maintained in accordance with the provisions of Section 2.3.

**"NRI"** shall mean the interest (expressed as a percentage) of Assignor in the production of Minerals from a Subject Well, after deducting all applicable royalties, overriding royalties, and other burdens (but computed prior to deducting the Overriding Royalty Interest conveyed pursuant to this Conveyance).

**"Overproduced Party"** shall mean a party to a gas balancing arrangement who, as a result of producing, in addition to its own share of production, that portion of another party's share of production which such other party is unable or unwilling to market or otherwise to take or dispose of, is in a position of cumulative net overproduction with respect to such gas balancing arrangement. For purposes of this Conveyance, "gas balancing arrangement" shall include any relationship, under law or otherwise, where parties are obliged to account to others, in gas or in cash for prior disproportionate production of gas from any well.

**"Overriding Royalty Interest"** shall have the meaning attributed to it in the first grammatical paragraph of this Conveyance.

**"Person"** shall mean any individual, partnership, corporation, trust, unincorporated association, governmental agency, subdivision, or instrumentality, or other entity or association.

**"Proceeds Percentage"** shall mean ninety percent (90%) at any time when the Reversion Amount has actually been distributed to Assignees; and 100% at all other times.

**"Quarterly Record Date"** shall mean for each of the months of April, July and October, the twenty-fifth (25th) day of such month, provided that if the twenty-fifth (25th) day of any such month is not a Business Day, then the Quarterly Record Date shall be the first Business Day following the twenty-fifth (25th) day of such month.

**"Reference Quarter"** shall have the meaning attributed to it in Section 2.3(e).

**"Reversion Amount"** shall mean an amount of cash equal to the total sum theretofore paid by Assignees in ORI Purchase Price Amounts for this Conveyance pursuant to Article V of the Master Purchase Agreement, all to be computed on the Subject Interests, as a group.

**"Subject Interests"** shall mean each kind and character of right, title, claim, or interest (collectively the "rights") that Assignor has or owns pursuant to the Acquisition Agreement in and to the Leases (or portions thereof) described in clause (i) of the definition of "Leases" and each right that Assignor acquires in and to any Lease (or portions thereof) described in clause (i) or clause (ii) of the definition of "Leases", whether such right be under or by virtue of a lease, a unitization or pooling order, an operating agreement, a division order, or a transfer order or be under or by virtue of any other type of claim or title, legal or equitable, recorded or unrecorded, all as such right shall be (a) enlarged or diminished by virtue of the provisions of Article VII hereof and (b) enlarged by the discharge of any payments out of production or by the removal of any charges or encumbrances to which any of such rights are subject on the Effective Date and any and all renewals and extensions of the right occurring within one year after the expiration of such right.

**"Subject Minerals"** shall mean all Minerals in and under and that may be produced, saved, and sold from, and that shall accrue and be attributable to, the Subject Interests from and after the Effective Date. There shall not be included in the Subject Minerals any Minerals attributable to non-consent operations conducted with respect to the Subject Interests (or any portion thereof) as to which Assignor shall be a non-consenting party and dedicated to the recoupment or reimbursement of costs and expenses of the consenting party or parties by the terms of the relevant operating agreement, unit agreement, contract for development, or other instrument providing for such non-consent operations, provided

Assignor's election not to participate in such operations is made in conformity with the provisions of the Master Purchase Agreement.

*"Subject Well"* shall mean each well on the Subject Interests in respect of which Assignor owns any interest or is entitled to any of the Minerals production or the proceeds therefrom (whether directly or, by virtue of the effect of any non-consent provisions, farmout or farmin provisions, or other provisions, indirectly).

*"Underproduced Party"* shall mean a party to a gas balancing arrangement who, as a result of its inability or unwillingness to market or otherwise take or dispose of all or a portion of its share of production is in a position of cumulative net underproduction with respect to such gas balancing arrangement.

*"WT"* shall mean the leasehold or operating interest (expressed as a percentage) of Assignor in a Subject Well or Lease, as applicable, with respect to the Minerals produced therefrom.

## ARTICLE II

2.1 The Overriding Royalty Interest does not include any right, title, or interest in and to any personal property, fixtures, or equipment and is exclusively an interest in and to the Minerals in and under and produced and saved from the lands covered by the Leases, and Assignees shall look solely to the Subject Minerals and payments in respect thereof (as provided herein) for the satisfaction and realization of the Overriding Royalty Interest.

2.2 Except as set forth in the immediately succeeding sentence, Assignor shall have the right and, to the extent that Assignor is marketing or causing to be marketed its own share of Minerals, the obligation to market or cause to be marketed the Minerals allocable to the Overriding Royalty Interest and shall market or cause to be marketed such production proportionately with and on the same terms as Assignor's share of the production from such Lease but in no event for a price less than the price for which Assignor, acting as a reasonable and prudent operator, is marketing or causing to be marketed its own share of such Minerals from such Lease. To the extent Assignor is not marketing or causing to be marketed its own share of Minerals, Assignor shall use its best efforts to market or cause to be marketed, for a price that would be acceptable to a reasonable and prudent operator under the same or similar circumstances, the Minerals allocable to the Overriding Royalty Interest in respect of each Lease with purchasers possessing a credit standing that a prudent operator would find acceptable. Should Assignees dispose of their Overriding Royalty Interest in respect of a Lease to a third party, such third party shall have the right, by so notifying Assignor, to designate the



purchaser of the Minerals allocable to the Overriding Royalty Interest, but until such time, if any, as such right is exercised, Assignor shall have the right and obligation to market such Minerals in accordance with the standard referred to in the immediately preceding two sentences.

2.3 Assignor shall maintain, on a cash basis, true and correct books and records in order to determine the credits and debits to an account (the "Net Cash Flow Account") from and after the Effective Date, in accordance with the terms of this Conveyance and prudent and accepted accounting practices. For purposes of this Section 2.3:

(a) The Net Cash Flow Account shall be credited with an amount equal to the sum, from and after the Effective Date, of the gross proceeds (determined before calculating the Overriding Royalty Interest) from the sale of all Subject Minerals (including, without limitation, proceeds attributable to take or pay payments) attributable to the Leases; provided, however, that:

(i) if any Subject Minerals are manufactured, refined, or processed (other than through liquid separation operations in the vicinity of the well using a conventional mechanical liquid-gas separator), the proceeds from the sale of such Subject Minerals shall be reduced by the Manufacturing Proceeds;

(ii) if as a result of the occurrence of the bankruptcy or insolvency or similar occurrence of the purchaser of such Subject Minerals any amounts previously credited to the Net Cash Flow Account are, in fact, reclaimed from Assignor or its representatives, then a debit to the Net Cash Flow Account shall be made in the amounts reclaimed as promptly as practicable following Assignor's payment thereof;

(iii) the Net Cash Flow Account shall not be credited with any amount that Assignor shall receive for any sale or other disposition of any of the Subject Interests or for any payments made on behalf of Assignor and related to "carried interest" arrangements whereby Assignor's costs and expenses attributable to any of the Subject Interests is paid by a third party or in connection with any adjustment of any well and leasehold equipment upon unitization of any of the Subject Interests; and

(iv) if a controversy or possible controversy exists (whether by reason of any statute, order, decree, rule, regulation, contract, or otherwise) as to the correct or lawful sales price of any Subject Minerals, or if any

amounts received by Assignor as "take-or-pay" or "ratable take" payments are subject to refund to any purchasers of Subject Minerals, then:

(aa) amounts withheld by such purchaser or deposited by it with an escrow agent shall not be considered to have been received by Assignor and shall not be credited to the Net Cash Flow Account until actually collected by Assignor; provided, however, that the Net Cash Flow Account shall not be credited with any interest, penalty, or other amount that is not derived from the sale of Subject Minerals, but, instead, Assignor shall make payment directly to Assignees of Assignees' allocable share of any such amounts paid to Assignor by the purchaser of Subject Minerals or the escrow agent; and

(bb) amounts received by Assignor and promptly deposited by it with a non-affiliate escrow agent, to be placed in interest bearing accounts under usual and customary terms, shall not be considered to have been received by Assignor and shall not be credited to the Net Cash Flow Account until disbursed to Assignor by such escrow agent; provided, however, that the Net Cash Flow Account shall not be credited with any interest, but, instead, Assignor shall make payment directly to Assignees of Assignees' allocable share of any such interest disbursed to Assignor by the escrow agent.

(v) During any period when Assignor is, for any Subject Interest, an Overproduced Party:

(aa) when Assignor is selling more than its proportionate share of gas, any amounts received by Assignor which are attributable to its proportionate share of gas shall be credited to the Net Cash Flow Account, but any amounts received by Assignor which are attributable to the sale or other disposition of gas which is not attributable to Assignor's proportionate share of gas shall not be credited to the Net Cash Flow Account but shall be held by Assignor in an account (the "Surplus Account") with the sums in such account to bear interest at a rate equal to that credited to Assignor on its customary bank time deposits;

(bb) when Assignor is producing less than its proportionate share of gas and the amount of its overproduction is thereby being reduced, any amounts received by Assignor from the sale or other

disposition of such gas shall be credited to the Net Cash Flow Account and, in addition, the amounts excluded from the Net Cash Flow Account when the overproduction accrued pursuant to (aa) above and held in the Surplus Account shall be credited to the Net Cash Flow Account on a first-in/first-out basis as the overproduction is reduced and shall thereby reduce the balance of the Surplus Account; and the interest accrued on the Surplus Account, if any, shall be released to Assignor and shall not be credited to the Net Cash Flow Account;

(cc) if Assignor is required to make settlement in cash for any net overproduction, the amount so paid shall be paid, to the extent possible, from funds attributable to such overproduction which have been excluded from the Net Cash Flow Account and deposited in the Surplus Account; provided that to the extent such funds are insufficient to satisfy such cash settlement, any interest accrued on such funds shall be used by Assignor in such settlement; and any remaining interest shall be released to Assignor and shall not be credited to the Net Cash Flow Account;

(dd) Funds that have been held in the Surplus Account under applicable gas balancing arrangements but that are no longer subject to recoupment, either in cash or in kind, shall not be credited in the Net Cash Flow Account and shall be released to Assignor.

(vi) During any period when Assignor is, for any Subject Interest, an Underproduced Party:

(aa) when Assignor is producing less than its proportionate share of gas, only the actual amounts received by Assignor from the sale or other disposition of gas shall be credited to the Net Cash Flow Account, and any amounts received by others from the sale or other disposition of gas that is attributable to Assignor's proportionate share shall not be credited to the Net Cash Flow Account;

(bb) when Assignor is producing more than its share of gas and the amount of its underproduction is thereby being reduced, there shall be credited to the Net Cash Flow Account the actual amounts received by Assignor from the sale or other disposition of all such production; and

(cc) if Assignor should receive settlement in cash for any net underproduction, the amount received in such settlement shall be credited to the Net Cash Flow Account when such amount is received.

(b) The Net Cash Flow Account in respect of the Subject Interests shall be debited with an amount equal to the sum of the following (other than Manufacturing Costs), to the extent that the same are properly allocable to the Subject Wells for which such Net Cash Flow Account is maintained and the production and marketing of Subject Minerals therefrom and have been incurred and paid by Assignor, with respect to each such well, subsequent to the Effective Date, but only to the extent that such items have not been used as a basis for measuring any purchase price paid by Assignees to Assignor for this Conveyance, as provided in the Master Purchase Agreement:

(i) The costs incurred (or in the case of the application of Section 4.02 of the Master Purchase Agreement, those costs estimated to be incurred) by Assignor of direct labor, transportation, and other services necessary for drilling, operating, maintaining, reworking, and producing the Subject Wells and for all material, equipment, and supplies purchased and used on such wells and overhead costs paid to the operator (including Assignor where it is the operator) of the wells pursuant to the applicable operating agreements; provided that such costs shall be reduced by amounts received by Assignor attributable to the Subject Interests for the sale of fixtures and equipment therefrom; and by amounts by which estimated costs which previously have been debited to the Net Cash Flow Account exceed the costs actually incurred by Assignor related to the work or services to which such estimated costs relate.

(ii) The costs of dehydration, compression, separation, transportation, and marketing of production from the Subject Wells;

(iii) The costs of litigation, liens, judgments, and liquidated liabilities including amounts paid as a refund, penalty, or interest because the amount initially received by Assignor as a sales price of Subject Minerals was more, or allegedly more, than permitted by the terms of any applicable contract, statute, regulation, order, decree, or other obligation (provided, however, that such amounts were previously credited to the Net Cash Flow Account) and claims attributable to the operation, maintenance, or production of the wells;

(iv) All taxes (except income taxes) assessed against or attributable to the Subject Wells or the Subject Minerals produced therefrom;

(v) Direct costs which Assignor may be required to pay to counsel for Assignee and to Huddleston & Co., as engineering consultant for Assignee, in connection with or relating to the negotiation, preparation and review of the Master Purchase Agreement and all other documents or instruments delivered in connection therewith, including this Conveyance; recording costs incurred in connection with the filing of this Conveyance; and the costs incurred by Assignor for the audits, if any, conducted by Assignees pursuant to Section 2.3(i) below;

(vi) Lease Acquisition Costs allocated to the Subject Interests by Assignor, all shut-in royalties or similar payments or rentals with respect to the Subject Interests;

(vii) Premiums on insurance carried pursuant to Section 6.1(h);

(viii) Subject to the provisions of Article VIII hereof, an amount equal to all amounts deposited by Assignor into the Abandonment Cost Escrow Account (as defined in Article VIII hereof) and all Abandonment Costs (except to the extent such costs are paid out of the Abandonment Cost Escrow Account);

(ix) The costs incurred by Assignor in connection with the exercise of its rights pursuant to Section 10.9;

(x) The cash payments made by Assignor upon any pooling or unitization of the Subject Interests;

(xi) All other costs reasonably incurred by Assignor for the necessary or proper drilling, completion, hook up, production, operation, reworking, recompleting, and maintenance of the Subject Wells and the Subject Interests;

(xii) All other costs incurred by Assignor pursuant to the Acquisition Agreement and any applicable operating agreement;

provided that the costs referred to in this Section 2.3(b) shall be reduced by (a) amounts received by Assignor as bonus, advance royalty or other payments in connection with any farmout as well as any other similar arrangement or for dry hole, bottom hole or other

similar contributions related to the Subject Interests, (b) the applicable actual salvage value (as determined in accordance with the applicable operating agreement then in effect and binding upon Assignor) of any personality, platforms, equipment, pipelines or gathering lines related to the Subject Interests, less, in each instance the actual costs of salvage, (c) the cash payments received by Assignor as a result of any pooling or unitization of the Subject Interests, (d) any insurance proceeds received by Assignor in respect of the Subject Interests, (e) any excess amounts released to Assignor pursuant to the provisions of Section 2.3(a)(v)(dd) hereof, (f) any interest amounts released to Assignor under Sections 2.3(a)(v)(bb) and 2.3(a)(v)(cc) hereof, and (g) any amounts received by Assignor from third parties as rental or use fees for personality, platforms, equipment or gathering lines related to the Subject Property.

(c) Nothing set forth in this Section 2.3 shall be interpreted or applied in any manner that shall ever require or permit any duplication of all or any part of any credit or charge to any Net Cash Flow Account with respect to the same transaction, item of expense or charge, whether under this Agreement or reflected in the Master Purchase Agreement, or that shall ever require or permit any inclusion of any charge to any Net Cash Flow Account that is reimbursed to Assignor at any time by any Person. Further, no charge may be made to the Net Cash Flow Account which is used to measure any purchase price for this Conveyance pursuant to the Master Purchase Agreement.

(d) At the end of each calendar year after the Effective Date, a calculation of net cash flow (the "Net Cash Flow") shall then be made by deducting (i) the total debits properly made to the Net Cash Flow Account during the such year pursuant to Section 2.3(b) from (ii) the total credits properly made to such Net Cash Flow Account during such year pursuant to Section 2.3(a) and applying the Proceeds Percentage to the result.

(e) If the computations made in accordance with Section 2.3(d) result in a negative sum at the end of a year, the negative sum shall be deemed the "Debit Balance". Any Debit Balance shall be carried forward as a debit to the Net Cash Flow Account for the following year. If there is a Debit Balance at the end of any annual period, no payments shall be made to Assignees in respect of the Overriding Royalty Interest nor shall Assignees ever be liable to make any payment to Assignor in respect of the Debit Balance.

(f) At the end of each quarter year ending on the last day of each of March, June and September (a "Reference Quarter") after the Effective Date, Assignor shall estimate the Net Cash Flow for such Reference Quarter by making the required calculations in accordance with this Conveyance as if the annual period had ended on the last day of the Reference Quarter for which such calculations are made which calculations

shall take into account all prior Reference Quarters for such calendar year. When the Net Cash Flow for the annual period is determined at the end of the year, appropriate adjustments shall be made to reconcile differences of Assignor and Assignee between amounts actually distributed under this Conveyance and the annual Net Cash Flow at the end of the year.

(g) On or before the Quarterly Record Date for each Reference Quarter, Assignor shall transfer or cause to be transferred to Assignees (by wire transfer to a bank account designated in writing by each Assignee from time to time) an amount in respect of the Subject Interests equal to the estimates for the immediately preceding Reference Quarter in accordance with Section 2.3(f). On or before the twenty-fifth (25th) day of January, Assignor shall transfer or cause to be transferred to Assignees (by wire transfer to a bank account designated in writing by each Assignee from time to time) the adjusted estimated Net Cash Flow for the immediately preceding year.

(h) All funds delivered to Assignees on account of the Overriding Royalty interest shall be calculated and paid entirely and exclusively out of the proceeds attributable to the Subject Minerals in excess of the aggregate of Well Manufacturing Proceeds (as provided herein); and in no event shall such payments ever exceed 100% of the gross fair market value of such production (the "Gross Value") at the wellhead before the application of any manufacturing, processing, refining or conversion process or any transportation away therefrom; and should the payments to Assignees, computed in accordance herewith ever exceed such Gross Value, then the amounts by which such payments exceed the Gross Value (the "Overage") shall be suspended and accrued; and if the payments calculated in accordance herewith are over again less than the Gross Value, the Overage shall be added to subsequent payments but not in an amount which would then cause payments to exceed the Gross Value so that Assignees shall, if possible, be entitled to receive the total amount to be distributed hereunder as if the limitation imposed by the Gross Value had not been in effect.

(i) The books of account and records of Assignor relating to the Net Cash Flow Account shall be open at all reasonable times for examination, inspection, copying, and audit by Assignees and its representatives, at Assignor's expense, subject to a charge to the Net Cash Flow Account as provided in Section 2.3(b)(v) hereinabove.

(j) No later than April 15 of each year, the determination of the amount that should have been paid to Assignees pursuant to Section 2.3(e) in respect of the immediately preceding calendar year shall be calculated by Assignor and submitted, together with substantiating data, by Assignor to Assignees for approval. If Assignees shall have received less than the actual amount of its Overriding Royalty Interest, Assignor shall deliver to Assignees, within seven (7) days after Assignor and Assignees have reached

agreement with respect to such actual amount, the amount necessary for Assignees to have received an amount equal to its Overriding Royalty Interest. If Assignees shall have received more than the amount of its Overriding Royalty Interest, Assignor, within seven (7) days after Assignor and Assignees have reached agreement with respect to such actual amount, may charge the Net Cash Flow Account with an amount necessary to correct the imbalance unless Assignor has otherwise made arrangements pursuant to Section 3.07 of the Master Purchase Agreement to correct such imbalance.

### ARTICLE III

3.1 Assignor shall furnish to Assignees (a) reports, in reasonable detail, with respect to (i) the productivity and productive life of all or any of the Subject Wells, (ii) the quantity of Subject Minerals recoverable from all or any of the Subject Wells, (iii) the projected proceeds and costs attributable to the Subject Interests in respect of each such well, (iv) any changes made or proposed to be made in the methods or treatment and operation of each such well, any proposed abandonment of a well any plugging of a well and reopening thereof at a different level, any method of compressing which may affect such well, or any other action that may materially increase or reduce the value of the Overriding Royalty Interest, and (b) if requested by Assignees and to the extent not prohibited by agreements with third parties (Assignor hereby agreeing to use its best efforts to obtain the requisite consent from such third parties to disclose such information to Assignees), pertinent well data sufficient for making well and reserve evaluations, including, without limitation, electric logs, core data, bottom hole pressure data and other reasonable well data. In addition, except as set forth in the immediately succeeding sentence, Assignor shall notify Assignees ninety (90) days prior to the release, surrender, or termination of any of the Subject Interests. Should Assignor not have at least ninety (90) days prior notice of such release, surrender, or termination, then Assignor shall notify Assignees of such event as promptly as practicable after Assignor has such notice. Assignor shall not be required to furnish the items referred to in clauses (i) through (iii) of the first sentence of this Section 3.1 more frequently than once in each calendar year.

3.2 On or before April 30 of each year, Assignor shall furnish to Assignees a written engineering report with respect to the Subject Interests and each Subject Well prepared as of January 1 of the year in question by the Independent Petroleum Engineer, setting forth such firm's evaluation of proved developed and proved undeveloped Mineral reserves (and containing such comments with respect to probable Mineral reserves as the Independent Petroleum Engineer may deem appropriate) attributable to the Subject Interests, using such set or sets of pricing assumptions as may be provided to the Independent Petroleum Engineer by Assignees. Such report shall set forth estimates of



future net revenue, the present value thereof at discounted rates, and the assumptions utilized in arriving at the estimates contained therein.

3.3 No later than April 30 of each year, Assignor shall furnish to Agent an annual report for the immediately preceding calendar year containing the computation of the Net Cash Flow, including the components thereof, prepared on a cash basis and accompanied by a certified report of Arthur Andersen & Co. Such report shall include a detailed itemization, by type or classification, of the total costs and expenses paid by Assignor and used in calculating Net Cash Flow.

3.4 On or before the Quarterly Record Date, Assignor shall deliver to Assignees a statement showing:

(i) the computation of Net Cash Flow (or estimates thereof as provided in Section 2.3(f)) attributable to the immediately preceding quarter and the computation of Net Cash Flow paid to Assignees from and after the Effective Date until the close of such Reference Quarter;

(ii) a summary of the computation made or other methods used in determining the Manufacturing Proceeds during such Reference Quarter;

(iii) a list of the wells drilled on the Subject Interests, a statement of the cost of each well completed or abandoned, and a statement describing the reason for abandoning any well;

(iv) a general description of all marketing arrangements, or any changes thereof, that have been made with respect to Minerals produced from the Subject Interests during a Reference Quarter; and

(v) a description of each sale, farmout or other disposition of an interest in the Subject Interests by Assignor.

It is contemplated that in some instances Assignor will not be the operator of the Subject Interests and its access to information may be limited. Accordingly, the reports required by this Subsection 3.4 shall be prepared by Assignor based upon the best information reasonably available to it.

#### ARTICLE IV

THE PROVISIONS OF SECTION 2.3 AND THE NET CASH FLOW ACCOUNT PROVIDED FOR THEREIN ARE FOR THE SOLE PURPOSE OF PROVIDING A MEASURE FOR DETERMINING THE OVERRIDING ROYALTY INTEREST, AND IN NO EVENT SHALL ASSIGNEES EVER BE LIABLE OR RESPONSIBLE IN ANY WAY FOR PAYMENT OF ANY PART OF THE COSTS AND EXPENSES CHARGED AGAINST ANY NET CASH FLOW ACCOUNT OR FOR ANY LIABILITIES INCURRED IN CONNECTION WITH THE DEVELOPING, EXPLORING, DRILLING, EQUIPPING, TESTING, OPERATING, PRODUCING, MAINTAINING, OR PLUGGING AND ABANDONING OF ANY WELL OR THE STORING, HANDLING, TREATING, OR MARKETING OF THE PRODUCTION THEREFROM, ASSIGNOR HEREBY AGREEING TO INDEMNIFY AND SAVE HARMLESS ASSIGNEES FROM AND AGAINST ANY SUCH RESPONSIBILITY AND LIABILITY AND FROM AND AGAINST ANY LOSS, COST (INCLUDING, WITHOUT LIMITATION, THE COST OF THE SUIT AND ATTORNEY'S FEES), CLAIM, CAUSE OF ACTION, AND LIABILITY ARISING OUT OF, RESULTING FROM, OR ATTRIBUTABLE TO SAME OR, TO THE BREACH OF ANY COVENANT OR WARRANTY OF ASSIGNOR UNDER THIS CONVEYANCE.

#### ARTICLE V

IT IS THE EXPRESS INTENT OF ASSIGNOR AND ASSIGNEES THAT THE OVERRIDING ROYALTY INTEREST SHALL CONSTITUTE (AND THIS CONVEYANCE SHALL CONCLUSIVELY BE CONSTRUED FOR ALL PURPOSES AS CREATING) A SINGLE, SEPARATE NON-OPERATING MINERAL RIGHT FOR WITH RESPECT TO THE SUBJECT INTERESTS ALL PURPOSES. WITHOUT LIMITATION OF THE GENERALITY OF THE IMMEDIATELY PRECEDING SENTENCE, ASSIGNOR AND ASSIGNEES ACKNOWLEDGE THAT ASSIGNEES HAVE NO RIGHT OR POWER TO PARTICIPATE IN THE SELECTION OF A DRILLING CONTRACTOR, TO PROPOSE THE DRILLING OF A WELL, TO DETERMINE THE TIMING OR SEQUENCE OF DRILLING OPERATIONS, TO COMMENCE OR SHUT DOWN PRODUCTION, TO TAKE OVER OPERATIONS, OR TO SHARE IN ANY OPERATING DECISION WHATSOEVER. ASSIGNOR AND ASSIGNEES HEREBY EXPRESSLY NEGATE ANY INTENT TO CREATE (AND THIS CONVEYANCE SHALL NEVER BE CONSTRUED AS CREATING) A MINING OR OTHER PARTNERSHIP OR JOINT VENTURE OR OTHER RELATIONSHIP SUBJECTING ASSIGNOR AND ASSIGNEES LIABLE JOINTLY.

## ARTICLE VI

6.1 Subject to the terms of the Master Purchase Agreement, Assignor covenants that it will cause:

(a) A prudent operating and maintenance program designed to drill and complete or abandon the Subject Wells to be conducted on the lands covered by the Leases and the spacing units containing any lands covered by the Leases as would a reasonable and prudent operator and in accordance with sound field practices;

(b) The Subject Wells to be maintained and operated for the production of Minerals in a good and workmanlike manner and in accordance with sound field practices, applicable operating agreements, unit operating agreements, contracts of development, or similar instruments and, in all material respects, with all applicable laws, rules, regulations, permits, orders, or decrees, except those being contested in good faith and by appropriate proceedings (provided that no forfeiture or loss of the Subject Interests or the Subject Minerals or any part thereof shall result during the pendency or in the resolution of such contest), and such wells to be produced at the maximum efficient legal rate (subject, however, to any applicable state and/or federal laws, rules, and/or regulations governing the amount of Minerals that may be produced from a Subject Well); provided, however, that nothing contained in this paragraph shall be deemed to prevent or restrict Assignor from electing not to participate in any operations that are to be conducted under the terms of any operating agreement, unit operating agreement, contract for development, or similar instrument affecting or pertaining to the Subject Interests (or any portion thereof) and permitting consenting parties to conduct non-consent operations thereon if a reasonable and prudent operator, acting in conformity with sound field practices, would make such elections;

(c) All rentals and royalties with respect to the Subject Interests and the Subject Wells to be paid;

(d) All taxes, assessments, and governmental charges or levies and all claims asserted or imposed upon the Subject Interests (other than those being contested in good faith and by appropriate proceedings; provided that no forfeiture or loss of the Subject Interests or the Subject Minerals or any part thereof shall result during the pendency of or in the resolution of such contest) that, if unpaid, may become a lien upon the Subject Interests or any of the Subject Wells, to be paid prior to delinquency;

(e) All machinery, equipment, and facilities of any kind now or hereafter located on the Subject Interests necessary or useful in the operation thereof or for the production of Minerals therefrom, to be provided and to be kept in good and effective

operating condition, and all repairs, renewals, replacements, additions, and improvements thereof or thereto needful to such end, to be promptly made, all as would a reasonable and prudent operator acting in accordance with sound field practices;

(f) Notice to be given to Assignees of every material adverse claim or demand of which Assignor has actual knowledge made by any Person, affecting the Subject Interests or one or more Subject Wells, or of any material proceedings instituted with respect thereto, and all reasonably necessary and proper steps to be diligently taken to protect and defend the Subject Interests and the Subject Minerals and such wells against any such adverse claim, demand, or proceeding, all as would a reasonable and prudent operator;

(g) The Subject Interests, the Subject Minerals, and the Subject Wells to be kept free and clear of liens, charges, and encumbrances of every character, other than (i) taxes constituting a lien but not yet due and payable, (ii) defects or irregularities of title or liens, charges, or encumbrances that are not such as to interfere materially with the operation, value, or use of the Subject Interests, the Subject Minerals, or the Subject Wells, and that do not materially affect title thereto, (iii) those being contested in good faith (provided, however, that no forfeiture or loss of the Subject Interests or the Subject Minerals or any part thereof shall result during the pendency or in the resolution of such contest), and (iv) those, if any, consented to by Assignees in writing; and

(h) Insurance of the type and in the amounts as Assignor reasonably deems prudent in respect of the Subject Interests to be maintained, Assignees to be named as an additional assured on the Comprehensive General Liability Insurance policy, the Comprehensive Automobile Liability Insurance policy, the Umbrella Liability Insurance policy, and the Operator's Extra Expense Insurance policy, Assignees to be named as an additional assured on all third party liability policies, the insurers to waive any rights of subrogation against Assignees as respects activity under this Conveyance or the Master Purchase Agreement and to waive any rights to require Assignees to pay any premiums or other costs in respect of the insurance referred to in this Section 6.1(h), a certificate of such insurance coverage to be furnished to Assignees and, if requested by Assignees, copies of the applicable policies to be furnished to Assignees.

6.2 Subject to the terms of the Master Purchase Agreement, Assignor covenants that it will:

(a) (i) Participate in each well drilled on the lands covered by the Leases and in each well drilled on each spacing unit containing any lands covered by the Leases unless a reasonable and prudent operator, acting in the same or similar circumstances, would elect not so to participate and (ii) pay all costs attributable to its WI in respect of each well in which it participates;

(b) Comply in all material respects with all government regulations and reporting requirements related to the Subject Interests and the Subject Wells that, if not complied with, would have a material adverse effect upon the Subject Interests or the Subject Wells; and

(c) Perform all material obligations to be performed by it under all material contracts and agreements applicable to the Subject Interests, the Subject Minerals, and the Subject Wells (including, without limitation, operating agreements and Mineral sales contracts) and use its best efforts (by taking such action as is available to it by contract, at law, or in equity) to enforce the performance under such contracts and agreements of the other parties thereto.

6.3 Assignor shall comply with the provisions of Sections 6.1 and 6.2 without regard to the existence of the Overriding Royalty Interest or any other royalty, overriding royalty, or other interest created subsequent to the Effective Date. The provisions set forth in Sections 6.1 and 6.2 that require Assignor to perform certain duties or to take, or cause to be taken, certain actions that can only be performed or taken by the operator of the well shall be construed to require Assignor, if it is not the operator, to use its best efforts (by taking such action as is available to it by contract, at law, or in equity) to cause the operator to perform the duty or to take action in question. Without limitation of the generality of the foregoing, if the operator elects, pursuant to the applicable operating agreement, to become a non-consenting party with respect to such duty or action, and if Assignor may cause such duty or action to be performed or taken by becoming a consenting party under the applicable operating agreement, then Assignor shall so elect to become a consenting party unless a reasonable and prudent operator, acting in accordance with sound field practices and without regard to the existence of the Overriding Royalty Interest or any other royalty, overriding royalty, or other interest created subsequent to the Effective Date, would refuse to undertake the performance of the duty or the taking of the action in question.

## ARTICLE VII

Assignor shall have the right to pool or unitize all or any of the Leases as to any one or more of the formations or horizons thereunder, and as to any of the Subject Minerals, when, in the judgment of Assignor (exercising good faith and with fair dealing with respect to the interests of Assignees), it is necessary or advisable to do so in order to form a drilling or proration unit to facilitate the orderly development of the Subject Interests or to comply with the requirements of any law or governmental order or regulation relating to the spacing of wells or proration of the production therefrom. For purposes of computing the Overriding Royalty Interest, there shall be allocated to the Subject Interests included in such unit a pro rata portion of the Minerals produced from the pooled unit on the same basis that production from the pool or unit is allocated to other working interests in such pool or unit. Promptly after formation of any such unit, Assignor shall furnish to Assignees a true copy of the pooling or unitization agreement, declaration, or other instrument creating such unit. The interest in any such unit attributable to the Subject Interests (or any part thereof) included therein shall become a part of the Subject Interests and shall be subject to the Overriding Royalty Interest in the same manner and with the same effect as if such unit and the interest of Assignor therein were specifically described in Exhibit "B" to this Conveyance.

## ARTICLE VIII

In the event that, as of the end of any month, the aggregate estimated future Net Cash Flow from the Subject Interests, as estimated by the Independent Petroleum Engineer in such engineer's most current report, is less than 200% of the aggregate estimated future Abandonment Costs for the Subject Interests, as estimated by Assignor, Assignor may place in an escrow account (the "*Abandonment Cost Escrow Account*") an amount equal to seventy-five percent (75%) of the Net Cash Flow (calculated without taking into account the placing of such amounts in the Abandonment Cost Escrow Account for the Subject Interests) for such month. At such time as the amount in the Abandonment Cost Escrow Account for the Subject Interests exceeds 110% of the aggregate estimated future Abandonment Costs for all of the Subject Interests relating to the Subject Interests, as a group (as determined by an independent appraiser acceptable to Assignees), no further amount shall be placed in such escrow account until such time as the escrowed funds in the Abandonment Cost Escrow Account shall again be less than 110% of said aggregate estimated future Abandonment Costs. The amounts placed in the Abandonment Cost Escrow Account shall be placed in escrow with an independent escrow agent, and the escrow agreement between Assignor and the escrow agent shall provide that the escrow agent shall place such escrowed funds in certificates of deposit or United States government securities having maturities not to exceed thirty (30) days. At any time, on or prior to the date which any such Abandonment Costs must be incurred and Assignor

is required to expend amounts or has expended amounts for Abandonment Costs on the Subject Interests for which an Abandonment Cost Escrow Account has been established, Assignor shall cause the escrow agent to release from the Abandonment Cost Escrow Account for the Subject Interest the lesser of (i) an amount equal to said Abandonment Costs or (ii) the total amount of funds in the Abandonment Cost Escrow Account for the Subject Interests and to pay those amounts to Assignor. If less than all of the funds in the Abandonment Cost Escrow Account are to be released and paid to Assignor after Assignor has incurred and paid all Abandonment Costs relating to all of the Subject Interests, then the amounts, if any, in the Abandonment Cost Escrow Account shall be released to Assignor.

## ARTICLE IX

9.1 Assignor agrees to warrant and forever defend, all and singular, the Overriding Royalty Interest unto Assignees, severally as their respective interests appear, their respective successors and assigns, against all persons whomsoever claiming or to claim the same, or any part thereof, by, through or under Assignor, but not otherwise. This Conveyance shall cover and apply to any after acquired title owned or to be owned by Assignor in the Subject Interests pursuant to the Acquisition Agreement. Assignor also hereby transfers to Assignees by way of substitution and subrogation (to the fullest extent that same may be transferred), all rights or actions over and against all predecessor covenantors or warrantors of title.

9.2 **THIS CONVEYANCE IS AN INTEREST IN REAL PROPERTY, AND THE COVENANTS CONTAINED IN THIS CONVEYANCE ARE COVENANTS RUNNING WITH AND BURDENING THE LAND. IN ADDITION TO THE RIGHTS AND COVENANTS CONTAINED IN THIS CONVEYANCE, ASSIGNEES ARE ENTITLED TO ALL OF THE BENEFITS, IMPLIED RIGHTS, AND COVENANTS TO WHICH OVERRIDING ROYALTY INTEREST OWNERS ARE ENTITLED AS A MATTER OF LAW.**

9.3 Assignor agrees not to sell, lease, sublease, transfer, dispose of, encumber, hypothecate or pledge the Subject Interests, or to borrow money (except for amounts advanced on Assignor's behalf under operating agreements or other similar agreements) or to enter into any agreement relating to any of the foregoing without the prior express written consent of Assignees.

9.4 No disposition of the Subject Interests or any portion thereof or any Subject Well or Subject Wells or any portion thereof shall be effected unless and until it is made expressly subject to the provisions of this Conveyance and unless the Person to whom same is disposed expressly assumes, in a document delivered to Assignees, the covenants

and warranties of Assignor to Assignees set forth in this Conveyance, to the extent that same are applicable to the period from and after the date on which the disposition in questions occurs. No disposition or encumbrance of the Subject Interests or any portion thereof or any of the Subject Wells or any portion thereof shall release Assignor from its obligations and liabilities under this Conveyance or subdivide or affect any Net Cash Flow Account.

## ARTICLE X

10.1 Except as set forth in Section 10.2, all notices, consents, approvals, requests, demands, or other communications required or permitted to be given under this Conveyance must be in writing and may be given by telex, telegram, or telecopier, or by depositing same in the mail, addressed to the party to be notified, postpaid, and registered or certified with return receipt requested, or by delivering such notice in person to such party. Notices given or served pursuant hereto shall be effective upon receipt by the Person to be notified. For purposes of notice, the addresses of Assignor and Assignees shall be as follows:

If to Assignor:       Walter Energy Corporation  
                          240 The Main Building  
                          1212 Main Street  
                          Houston, Texas 77002

If to Assignees:       c/o Chase Investors Management  
                          Corporation New York  
                          1211 Avenue of the Americas  
                          New York, New York 10036

Attention:       Managing Director  
                          Oil & Gas Investments

10.2 Assignor shall transfer or cause to be transferred all monies to which Assignees are entitled hereunder by Federal funds wire transfer not later than the date when due, to each Assignee at the bank account specified by each Assignee in writing to Assignor.

10.3 This Conveyance may not be amended, altered, or modified except pursuant to a written instrument executed by Assignor and Assignees.

10.4 Assignor and Assignees shall from time to time do and perform such further acts and execute and deliver such further instruments, conveyances, and documents as may



be required or reasonably requested by the other party to establish, maintain, or protect the respective rights and remedies of Assignor and Assignees and to carry out and effectuate the intentions and purposes of this Conveyance, provided in each case the same does not conflict with any provision of this Conveyance or of the Master Purchase Agreement. Specifically, as provided in the Master Purchase Agreement, Assignor shall file or cause to be filed this Conveyance for recordation in any jurisdiction where the Subject Interests are located pursuant to laws and regulations of such jurisdiction and Assignor shall also file a copy of each Conveyance covering any of the Subject Interests in Brazoria County, Texas. Filings of this Conveyance shall also be made wherever necessary to establish Assignee's priority of interest and to prevent a trustee in bankruptcy from becoming a hypothetical bona fide purchaser thereof pursuant to Section 544 of the U.S. Bankruptcy Code. In addition, Assignor shall make or cause to be made any appropriate filings with the United States Minerals Management Service.

failure of Assignor or Assignees to insist upon strict performance of any shall not constitute a waiver of or estoppel against asserting the right to require such performance in the future, nor shall a waiver or estoppel in any one instance constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise.

10.6 Assignor and Assignees acknowledge that Assignees have no right or interest that would permit it to partition any portion of the Subject Interests, and Assignees hereby waive any such right.

10.7 **THIS CONVEYANCE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS UNLESS THE REAL PROPERTY LAWS OF THE STATE IN WHICH THE SUBJECT INTERESTS ARE LOCATED ARE MANDATORILY APPLICABLE; AND THEN ONLY TO THE EXTENT OF SUCH MANDATORY APPLICATION.**

10.8 Assignees agree to notify Assignor in the event of any conveyance, assignment, or other transfer by Assignees of all or any part of the Overriding Royalty Interest. Upon Assignor's receipt of such notification, Assignor agrees to acknowledge and ratify such transfer so that from and after the effective date thereof, the rights and privileges hereof (insofar as the interests transferred are concerned) shall remain in full force and effect as if the same were written as between Assignor and such transferee. The terms, conditions, and agreements of Assignor and Assignees contained in this Conveyance shall bind the successors and assigns of Assignor and shall inure to the benefit of the successors and assigns of Assignees.


10.9 Assignor shall have the unrestricted right to extend, modify, amend, or supplement the Leases with respect to any of the lands covered thereby in any particular without the consent of Assignees; provided, that no extension, modification, amendment, or supplementation shall adversely affect any of Assignees' rights hereunder or under the Master Purchase Agreement, including, without limitation, the amount, computation, or method of payment of the Overriding Royalty Interest. Assignor shall furnish Assignees with written notice of any extension, modification, amendment, or supplementation, which affects the Overriding Royalty Interest within thirty (30) days after Assignor has entered into the same, which notice shall specify the date thereof and the location and the acreage covered thereby.

10.10 It is not the intent of Assignor or Assignees that any provision herein violate any applicable law regarding the rule against perpetuities, the suspension of the absolute power of alienation, or other rules regarding the vesting or duration of estates, and this Conveyance shall be construed as not violating such rule to the extent the same can be so construed consistent with the intent of the parties. In the event, however, that any provision hereof is determined to violate such rule, then such provision shall nevertheless be effective for the maximum period (but not longer than the maximum period) permitted by such rule that will result in no violation. To the extent such maximum period is permitted to be determined by reference to "lives in being", Assignor and Assignees agree that "lives in being" shall refer to the lifetime of the last to die of the now living lineal descendants of the late Joseph P. Kennedy (father of the late President of the United States of America).

10.11 This Conveyance is subject in all respects to the Master Purchase Agreement.

**EXECUTED** effective for all purposes as of the Effective Date.

**WITNESSES:**



Christopher A. Parker

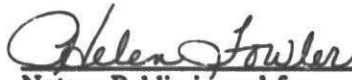
**ASSIGNOR:**

**WALTER ENERGY CORPORATION**

By   
J. C. Walter III  
President

THE STATE OF TEXAS       §  
  §  
COUNTY OF HARRIS       §

On this 10th day of September, 1990, before me appeared J. C. Walter III, to me personally known, who, being by me duly sworn, did say that he is the President of Walter Energy Corporation, and that said instrument was signed in behalf of said corporation by authority of its Board of Directors and said J. C. Walter III, acknowledged said instrument to be the free act and deed of said corporation.

  
Notary Public in and for  
The State of Texas

**My Commission Expires:**

September 30, 1992

**Printed Name of Notary:**

Helen Fowler

# EXHIBIT "A"

To the Conveyance

## ASSIGNEES AND PERCENTAGES

<u>Assignees</u>	<u>Percentages</u>
Leeway & Co.	31%
Bost & Co.	9%
Pitt & Co.	39%
Howard Hughes Medical Institute	5%
Pace & Co.	7%
EMP & Co.	9%

All Assignees' addresses are c/o Chase Investors Management Corporation as set forth in the Conveyance.

## EXHIBIT "B"

To the Conveyance

### SUBJECT INTERESTS

1. Ship Shoal Block 160:

Oil and Gas Lease of Submerged Lands made effective as of July 1, 1983, by and between the United States of America, as Lessor, and Texaco Inc. and Union Oil Company of California, as Lessees, bearing Serial No. OCS-G 5547, covering all of Block 160, Ship Shoal Area, as shown on OCS Leasing Map, Louisiana Map No. 5.

2. Vermilion Block 95:

Oil and Gas Lease of Submerged Lands ("the Lease") bearing Serial No. OCS-G 5408, dated effective as of July 1, 1983, between the United States of America, as Lessor, and Shell Offshore, Inc., Fluor Corporation, Fluor Oil & Gas Corp., and Apache Corporation, as Lessees, covering all of Block 95, Vermilion Area, as shown on OCS Leasing Map, Louisiana Map No. 3, containing approximately 5,000 acres; INSOFAR AND ONLY INSOFAR said Lease covers and affects operating rights in the south one-half (S/2) of said Vermilion Area Block 95 from the surface of the earth down to and including 100' below the stratigraphic equivalent of the base of the productive sand seen at 9,600' TVD in OCS-G 5408 Well No. 1, located on Vermilion Block 95.

3. West Delta Blocks 62 and 63

(a) West Delta Block 62: Oil and Gas Lease of Submerged Lands dated effective as of August 1, 1977, between the United States of America, as Lessor, and Mesa Petroleum Company, as Lessee, covering all of Block 62, West Delta Area, as shown on OCS Official Leasing Map, Louisiana Map No. 8, and bearing Serial No. OCS-G 3601; INSOFAR AND ONLY INSOFAR as such Lease covers and affects:

(aa) The Southeast Quarter (SE/4); the Northeast Quarter of the Southeast Quarter of the Southwest Quarter (NE/4 SE/4 SW/4); the Southeast Quarter of the Northeast Quarter of the Southwest Quarter (SE/4 NE/4 SW/4) of Block 62, West Delta Area, covering the depths below 13,178' MD - 12,863' TVD (-12,765' subsea) as encountered in the Mesa Petroleum Co., OCS-G 3601, West Delta Block 62 No. 5 ST Well; and

- (bb) The Northeast Quarter (NE/4); the Northwest Quarter (NW/4); the West Half of the Southwest Quarter (W/2 SW/4); the West Half of the East Half of the Southwest Quarter (W/2 E/2 SW/4); the Northeast Quarter of the Northeast Quarter of the Southwest Quarter (NE/4 NE/4 SW/4); the Southeast Quarter of the Southeast Quarter of the Southwest Quarter (SE/4 SE/4 SW/4) of Block 62, West Delta Area, covering depths from the surface of the earth down to and including the measured depth of 30,000'.
- (b) West Delta Block 63: Oil and Gas Lease of Submerged Lands dated effective as of December 1, 1974, between the United States of America, as Lessor, and Atlantic Richfield Company, as Lessee, covering all of Block 63, West Delta Area, as shown on OCS Official Leasing Map, Louisiana Map No. 8, and bearing Serial No. OCS-G 2933.

**JACKSON & WALKER**  
 ATTORNEYS AND COUNSELORS  
 LL & E TOWER  
 909 POYDRAS, SUITE 2000  
 NEW ORLEANS, LOUISIANA 70112-4002  
 TELEPHONE (504) 584-5200  
 TELECOPY (504) 584-5219

SCOTT P. GALLINGHOUSE  
 LISA S. JAUBERT  
 CHARLES R. PENOT, JR.  
 F. NEELIS ROBERTS  
 O. FOERSTER SCHULLY III  
 GERALD F. SLATTERY, JR.  
 WILLIAM C. WALLACE

OTHER LOCATIONS  
 DALLAS  
 HOUSTON  
 FORT WORTH

September 4, 1990

RECEIVED

SEP 4 1990

Minerals Management Service  
 1201 Elmwood Park Blvd.  
 New Orleans, Louisiana 70123-2394

Minerals Management Service  
 Leasing & Environment

Attention: Ms. Ruby I. Boehm

Re: UCC-3 Financing Statement Change (Partial Release)  
 Zilkha Energy Company, et al., Debtors,  
 Bank One, Texas, National Association, Secured Party  
 Our File No. 02666.0023

Dear Ms. Boehm:

We have this date filed the following document into the mortgage records for Federal Lease OCS-G 5408, Vermilion Area, Block 95:

UCC-3 Financing Statement Change from Zilkha Energy Company, et al., as Debtors, to Bank One, Texas, National Association, as Secured Party, relating to OCS-G 5408 and OCS-G 5547.

The federal leases affected by the aforesaid instrument are identified as follows:

- (1) OCS-G 5408; and
- (2) OCS-G 5547

It has been our experience with your office in the past when dealing with instruments of this nature which affect a number of leases that the procedure to be followed is to file the originals of the instruments in one lease file, and to file letters in the remaining lease files reflecting the filing and referencing the lease file where the instruments can be seen. We therefore request that since the aforesaid original was filed in the lease file for OCS-G 5408 that a copy of this letter be filed in the lease file for OCS-G 5547. We also request that you indicate on the copy of this letter, the date, time and place of the above filing.

It is our understanding that one drawback to this procedure is the possibility that the lease file for OCS-G 5408

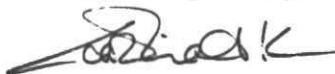
Minerals Management Service  
September 4, 1990  
Page 2

might at some point be placed in the archives, or otherwise destroyed. We do not know under what circumstances that might occur. We would assume that it is possible that OCS-G 5408 could go off production or otherwise terminate while lease OCS-G 5547 is being maintained. We ask that you make a notation in your files to consult us prior to destroying the files for OCS-G 5408, so that we may make any necessary arrangements to continue the effect of our filing.

We appreciate your assistance with this matter. If you have any questions or difficulties concerning this filing, please do not hesitate to give me a call.

With best wishes, I am

Yours very truly,



Caroline A. Knobloch  
Landman

CAK/sah

cc: Lisa S. Jaubert  
Vicki G. Wall  
William C. Wallace

3939:cah/a

RECEIVED THE ABOVE INSTRUMENTS AND FILED SAME IN THE RECORDS OF THE OFFICE OF THE UNITED STATES MINERALS MANAGEMENT SERVICE, NEW ORLEANS, LOUISIANA, THIS 4<sup>th</sup> DAY OF SEPTEMBER, 1990, AT 4:10 P.M. O'CLOCK.

UNITED STATES MINERALS MANAGEMENT SERVICE

BY: LaVelle Pochum



ACKSON & WALKER  
ATTORNEYS AND COUNSELORS  
LL & E TOWER  
909 POYDRAS, SUITE 2000  
NEW ORLEANS, LOUISIANA 70112  
TELEPHONE (504) 584-5200  
TELECOPY (504) 584-5219

255847

PATRICIA G. BRECKENRIDGE  
TRAVIS J. CAUSEY, JR.  
SCOTT P. GALLINGHOUSE  
LISA S. JAUBERT  
KAREN J. KALER  
NEELIS ROBERTS  
D. FORSTER SCHUILY III  
GERALD F. SLATTERY, JR.  
WILLIAM C. WALLACE

OTHER LOCATIONS  
DALLAS  
HOUSTON  
FORT WORTH

April 16, 1990

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APR 16 1990

Minerals Management Service  
Leasing & Environment

By Courier

Minerals Management Service  
1201 Elmwood Park Blvd.  
New Orleans, LA 70123-2394

Attention: Ms. Ruby L. Boehm

Re: Filing of Act of Collateral Chattel Mortgage and Collateral  
Mortgage, Pledge and Assignment and Financing Statement  
Our File 02853.0001

Dear Ms. Boehm:

Enclosed herewith are originals of the following instruments  
which we request be filed in the records of the Minerals Management  
Service:

1. Act of Collateral Chattel Mortgage and Collateral  
Mortgage, Pledge and Assignment, dated April 12, 1990  
from Walter Oil & Gas Corporation, mortgagor in favor of  
Citibank, N.A., in the principal amount of  
\$18,000,000.00.
2. Financing Statement from Walter Oil & Gas Corporation,  
Debtor, in favor of City Bank, N.A., secured party.

The mineral leases affected by the aforesaid instruments are  
identified as follows:

- |               |                |
|---------------|----------------|
| 1. OCS-G 6618 | 6. OCS-G 7699  |
| 2. OCS-G 5395 | 7. OCS-G 7700  |
| 3. OCS-G 8655 | 8. OCS-G 4436  |
| 4. OCS-G 8656 | 9. OCS-G 4828  |
| 5. OCS-G 5547 | 10. OCS-G 5408 |

Minerals Management Service  
April 16, 1990  
Page -2-

- |                |                |
|----------------|----------------|
| 11. OCS-G 4818 | 14. OCS-G 5350 |
| 12. OCS-G 9428 | 15. OCS-G 3601 |
| 13. OCS-G 4844 | 16. OCS-G 2933 |

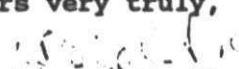
It has been our experience with your office in the past when dealing with instruments of this nature which affect a number of leases that the procedure to be followed is to file the originals of the instruments in one lease file, and to file letters in the remaining lease files reflecting the filing and referencing the lease file where the instruments can be found. We therefore request that the aforesaid originals of the instruments be recorded in the lease file for OCS-G 2933 and we enclose 15 copies of this letter to be filed in the remaining lease files. The person delivering these instruments will have our firm check for payment of the filing fees. We estimate the cost of filing to be \$425.00 (\$25.00 per document for filing each of the two original documents referred to above and 15 copies of this letter). We also request that you indicate on the copy of this letter, the date, time and place of the above filing.

It is our understanding that one draw back of this procedure is the possibility that the lease file for OCS-G 2933 might at some point be placed in the archives, or otherwise destroyed. We do not know under what circumstances that might occur. We would assume that it is possible that OCS-G 2933 could go off production or otherwise terminate while the other leases were being maintained. We ask that you make a notation in your files to consult us prior to doing so, so that we may make any necessary arrangements to continue the effect of our filing.

We appreciate your assistance in this matter. If you have any questions or difficulties concerning this filing, please contact us.

With best wishes, I am,

Yours very truly,

  
Caroline A. Knobloch  
Landman

CAK:jkm

Enc.

cc: William C. Wallace  
Gray Muzzy  
Ron Wilson

Minerals Management Service  
April 16, 1990  
Page -3-

RECEIVED THE ABOVE INSTRUMENTS AND FILED SAME IN THE RECORDS OF THE  
OFFICE OF THE UNITED STATES MINERALS MANAGEMENT SERVICE, NEW  
ORLEANS, LOUISIANA, THIS 16<sup>th</sup> DAY OF APRIL, 1990 AT 3:00 O'CLOCK  
P. M.

UNITED STATES MINERALS MANAGEMENT SERVICE

BY: La Nelle Baehm

751/N

# LISKOW & LEWIS

A PROFESSIONAL LAW CORPORATION

ATTORNEYS AT LAW

NEW ORLEANS, LA. 70139-5001

ONE SHELL SQUARE  
FIFTIETH FLOOR

TELEPHONE (504) 581-7979  
TELEX 888203 (LISKOW NLN)  
TELECOPIER (504) 592-5108  
(504) 592-5109

LAFAYETTE, LA. 70505-2008

822 HARDING STREET

P O BOX 52008

TELEPHONE (318) 232-7424  
TWX 510 600-3464 (LISKOW LAF)  
TELECOPIER (318) 267-2399

New Orleans, Louisiana  
February 26, 1990

CULLEN R. LISKOW (1923-1971)  
AUSTIN W. LEWIS (1910-1974)

WILLIAM M. MEYERS  
ROBERT T. JORDEN  
CHARLES C. GEMILLION  
GENE W. LAFITTE  
BILLY M. MINES  
JAMES L. PELLETIER  
THOMAS D. HARDEMAN  
JOHN M. KIMS  
EDWARD J. GAY III  
KENNETH E. GORDON, JR.  
WILLIAM R. PITTE  
LEON J. REYMOND, JR.  
J. BERRY ST. JOHN, JR.  
DONALD R. ABAUNLA  
JOHN M. WILSON  
LAWRENCE R. SIMON, JR.  
FREDERICK W. BRADLEY  
KERRY M. MASSARI  
S. GENE FENDLER  
THOMAS F. GETTEN  
GEORGE H. ROBINSON, JR.  
GEORGE J. DOMAS  
MARILYN C. BALDONEY  
JOSEPH C. GIGLIO, JR.  
BRUCE J. GREK  
PATRICK W. GRAY  
DEBORAH SAHN PRICE  
ROBERT E. HOLDEN  
JOE S. NORMAN  
THOMAS M. MCNAMARA  
JAMES N. MANSFIELD III  
BILLY J. DOMINGUE  
LAMBERT M. LAPEROUSE  
FRANK E. MASSENGALE  
PHILIP K. JONES, JR.  
WILLIAM W. PUGH  
JULIE E. SCHWARTZ

CHARLES B. GRIFFIS  
RICHARD W. REVELS, JR.  
JOSEPH P. HEBERT  
MARGUERITE A. NOONAN  
DAVID W. LEE, E.  
JAMES D. MICHAEL  
RICHARD E. ANDERSON  
WM. BLAKE BENNETT  
MARR A. LOWE  
GEORGE DENEGRE, JR.  
DON K. HAYCRAFT  
EDWIN W. DENNARD  
WM. CRAIG WYMAN  
CATHERINE H. BROWN  
JAMES A. BROWN  
GEORGE D. ERNEST III  
R. KEITH JARRETT  
CHERYL V. CUNNINGHAM  
STEVIA M. WALTHER  
ROBERT S. ANGELICO  
ROBERT L. THERIOT  
DENA L. OLIVIER  
GEORGE ARCENEAUX III  
REGINA R. FUMRY  
MATTHEW K. BROWN  
MARIE BREAUX STROUD  
JONATHAN A. HUNTER  
OSWALD P. SOBRINO  
JOHN R. CERISE  
DANIEL E. LAGRONE  
BRYAN D. SCOTFIELD  
THOMAS P. DIAZ  
JOHN R. GUILLORY  
MARY S. JOHNSON  
KATHLEEN P. KETCHUM  
SCOTT C. SEILER  
CECILY ELLZEY SAFEMAN  
CHERYL MOLLERE KORNICK  
MARR D. LATHAM

OF COUNSEL  
ROBERT C. SMITH

**BY HAND**

Mr. Roger J. Pearcy  
United States Department  
of the Interior  
Minerals Management Service  
Gulf of Mexico  
OCS Region  
1201 Elmwood Parkway  
New Orleans, Louisiana 70123

Re: Leases No. OCS-G 8645, OCS-G 5366, OCS-G 5395,  
OCS-G 9428, OCS-G 4844, OCS-G 5350, OCS-G 7700,  
OCS-G 7699, OCS-G 8457, OCS-G 0978, OCS-G 0807,  
OCS-G 5547, OCS-G 5218, OCS-G 5408

Dear Mr. Pearcy:

Enclosed is one copy of Act of Supplement to Act of Collateral Mortgage, Collateral Chattel Mortgage, Pledge and Assignment. This supplements an Act of Collateral Mortgage, Collateral Chattel Mortgage, Pledge and Assignment dated October 2, 1989 which affected the interest of Zilkha Energy Company and Zilkha Energy Company Drilling Program 1 (collectively the "Mortgagor") in the above-described mineral leases. In order to maintain a complete record of amendments thereto and in order to place third persons notice as to the execution and efficacy of

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FEB 26 1990

Minerals Management Service  
Leasing & Environment

February 26, 1990

this Act of Supplement, please file this Act of Supplement together with a copy of this letter in your Mortgage File M-0978, and please file a copy of this letter in each of the other lease files referenced above.

For your reference, the addresses of the Mortgagor and of BANK ONE, TEXAS, NATIONAL ASSOCIATION, the Mortgagee, are as follows:

Zilkha Energy Company  
Zilkha Energy Company Drive Program 1  
1201 Louisiana  
Suite 3200  
Houston, Texas 77002

BANK ONE, TEXAS, NATIONAL ASSOCIATION  
910 Travis  
6th Floor  
Houston, Texas 77002

Please acknowledge that the foregoing filing has been accomplished as requested by signing a counterpart of this letter in the space provided below and returning a counterpart of this letter to the undersigned.

Yours very truly,

*Marilyn C. Maloney*  
Marilyn C. Maloney

Filing Accomplished  
As Requested this 26  
day of February, 1990.  
Minerals Management Service  
Gulf of Mexico  
OCS Region

BY: *Ruby J. Bachman*

This document may be  
found in Mortgage File  
M-0978.

MCM/mls  
Enclosures  
059846mcm

25549

WINSTEAD  
MCGUIRE  
SECHREST  
& MINICK

1700 MBank Building  
910 Travis Street  
Houston, Texas 77002-5895  
DALLAS HOUSTON AUSTIN

A Professional Corporation  
Attorneys & Counselors

(713) 655-0392  
Telex 510-100-1721  
Telecopier (713) 951-3800  
Direct Dial:

650-2794

October 11, 1989

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Mineral Management Service  
1201 Elmwood Park Blvd.  
New Orleans, Louisiana 70123-2394  
Attention: LE.-3-1

OCT 13 1989

Minerals Management Service  
Leasing & Environment

Re: Offshore Leases to be Filed:

- |            |           |
|------------|-----------|
| OCS-G7700  | OCS-G5366 |
| OCS-G7699  | OCS-G8457 |
| OCS-G9428  | OCS-G4082 |
| OCS-G4844  | OCS-G4721 |
| OCS-G5350  | OCS-G9047 |
| OCS-G5408  | OCS-G7199 |
| JCS-G5218  | OCS-G7200 |
| ✓OCS-G5547 | OCS-G6055 |
| OCS-G0978  | OCS-G4578 |
| OCS-G 395  | OCS-G6069 |
| OCS-G8645  | OCS-G4082 |

Dear Sirs:

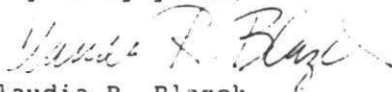
Enclosed are eight (8) copies of a Deed of Trust, Mortgage, Assignment of Production, Security Agreement and Financing Statement and eleven (11) copies of an Act of Collateral Mortgage, Collateral Chattel Mortgage, Pledge and Assignment to be filed in the Case Files referenced above. I have also enclosed copies of same to serve as acknowledgment of the filings. Please return the acknowledgment instruments with a stamp reflecting the file date for the instrument as soon as possible in the enclosed postage paid envelope.

Enclosed is our firm check in the amount of \$550.00 representing the filing fee in this matter.

Mineral Management Service  
October 11, 1989  
Page Two

Please do not return these instruments to us. If our check is insufficient or if there are any other impediments to filing, please call me collect at the phone number indicated above.

Very truly yours,



Claudia R. Blazek  
Legal Assistant

CRB:ms  
Enclosures  
cc: John R. Bonica (of the Firm)

429:H891010AAA.30  
101189ald.

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OCT 13 1989

Minerals Management Service  
Leasing & Environment

SHIP SHOAL 160  
OCS-65547

STATE OF TEXAS  
COUNTY OF HARRIS

ACT OF COLLATERAL MORTGAGE,  
COLLATERAL CHATTEL MORTGAGE, PLEDGE AND ASSIGNMENT

BE IT KNOWN, that, on this 2nd day of October, 1989, before me, a Notary Public in and for the aforesaid County and State, duly qualified and commissioned as such, personally came and appeared ZILKHA ENERGY COMPANY ("ZEC"), a Delaware corporation, represented herein by John B. Holmes, Jr., its duly authorized President, and ZILKHA ENERGY COMPANY DRILLING PROGRAM 1 ("the Partnership"), a Texas general partnership comprised of ZEC and Selim K. Zilkha Trust represented herein by John B. Holmes, Jr., the duly authorized President of Zilkha Energy Company and by Selim K. Zilkha, Trustee of the Selim K. Zilkha Trust whose mailing address is 1201 Louisiana, Suite 3200, Houston, Texas 77002 (ZEC and the Partnership, or either of them, may be referred to herein individually and collectively as "Mortgagor"), who, after being by me first duly sworn, did depose and say as follows:

I. INDEBTEDNESS OF MORTGAGOR

1.01 Indebtedness of Mortgagor.

That Mortgagor desires to secure funds from time to time from any bank, person, firm or corporation willing to loan the same, and for such purpose Mortgagor does hereby declare and acknowledge a debt in the sum of ONE HUNDRED MILLION AND NO/100 DOLLARS (\$100,000,000.00) and, in order to evidence said indebtedness, Mortgagor has made, executed and given one (1) promissory note (hereinafter referred to simply as the "Note" or "Said Note"), being described, as follows:

Note of even date herewith in the principal sum of One Hundred Million and No/100 Dollars (\$100,000,000.00), executed by Mortgagor, payable to the order of "Bearer" at the principal banking quarters of Bank One, Texas, National Association, 910 Travis, 6th Floor, Houston, Texas 77002, payable on demand, providing for interest at the rate of twelve percent (12%) per annum from the date of the Note, which Said Note provides that,

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OCT 13 1989



if the same is placed in the hands of an attorney or firm of attorneys for collection, compromise or other action, or to protect the interests of the holder or holders thereof, or if suit is filed thereon, the maker is to reimburse the holder or holders of Said Note for the reasonable fees of the attorney who may be employed for such purposes plus all other reasonable costs of collection;

which Said Note, after having been paraphed "Ne Varietur" by me, the undersigned Notary, for identification herewith, was delivered to Mortgagor, who acknowledged receipt thereof, the said Mortgagor further declaring that Said Note would be negotiated for the purpose of raising funds as heretofore stated, and Mortgagor does by these presents acknowledge that Mortgagor is indebted unto any and all future holder or holders of Said Note (hereinafter referred to simply as "Mortgagee") in the full amount of the aforesaid sum and all other indebtedness mentioned herein.

#### 1.02 Attorney's Fees.

If Said Note is placed in the hands of an attorney or firm of attorneys for collection, compromise or other action, or to protect the interests of the holder or holders thereof or if suit is filed on Said Note, Mortgagor agrees to reimburse Mortgagee for the reasonable fees of the attorney who may be employed for such purposes, plus all other reasonable costs of collection.

### II. GRANT OF MORTGAGE

#### 2.01 Grant of Mortgage.

Now, in order to secure the full and punctual payment of Said Note at maturity, or when otherwise due hereunder, and all amounts owing in connection with the renewal, extension and/or rearrangement of the indebtedness represented by Said Note, in whole or in part, together with all interest, attorney's fees, collection fees, insurance premiums, assessments, charges, compensation of a keeper, taxes, costs and other amounts owing in connection therewith or owing under this Act (all of which being sometimes hereinafter collectively referred to simply as "Said

Indebtedness"), and to secure the faithful observance and performance of all of the obligations, terms, warranties, representations, covenants, agreements, stipulations, conditions or other provisions contained in this mortgage and in said Note, Mortgagor does by these presents specially mortgage, affect, hypothecate, pledge and pawn unto and in favor of Mortgagee, whether the same be held as an original obligation or in pledge, the following described property (hereinafter referred to simply as the "Mortgaged Property"), to-wit:

- (a) The undivided interests of Mortgagor set forth on Exhibit A hereto and made a part hereof for all purposes in and to those certain Oil, Gas and Mineral Leases (hereinafter referred to simply as the "Subject Leases") described in Exhibit A;
- (b) Like undivided interests in and to any and all extensions, renewals, supplements, amendments or corrections to the Subject Leases;
- (c) Like undivided interests in and to all buildings, constructions and improvements now or hereafter placed upon said lands, and all fixtures, movable property attached to immovable property and other movable property now and hereafter placed thereon, before the final payment and discharge of all of Said Indebtedness, located on or used or obtained in connection with any of the Subject Leases, including, but not limited to, all platforms, oil wells, gas wells, well equipment, gauges, power and other plants, derricks, rigs, machinery, supplies, separators, pumping units, tanks, tank batteries, X-mas trees, heater treaters, pipe, pipe lines, flow lines, water lines, gas lines, power lines, field gathering lines and systems, tubing, casing, rods, fittings, meters, tools, valves, gasoline extraction plants, processing, compression, dehydration, extraction plants and other fixtures, facilities, equipment, appurtenances, accessories, buildings and improvements of every kind and character, and replacements thereof, now or hereafter placed or erected on such leases and lands, or any of them, or used or useful thereon or in connection therewith; all of which are expressly immobilized by Mortgagor for the purpose of this Mortgage to the extent permitted by law; provided that this mortgage shall attach to all such

corporeal movable property in accordance with the provisions of La. R.S. 31:203;

- (d) Like undivided interests in and to all oil, gas, minerals and other hydrocarbons (hereinafter referred to simply as the "Hydrocarbons") in, on and under and in storage on and that may be produced, saved or sold from or attributable to the Subject Leases and the rents, issues, profits, proceeds, products, revenues and other income from the sale or other disposition thereof. This paragraph shall be construed as a pledge of Mortgagor's interest in such Hydrocarbons pursuant to La. R.S. 9:5351 and is in addition to the pledge of such Hydrocarbons as provided in Article VI hereof;
- (e) Like undivided interests in and to any and all rights-of-way, easements, licenses, permits, franchises, units, operating agreements, pooling agreements, sales contracts, processing agreements and other contracts or agreements now and hereafter executed, before the final payment and discharge of all of the Said Indebtedness, relating to any of the property referred to in the foregoing Paragraphs (a), (b), (c) and (d);
- (f) Any property that may from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien and privilege hereof by Mortgagor or by anyone acting on Mortgagor's behalf; and Mortgagee is hereby authorized to receive the same at any time as additional security hereunder; and
- (g) Like undivided interests in and to all incorporeal rights that are or may be incidental or accessory to the property referred to in the foregoing Paragraphs (a), (b), (c), (d), (e) and (f) or its use including but not limited to the rights set forth in La. R.S. 9:5386.

#### **2.02 Term of Mortgage.**

The Mortgaged Property is to remain so specially mortgaged, affected, hypothecated and pledged unto and in favor of Mortgagee until the full and final payment of Said Note and Said Indebtedness.

#### **2.03 Possession and Reissuance of Note by Mortgagor.**

Mortgagor declared that this Mortgage is executed and granted for the equal benefit and security of any and all future

holder or holders of the Said Note and the interest thereon at whatever period or for whatever cause Said Note may be issued or reissued, for any reason whatsoever. It is further agreed and understood that possession of Said Note at any time by Mortgagor shall not in any manner extinguish or affect Said Note or the present mortgage securing the payment thereof, and Mortgagor shall have the right to issue and reissue Said Note, from time to time as its interest or convenience may require, without in any manner extinguishing or affecting the obligation of Said Note or the security of this Mortgage.

### III. EVENTS OF DEFAULT

#### 3.01 Events of Default.

Mortgagor consents, agrees and stipulates that any one or more of the following events shall constitute an event of default hereunder (hereinafter referred to simply as an "Event of Default"), to-wit:

- (a) If default be made in the due and punctual payment of Said Indebtedness or Said Note, or any part thereof as and when the same shall become due, in principal or interest, or any fees payable by Mortgagor hereunder;
- (b) If Mortgagor shall breach or default in the due observance or performance of any obligation, term, warranty, representation, covenant, agreement, stipulation, condition or other provisions contained in this mortgage or required hereunder to be kept, observed or performed by Mortgagor;
- (c) If this mortgage shall at any time and for any reason cease to be in full force and effect; or
- (d) If an Event of Default shall have occurred under that certain Credit Agreement of even date herewith between Mortgagor and Bank One, Texas, National Association.

#### 3.02 Remedies in Event of Default.

Mortgagor does by these presents consent, agree and stipulate that, upon the occurrence of any one or more of the Events of Default set forth in Section 3.01 hereof, Said Note and

Said Indebtedness shall, at the option of Mortgagee, become due and payable, any provision in any instrument to the contrary notwithstanding, and it shall thereupon be lawful for Mortgagee, without making a demand and without notice or putting in default, the same being hereby expressly waived, to cause all and singular the Mortgaged Property to be seized and sold by executory process issued by any court of competent jurisdiction or to proceed with enforcement of this mortgage in any other manner provided by law.

**3.03 Confession of Judgment.**

Mortgagor hereby confesses judgment in favor of Mortgagee, up to the full amount of the principal, interest and attorney's fees now and/or hereafter owing on Said Note, and the full amount of Said Indebtedness, including all sums that Mortgagee may advance during the life of this Mortgage for the payment of insurance premiums, taxes and assessments, or the protection and preservation of the Mortgaged Property and this Mortgage, as authorized elsewhere herein.

**3.04 Authentic Evidence.**

Mortgagor agrees that, in the event that any proceedings are taken under this Mortgage 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 (2) witnesses by a person declaring that such facts lie within his knowledge, shall constitute authentic evidence of the facts for the purposes of executory process.

**IV. REPRESENTATIONS, WARRANTIES AND COVENANTS OF MORTGAGOR**

**4.01 Taxes and Assessments.**

Mortgagor declares that there are no taxes or assessments due on the Mortgaged Property, and that all taxes and assessments on such property have been paid up to and including the year immediately preceding the year in which this Act is executed except for taxes and assessments which are being contested in good faith by appropriate proceedings diligently pursued, and for

which adequate reserves have been established. Mortgagor agrees to pay, before they shall become delinquent, all taxes and assessments, whether local or otherwise, which may be imposed on the Mortgaged Property, or the failure to pay which may result in the filing of a lien, privilege or mortgage on the Mortgaged Property or any part thereof, including all ad valorem taxes, franchise taxes and license taxes; provided, however, that Mortgagor shall not be required to pay or discharge any tax, levy, assessment or governmental charge which is being contested in good faith by appropriate proceedings diligently pursued, and for which adequate reserves have been established. In default of the foregoing, the Mortgagee is hereby authorized to pay the same and to become fully subrogated to all of the rights of the taxing authorities by reason of such payments, and such payments, together with interest thereon at the rate of twelve (12%) percent per annum from the date of such payments, shall be secured by the special mortgage herein granted, but nothing herein contained shall be construed as making the payment of such taxes or assessments obligatory upon Mortgagee. Each year, upon written request, Mortgagor agrees to present to Mortgagee official receipts from the taxing authorities showing the payment in full of all taxes and assessments to which reference is made in this paragraph, as well as all other taxes or governmental charges, the failure to pay which may result in the filing of a lien, privilege or mortgage on or against the Mortgaged Property.

#### 4.02 Special Covenants.

Mortgagor does hereby specially covenant, agree and stipulate to the faithful fulfillment of the following stipulations in favor of the holder or holders of Said Note, to-wit:

- (a) Except for oil and gas production sold in the ordinary course of business, Mortgagor agrees not to sell, mortgage, alienate or encumber the Mortgaged Property or any part thereof to the prejudice of this Mortgage;

- (b) To the extent that it is in its lawful power to so do (consideration being given to the contractual arrangements effecting the Subject Leases relative to the operation thereof), Mortgagor agrees not to abandon the Mortgaged Property or any part thereof;
- (c) Mortgagor agrees to promptly pay or cause to be paid all amounts now and/or hereafter owing in connection with labor and services performed and materials and supplies furnished, on or to the Mortgaged Property; and
- (d) Mortgagor covenants that, at its expense, it will, from time to time, upon request, do, execute, acknowledge, deliver, record and file all such further and additional acts, deeds, instruments and assurances and will take all such further action as may be necessary or appropriate for securing, assuring and confirming to and in favor of Mortgagee, the property included or intended to be included by the above descriptions and the lien, security, mortgage and pledge hereby created and intended to be created, as well as the assignment and pledge hereinafter contained.

#### 4.03 Title to Mortgaged Property.

Mortgagor hereby declares that the Mortgaged Property stands registered in the name of Mortgagor and that it has not been heretofore alienated by Mortgagor and that there are no mortgages, liens, privileges or encumbrances, of record or otherwise, against such property except for the "Permitted Encumbrances" as defined below. Mortgagor declares that there are no judgments, general or particular, of record in the United States Courts against Mortgagor, and no legal proceedings pending against Mortgagor except as disclosed to Mortgagee in writing.

#### 4.04 Agreement of Mortgagor Relative to Operation of Mortgaged Property.

Subject to any contractual arrangement affecting the Subject Leases relative to the operation thereof, Mortgagor further covenants and agrees that, for so long as Said Note or any part of Said Indebtedness remains unpaid, Mortgagor shall do and perform the following acts, or comply with the following requirements, to-wit:

- (a) Pay or cause to be paid when due, all amounts at any time owing for labor, services, materials and supplies furnished in connection with the operation of the Mortgaged Property;
- (b) In accordance with prudent industry practice, conduct or cause to be conducted all drilling and other operations on the Mortgaged Property in good workmanlike, prudent and efficient manner; in accordance with prudent industry practice keep and maintain all material improvements, machinery and equipment situated on, or used in connection with, the operation of said property in a good state of repair, normal wear and tear excepted and not tolerate, suffer or permit the same, or any material part thereof, to be removed, sold or encumbered without the prior written consent of Mortgagee;
- (c) Keep each of the Subject Leases in full force and effect, except such of the Subject Leases, if any, as a reasonable, prudent operator would deem to be not potentially productive of Hydrocarbons in commercial quantities;
- (d) Comply with all proration and conservation laws applicable to said properties and the rules and regulations of the Office of Conservation of the State of Louisiana, and other governmental authorities having any jurisdiction thereof;
- (e) Furnish to Mortgagee, upon Mortgagee's request, the identities of those parties and entities purchasing Hydrocarbons produced from the Mortgaged Properties;
- (f) Warrant and defend the title to the Mortgaged Property and the liens of Mortgagee hereunder against the claims and demands of all other persons whomsoever except for the Permitted Encumbrances as defined below;
- (g) Maintain and preserve the liens created hereby so long as Said Indebtedness remains unpaid;
- (h) Immediately defend against any material adverse claim which may be made against title to the Mortgaged Property and take appropriate action to remove any material cloud upon title to the Mortgaged Property;
- (i) Promptly pay and discharge all rentals, delay rentals, royalties and indebtedness accruing under, and perform or cause to be performed each and every act, matter or thing required by, each and all of the material assignments,



deeds, Leases, sub-leases, contracts and agreements described or referred to herein or affecting Mortgagor's interests in the Mortgaged Property and do all other things necessary to keep unimpaired Mortgagor's rights with respect thereto and prevent any material forfeiture thereof or material default thereunder;

- (j) Operate the Mortgaged Property in a careful and efficient manner in accordance with the practices of the industry and in compliance with all applicable material contracts and agreements and in compliance with all applicable proration and conservation laws of the jurisdiction in which the Mortgaged Property is situated, and all applicable laws, rules and regulations of every other agency and authority from time to time constituted to regulate the development and operation of the Mortgaged Property and the production and sale of Hydrocarbons and other minerals therefrom; and
- (k) Do or cause to be done such development work as may be reasonably necessary to the prudent and economical operation of the Mortgaged Property in accordance with prudent industry practices, including all to be done that may be appropriate to protect from diminution the productive capacity of the Mortgaged Property and each producing well thereon including, without limitation, cleaning out and reconditioning each well from time to time, plugging and completing at a different level each such well, drilling a substitute well to conform to changed spacing regulations and to protect the Mortgaged Property against drainage whenever and as often as is necessary.

#### 4.05 Special Representations and Warranties of Mortgagor.

Mortgagor specially represents, warrants and covenants to Mortgagee, as follows:

- (a) Mortgagor has good and marketable title to the Mortgaged Property free and clear of all liens, security interests, and encumbrances except for: (i) the matters set forth in the descriptions of portions of the Mortgaged Property on Exhibit A hereto and minor easements, zoning restrictions or other similar restrictions on the use of the Mortgaged Property which do not, individually or in the aggregate, materially affect the Mortgaged Property or materially impair the rights of Mortgagor to use the Mortgaged Property; (ii) the liens and security interests evidenced by this

mortgage; (iii) statutory liens for taxes which are not yet delinquent or which are being contested in good faith and for which adequate reserves have been established; and (iv) liens under operating agreements and unitization agreements relating to obligations not yet due and pursuant to which Mortgagor is not in default (only to the extent the same are properly perfected under applicable law), pooling orders, and mechanics' and materialmen's liens with respect to obligations which are not yet due (the matters described in the foregoing clauses (i), (ii), (iii) and (iv) being herein called the "Permitted Encumbrances"). The ownership of Mortgagor will, after giving full effect to the Permitted Encumbrances, (i) with respect to each tract of land described in Exhibit A hereto in connection with such portion of the Mortgaged Property, (A) entitle Mortgagor to receive (subject to the terms and provisions of this Mortgage) a decimal share of the Hydrocarbons produced from, or allocated to, such tract equal to the decimal share set forth in Exhibit A in connection with such tract below the words "Net Revenue Interest" or "N.R.I." (or words of similar import), (B) cause Mortgagor to be obligated to bear a decimal share of the cost of exploration, development and operation of such tract of land equal to the decimal share set forth in Exhibit A in connection with such tract below the words "Working Interest" or "W.I." (or words of similar import) and (ii) if such tract of land is shown in Exhibit A to be subject to a unit or units, with respect to each such unit, (A) entitle Mortgagor to receive (subject to the terms and provisions of this Mortgage) a decimal share of all Hydrocarbons covered by such unit which are produced from, or allocated to, such unit equal to the decimal share set forth in Exhibit A in connection with such portion of the Mortgaged Property below the words "Unit Net Revenue Interest" or "Unit N.R.I." or words of similar import (and if such tract of land is subject to more than one unit, words identifying such interest with such unit), and (B) obligate Mortgagor to bear a decimal share of the cost of exploration, development and operation of such unit equal to the decimal share set forth in Exhibit A in connection with such portion of the Mortgaged Property below the words "Unit Working Interest" or "Unit W.I." or words of similar import (and if such tract of land is subject to more than one unit, words identifying such interest with such unit); such shares or production which Mortgagor is

entitled to receive, and shares of expenses which Mortgagor is obligated to bear, are not subject to change (other than pursuant to nonconsent provisions of operating agreements described in Exhibit A in connection with such portion of the Mortgaged Property, respectively) except and only to the extent that such changes are reflected in Exhibit A.

- (b) Mortgagor has full power and lawful authority to bargain, grant, sell, mortgage, assign, transfer, convey and grant a security interest in the Mortgaged Property as herein provided without obtaining the waiver, consent or approval of any lessor, sublessor, governmental agency or entity or party.
- (c) The oil, gas and/or mineral leases, contracts and other agreements forming a part of the Mortgaged Property are in full force and effect. All rentals, royalties and other payments due and payable under such leases, and other contracts and agreements, forming a part of the Mortgaged Property, or under the Permitted Encumbrances, have been properly and timely paid, and all other obligations under such leases and other contracts and agreements, or under the Permitted Encumbrances, or otherwise attendant to the ownership or operation of the Mortgaged Property, have been met.
- (d) The machinery, equipment and other personal property and fixtures forming a part of the Mortgaged Property are in good repair and condition, normal wear and tear excepted, and are adequate for the normal operation of the Mortgaged Property in accordance with prudent industry standards.
- (e) All producing wells located on the Mortgaged Property have been drilled, completed and produced, and the Mortgaged Property (and properties unitized therewith) have been maintained, operated and developed, in good and workmanlike manner and material conformity with all applicable laws and all rules, regulations and orders of all duly constituted authorities having jurisdiction and in conformity with all oil, gas and/or other mineral leases and other contracts and agreements forming a part of the Mortgaged Property and in conformity with the Permitted Encumbrances.
- (f) Mortgagor's "registered office" (as defined in La. R.S. 9:5353E) is situated in Orleans Parish, Louisiana.

- (g) There are no "back in" or "reversionary" interests held by third parties which would reduce the interest of Mortgagor in the Mortgaged Property except as set forth on Exhibit A.
- (h) There are no prior consent rights or preferential purchase rights in third parties affecting any part of the Mortgaged Property except as disclosed in writing to Mortgagee.
- (i) No operating or other agreement to which Mortgagor is a party or by which Mortgagor is bound affecting any part of the Mortgaged Property requires Mortgagor to bear any of the costs relating to the Mortgaged Property greater than the Working Interest (as hereinafter defined) of Mortgagor without a corresponding increase in the Net Revenue Interest (as hereinafter defined) of Mortgagor in such portion of the Mortgaged Property, except in the event Mortgagor is obligated under an operating agreement to assume a portion of defaulting parties' share of costs.

V. REMEDIES AND RIGHTS OF HOLDER OF NOTE

5.01 Modification of Indebtedness or Security.

From time to time extensions for the payment of any portion or all of the Said Note and/or Said Indebtedness may be granted; additional security may be taken; any portion of, or any interest in the Mortgaged Property, or the properties hereafter taken as security for Said Note and the Said Indebtedness, may be released or exchanged, or any portion of, or any interest in, said property or properties may be made available to Mortgagor or any other party, without in anywise releasing, affecting, impairing, diminishing or lessening this Mortgage, or any liens, rights or privileges existing hereunder, or the priority hereof, or making any of the same inferior to or equal to any lien or claim of any other lienholder or party hereafter or at any time asserting or acquiring any right, title, claim or interest in and to any of said properties, or requiring the holder or holders of Said Note to account to anyone in any respect. All other and additional security at any time existing in connection with Said Note and Said Indebtedness shall be considered and held to be cumulative.

#### 5.02 Waiver of Appraisalment.

Mortgagor expressly waives the benefit of any and all laws or parts of laws relating to the appraisalment of the property seized and sold under executory or other legal process, and consents and agrees that said property be sold without appraisalment to the highest bidder for cash. The proceeds of any sale held by any receiver or public officer in foreclosure of the lien and mortgage created hereby shall be applied, as follows:

- FIRST: To the payment of all necessary costs and expenses incident to such foreclosure sale, including but not limited to all court costs and attorney's fees;
- SECOND: To the payment of Said Indebtedness, first to the unpaid interest thereon and then to the unpaid principal thereon; and
- THIRD: The remainder, if any, shall be paid to Mortgagor, its successors or assigns, as its or their interests may appear.

#### 5.03 Waiver of Notice.

Mortgagor hereby waives the three (3) and five (5) day notice of demand and delay provided by Articles 2331 and 2639 of the Louisiana Code of Civil Procedure.

#### 5.04 Waiver of Marshalling of Assets.

Mortgagor waives all rights to a marshalling of assets and agrees that neither Mortgagor nor any other party shall ever have the right to demand or require a marshalling of assets or the sale of the Mortgaged Property or any other properties securing the payment of Said Note and/or Said Indebtedness in the inverse order of alienation.

#### 5.05 Sale of Mortgaged Property.

Any owner and holder of Said Note or of any part of Said Indebtedness shall be equally entitled to become the purchaser at any sale of the Mortgaged Property, or any part thereof, provided such owner and holder be the highest bidder thereat.

**5.06 No Waiver of Certain Rights.**

If Mortgagee fails to exercise any option to declare the maturity of the principal debt, or any other sums hereby secured, or pay any taxes, assessments, liens or charges, the same shall not be considered as a waiver of his, her, their or its rights to exercise such option, or declare such maturity, or make any such payment with respect to any past or any subsequent violation of any obligation, term, warranty, representation, covenant, agreement or stipulation, condition or other provision herein contained.

**5.07 Keeper of Mortgaged Property.**

(a) If an Event of Default shall occur, Mortgagee shall have and is granted the right and option to take over the operation of the Mortgaged Property to the same extent as the Mortgagor, including the right to use all property covered by this Mortgage and shall retain the share of production attributable to the Mortgaged Property and apply same to the discharge of Said Indebtedness both in principal and interest.

(b) In the event that the Mortgaged Property is seized as an incident to an action for the enforcement of this Mortgage, Mortgagee (subject to any contractual arrangements affecting the Subject Leases relative to the operation thereof) shall be permitted to name and designate the keeper of such property in accordance with the provisions of La. R.S. 9:5131, et seq., as from time to time amended. The keeper so named or designated shall be permitted to exercise, without interference from Mortgagor, any and all rights which Mortgagor has with respect to the management, administration, possession, maintenance and operation of the Mortgaged Property. The keeper so named or designated shall, to the extent permitted by applicable law and unless the keeper is either the Mortgagee or an employee of Mortgagee, be entitled to a reasonable fee as compensation, which fee shall not exceed ten percent (10%) of the amount due or sued

for or claimed or sought to be protected, preserved or enforced, and shall be secured by the lien of this Mortgage. All costs, expenses and liabilities of every character incurred by Mortgagee or the keeper in the management, administration, possession, maintenance and operation of the Mortgaged Property, shall constitute a demand obligation owing to Mortgagee by Mortgagor, which shall bear interest from date of expenditure until paid at the rate specified in Said Note, all of which shall constitute a portion of Said Indebtedness.

**5.08 Waiver and Partial Releases.**

Without in any manner impairing its rights hereunder, Mortgagee may, at any time and from time to time, in writing:

- (a) Waive compliance by Mortgagor with any covenant herein made by Mortgagor to the extent and in the manner specified in such writing; or,
- (b) Consent to Mortgagor's commission of any act which hereunder Mortgagor is prohibited from doing, or to Mortgagor's failure to do any act which hereunder the Mortgagor is required to do, to the extent and in the manner specified in such writing; or
- (c) Extend or suspend the period of time in which Mortgagor is hereunder required to do or perform any act; or
- (d) Release any part of the Mortgaged Property, or any interest therein, or any proceeds from the lien of this mortgage.

**5.09 Remedies and Rights Are Cumulative.**

All remedies and rights existing and to exist in favor of the holder or holders of Said Note, or any part of Said Indebtedness, whether existing at law or in equity, or under the terms of this or any other instrument, shall be considered as cumulative one of the other and not exclusive, and the granting of additional rights shall not in anywise release, affect, impair, diminish or lessen any liens, rights or privileges hereunder granted or now existing.

## VI. ASSIGNMENT AND PLEDGE OF PRODUCTION

### 6.01 Assignment and Pledge of Production.

(a) Mortgagor, in order to further secure the payment of Said Note and Said Indebtedness, does by these presents transfer, assign, convey, pledge and deliver unto Mortgagee, whether the same be held as an original obligation or in pledge, the entire right, title and interest of Mortgagor in and to all of the Hydrocarbons which are being or are to be produced, obtained or secured from the Mortgaged Property, including the revenues, proceeds and payments therefrom, present and future, together with all such sums as may now be due and owing to Mortgagor by the purchaser of such Hydrocarbons, until the full amount of Said Note and all of Said Indebtedness is fully paid. It is the intention of the Mortgagor that the security interest created by this Act extend to the proceeds, product, offspring, rents or profits generated by or attributable to the Subject Leases as contemplated by 11 U.S.C.A. §552(b), as from time to time amended.

(b) Anything herein contained to the contrary notwithstanding, until occurrence of an Event of Default under this Mortgage by the Mortgagor, Mortgagor may continue to receive, retain and use all such Hydrocarbons and all proceeds therefrom. After the occurrence of an Event of Default, Mortgagee shall immediately have the right to receive, retain and use all such Hydrocarbons and all proceeds therefrom, and, in such event, Mortgagee shall give written notice to all parties producing, purchasing or receiving any such Hydrocarbons, or having such, or the proceeds therefrom, in their possession that, under the terms of this Mortgage, Mortgagee has the right thereunder to receive, retain and use all Hydrocarbons and all proceeds therefrom. Upon receiving such written notice, the purchasers of said Hydrocarbons shall make the aforesaid payments to the then holder or holders of Said Note. Mortgagor hereby



agrees to promptly execute and deliver to Mortgagee any and all transfer orders and other instruments which may be necessary or required by any person, firm or corporation transporting and/or purchasing Hydrocarbons from the Mortgaged Property before making delivery or payment therefor to Mortgagee, which said transfer orders and other instruments shall be made effective as to all runs from and after the effective date hereof. In no event shall Mortgagee be required or called upon to execute or sign any transfer order, division order or other instrument containing any covenants or warranties, or any indemnity agreement, binding upon them. Subject to existing contracts, Mortgagor will not permit any person to purchase or take said Hydrocarbons from the Mortgaged Property who refuses or fails to operate under transfer orders, division orders, agreements or other instruments which are upon terms and conditions, provisions and warranties acceptable to Mortgagee. The receipt of any such revenues or proceeds by Mortgagee shall in no manner change or alter in any respect the obligations of Mortgagor with respect to Said Note, or the maturity or payment of principal or interest thereon, but Said Note shall continue as a valid and subsisting obligation, subject to any credits made thereon, in accordance with the terms thereof, and shall be due and payable strictly in accordance with its tenor and effects; nor shall the release of any security for the payment of the Said Indebtedness in anywise alter, vary or diminish the force and effect or lien of or this mortgage or any renewal or extension thereof or of Said Note, and the lien thereof shall continue as to all of the remainder of the Mortgaged Property not expressly released, until full and final payment of Said Indebtedness. Mortgagor hereby irrevocably empowers Mortgagee to sign or endorse the name of Mortgagor upon all checks and other forms of payment received by Mortgagee pursuant to this pledge and assignment with respect to the

Hydrocarbons and the proceeds thereof hereby pledged and assigned.

(c) Mortgagee is hereby absolved from all liability for any delay, neglect or failure to enforce collection of the proceeds of Hydrocarbons so pledged and assigned, or to take any other action in connection therewith or thereunder, and from all other responsibility to account to the Mortgagor for funds actually received. Mortgagor agrees to indemnify and to hold Mortgagee harmless from and against any and all liabilities, actions, claims, judgments, costs, charges and reasonable attorney's fees incurred by reason of the assertion that the Mortgagee has received, either before or after the payment in full of Said Indebtedness, Hydrocarbons claimed by third persons. The Mortgagee shall have the right (but not the obligation) to defend against any such claims or actions, employing attorneys of its own selection, and Mortgagee shall have the right to compromise and adjust any such claims, actions and judgments. In the event only that Mortgagor shall refuse or fail to act upon the written request of Mortgagee, Mortgagee shall have the right, at its election and in the name of Mortgagor or otherwise, to prosecute and defend any other action or legal proceeding deemed advisable by Mortgagee in order to collect such proceeds and to protect the interests of Mortgagee in compromise, satisfaction or discharge of any such claim, action or judgment and all court costs, reasonable attorney's fees and other expenses of every character incurred by them shall be a demand obligation owing by Mortgagor to Mortgagee, shall bear interest at the rate of twelve percent (12%) from the date of expenditure until paid, and shall constitute a portion of the Said Indebtedness secured by this Mortgage.

**6.02 Application of Funds.**

No pipeline company or other person, firm or corporation purchasing, handling or receiving the mineral production from or

attributed to the Mortgaged Property shall ever be required to see to the application by Mortgagee of Said Note of such production or the proceeds from the sale thereof, and payment of such proceeds to Mortgagee by any such pipeline company or other person, firm or corporation shall operate as a full and final discharge of all liabilities of such pipeline company or any other person, firm or corporation to the extent of the proceeds paid.

## VII. GENERAL PROVISIONS

### 7.01 Severability.

Should any paragraph, sentence or clause of this instrument be determined or held to be invalid by any court of competent jurisdiction, the other provisions hereof shall not be affected thereby but shall remain in full force and effect.

### 7.02 Successors and Assigns.

The obligations, terms, warranties, representations, covenants, agreements, stipulations, conditions or other provisions herein contained shall be binding upon, and the benefits and advantages hereof shall inure to the benefit of, the respective heirs, executors, administrators, successors and assigns of Mortgagor and all future holder or holders of Said Note.

### 7.03 Construction.

Whenever used herein, the singular number shall include the plural, and the plural the singular, and the use of any gender shall include all genders. The personal pronouns "he", "his" or "him" may, as appropriate, be interchanged for the pronouns "it" or "its". The liabilities and obligations of ZEC and the Partnership hereunder shall be joint and several.

### 7.04 Acceptance on Behalf of Holder of Note.

AND NOW TO THESE PRESENTS intervened Kelly L. Elmore, III, a person of age and a resident of, and domiciled in, the County of Harris, State of Texas, who, on behalf of any and all future

holder or holders of Said Note, hereby accepts all of the benefits and stipulations of this mortgage.

**7.05 Waiver of Certificates.**

The parties hereto waive the production of all mortgage, conveyance and tax certificates, and the undersigned Notary is relieved and released from all responsibility and liability in connection therewith.

**7.06 Applicable Law.**

This Act is executed in accordance with La. R.S. 31:203, et seq., and all other applicable laws. ACCORDINGLY, THIS ACT SHALL BE GOVERNED IN ALL RESPECTS (INCLUDING VALIDITY, INTERPRETATION AND EFFECT) BY, AND SHALL BE CONSTRUED AND ENFORCED UNDER, THE INTERNAL LAWS OF THE STATE OF LOUISIANA, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF.

**7.07 Cumulative Remedies.**

All remedies herein expressly provided for are cumulative (and not exclusive) of any and all other remedies existing at law or provided for in any other loan documents, collateral documents, security agreements or financing statements, and the Mortgagee shall, in addition to the remedies herein provided, be entitled to all such other remedies as may now or hereafter exist at law for the collection of Said Note and the enforcement of the covenants herein and the foreclosure of the special mortgage, pledge and assignment granted and evidenced hereby. The resort to any remedy provided for at law, hereunder or under any such other loan documents, collateral documents, security agreements or financing statements shall not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies.

**7.08 Non-Recourse as to the Partnership, the Trust, Zilkha and ZECC.**

Notwithstanding anything to the contrary in this Mortgage, the Credit Agreement or any loan documents executed in connection herewith or therewith, the Partnership, Selim K. Zilkha Trust,

created pursuant to Declaration of Trust by Selim K. Zilkha executed on December 9, 1987 creating the Selim K. Zilkha Trust (the "Trust"), Selim K. Zilkha ("Zilkha") and/or Zilkha Energy Capital Corporation ("ZECC") shall in no event be liable for a money judgment in the event of default hereunder. Mortgagee may look only to ZEC and to the liens and security interest created hereby and under the other loan documents for satisfaction of Said Indebtedness, the obligations hereunder being non-recourse as to the Partnership, the Trust, Zilkha, and ZECC in all respects. Except in connection with the foreclosure of rights under this instrument and the other loan documents covering the Mortgaged Property, Mortgagee shall not institute any legal proceedings against the Partnership or the Trust for the collection of Said Indebtedness that are contrary to the provisions of this Section 7.08. Nothing herein contained is intended to release Zilkha from its obligations under that certain Letter Agreement between [redacted] and Bank One, Texas, National Association of even date herewith. Except for enforcement of said Letter Agreement, Mortgagee shall not institute any legal proceedings against Zilkha. Nothing in this Section 7.08 shall relieve any of the foregoing persons from any liability which such person may otherwise have for his or its tortious acts (excluding ordinary negligence) or willful misconduct.

**7.09 Headings.**

The section headings utilized herein are for the convenience of the reader and are not intended and shall not be construed to limit or vary the terms and provisions hereof.

**7.10 Maximum Amount.**

The maximum amount for which the special mortgagee herein granted shall be deemed to secure the obligations of Mortgagor, as stipulated herein, to reimburse Mortgagee the amounts paid, advanced or incurred for insurance premiums, taxes and

assessments, repairs to the Mortgaged Property, costs, attorneys fees, charges and expenses of any and every kind for the full protection and preservation of this Mortgage, including payments required in respect to any lien, privilege or mortgage affecting the property herein mortgaged and costs and expenses of a keeper of the Mortgaged Property, is hereby fixed in an amount equal to the face amount of the Note, which amount shall be exclusive of and in addition to the principal of the Note and this Mortgage with interest as herein set forth.

IN WITNESS WHEREOF, this Act of Collateral Mortgage, Collateral Chattel Mortgage, Pledge and Assignment done and passed in multiple originals, on the day, month and year hereinabove first written, effective as of the date hereof, at 2:00 o'clock P.M., by Mortgagor and Intervenor in the presence of the undersigned competent witnesses, who have hereunto executed, affixed and signed their names with Mortgagor, Intervenor and me, said Notary Public, all in the presence of each other after due reading of the whole.

WITNESSES TO ALL SIGNATURES: MORTGAGOR:

ZILKHA ENERGY COMPANY

Tim M. O'Brien  
Claud P. Blas

John B. Holmes, Jr.  
John B. Holmes, Jr.  
President

ZILKHA ENERGY COMPANY DRILLING  
PROGRAM 1

By: ZILKHA ENERGY COMPANY,  
General Partner

By: John B. Holmes, Jr.  
John B. Holmes, Jr.  
President

By: SELIM K. ZILKHA TRUST

By [Signature]  
Selim K. Zilkha, Trustee  
of the Selim K. Zilkha  
Trust created under Trust  
Agreement dated December 9,  
1987.

INTERVENOR:

[Signature]  
Accepting on behalf of any and  
all Future Holder or Holders of  
Said Note

[Signature]  
NOTARY PUBLIC



147:H890831BB.00  
092989BC1

## EXHIBIT A

(Attached to and made a part of that certain  
Act of Collateral Mortgage, Collateral Chattel  
Mortgage, Pledge and Assignment from  
Zilkha Energy Company and Zilkha Energy  
Company Drilling Program 1 to Bank One,  
Texas, National Association  
dated as of October 2, 1989)

### INTRODUCTION

1. The recitation that certain of the oil, gas and mineral leases described herein are subject to a specifically described agreement or instrument shall not alter or otherwise impair the represented or warranted Working Interest and Net Revenue Interest in and to the oil, gas and mineral leases, wells or units hereinafter set forth and the listing of such agreements or instruments shall not operate to subject any oil, gas and mineral leases or undivided interest therein to any such agreement or instrument, except to the extent such agreement or instrument, is valid and presently subsisting with respect to Mortgagor's interest in said leases as of the date hereof.
2. References contained herein to the recording data of the oil, gas and mineral leases or other instruments include, or are intended to include, references as to the book, volume, page or entry number of the appropriate records of the Parish in which such document referred to is actually or customarily recorded.
3. References to the oil, gas and mineral leases shall be deemed to include all instruments, ratifications, amendments, reformations or renewals of said oil, gas and mineral leases and to any and all revisions, rearrangements or modifications of any units whether formed through order of regulatory agency or otherwise and as to the oil and gas leases shall include all new leases which affect all or any portions of the lands included in the oil and gas leases described in this Exhibit A.
4. "Working Interest" or "W.I." (expressed in a decimal) shall mean the warranted interest of Mortgagor in a particular oil, gas and mineral lease, well, or unit as the case may be, entitling the Mortgagor to produce oil, gas and other hydrocarbons produced therefrom and being equivalent to the proportionate part of the cost of exploration, development and production of oil, gas and other minerals borne by the owners thereof with respect to such oil and gas lease and/or well and/or unit.
5. "Net Revenue Interest" or "N.R.I." (expressed in a decimal) means the warranted interest of Mortgagor representing the proportionate share of the production of oil, gas and other hydrocarbons produced from the oil, gas and mineral lease, well or unit as the case may be, to which the Mortgagor is entitled after deduction of all royalties, overriding royalty interests, production payments and other burdens on or payments out of production.
6. Any reference herein to wells or well names, units, prospects or prospect names, if any, shall be for information purposes and shall not limit the description of the interests made subject to this Mortgage.



7. Any reference herein to SE, NE, SW or NW shall mean the Southeast Quarter (SE/4), Northeast Quarter (NE/4), Southwest Quarter (SW/4) or Northwest Quarter (NW/4), respectively of any section or portion of a section described.

147:H890831BB.00

Ship Shoal 160  
Offshore Louisiana

	<u>Unit WI</u>	<u>Unit NRI</u>
OCS-G554, #2	12.5333%	8.5850%

Exploration Program Agreement dated January 1, 1988, between Walter Oil & Gas Corporation and Zilkha Energy Company.

Letter Agreement dated October 14, 1988 and March 27, 1989, between union Exploration Partners, Texaco Inc. and Walter Oil & Gas Corporation.

COMPANY	001	ZILKHA ENERGY COMPANY				
PROSPECT NUMBER	116	SHIP SHOAL 160				
LEASE NUMBER	LESSOR	PROSPECT	LESSEE	STATE/COUNTY	LEASE DTE	EXPIRE DTE
					RECORDED	
					GROSS ACRES	
LA-1160001	OCS-G 5547	SHIP SHOAL 160	TEXACO, INC AND UNION OIL CO.	LA	07/01/83	07/01/1986
TRACT 01				LA TERREBORNE		
DESCRIPTION	SHIP SHOAL AREA				5000.000	.1253334
	BLOCK 160, ALL, OCS LEASING MAP, LOUISIANA MAP NO. 5					.02585

WI NRI



WALTER OIL & GAS CORPORATION

July 27, 1989

United States Department of Interior  
Minerals Management Service  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394

Attention: Ms. La Nelle Boehm  
Adjudication Unit, LE-3-1

RE: Federal Lease OCS-G 5547  
Block 160, Ship Shoal Area  
Federal Offshore Louisiana

Ladies and Gentlemen:

Enclosed herewith you will find an executed copy of the following described Conveyance of Overriding Royalty Interest affecting the captioned lease for filing:

Conveyance of Overriding Royalty Interest dated effective October 15, 1988, executed by Walter Oil & Gas Corporation, as Assignor, in favor of Robert D. Jolly, David A. Pustka and Rodney L. Cottrell, as Assignees, covering Federal Lease OCS-G 5547, Block 160, Ship Shoal Area, Offshore Louisiana.

We also enclose our check in the the amount of \$25.00 to cover the filing fee for the above conveyance.

We hereby request that the above Conveyance be placed in the file affecting the captioned lease, and that you evidence such filing by signing and returning the enclosed duplicate of this letter to the attention of the undersigned.

Yours *very* truly,

Ron A. Wilson

RAW:hf

Enclosure

RECEIVED AND FILED THE ABOVE DESCRIBED CONVEYANCE  
AS OF THE 28th DAY OF September, 1989.

MINERALS MANAGEMENT SERVICE

BY La Nelle Boehm

La Nelle Boehm

RECEIVED

SEP 28 1989

Minerals Management Service  
Leasing & Environment

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

SHIP SHOAL AREA BLOCK 160            {  
GULF OF MEXICO                        {  
FEDERAL OFFSHORE, LOUISIANA        {

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 certain undivided interests in and to the hereinafter described lease:

Oil and Gas Lease of Submerged Lands (the "Lease") bearing Serial No. OCS-G 5547, dated effective as of July 1, 1983, between the United States of America, as Lessor, and Texaco Inc. and Union Oil Company of California, as Lessees, covering all of Block 150, Ship Shoal Area, OCS Leasing Map, Louisiana Map No. 5, containing approximately 5,000.00 acres.

NOW, THEREFORE, WALTER OIL & GAS CORPORATION, a Texas corporation, whose address is 240 The Main Building, 1212 Main Street, Houston, Texas, 77002 (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 one percent of six-sixths (1% 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:

Robert D. Jolly 201 Vanderpool #122 Houston, Texas 77024	1/3
David A. Pustka 5916 Annapolis Houston, Texas 77005	1/3
Rodney L. Cottrell 2915 Woodland Ridge Kingwood, Texas 77345	1/3

Such overriding royalties shall be free and clear of all costs of developing, operating and maintaining the lease in force and effect.

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**Minerals Management Service  
Leasing & Environment**

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, 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, or if Assignor owns less than the full and entire undivided leasehold estate under the Lease, 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 and the ratio that the leasehold estate owned by Assignor bears to the entire undivided leasehold estate.

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 heirs, 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.

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.

Should Assignor enter into a contract for the sale of gas from the Lease, and such sales agreement is with an unaffiliated third party, then the payments to Assignee pursuant to this Assignment shall be made based upon the net price received by Assignor under said contract, after deducting any third party transportation costs or other costs or charges incurred in making the gas ready or available for market to the point of sale, provided such costs or charges are deductible from Lessors' royalty under the terms of the

Lease or applicable regulations. In no event and under no circumstances shall Assignee ever have the right 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.

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 instrument is executed and delivered this 21st day of July, 1989, but made effective for all purposes as of the 15th day of October, 1988.

WITNESSES:

  
\_\_\_\_\_  
*Agnes M. Dejo*

WALTER OIL & GAS CORPORATION

By   
\_\_\_\_\_  
J.C. Walter, III  
President.



STATE OF TEXAS {  
COUNTY OF HARRIS {

On this 21st day of July, 1989, 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*

Helen Fowler  
Notary Public in and for the  
State of Texas

My Commission Expires 9/30/92.

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST  
BLOCK 160, SHIP SHOAL AREA  
FEDERAL OFFSHORE, LOUISIANA



WALTER OIL & GAS CORPORATION

February 3, 1989

United States Department of Interior  
Minerals Management Service  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394

Attention: Ms. La Nelle Boehm  
Adjudication Unit, LE-3-1

RE: Federal Lease OCS-G 5547  
Block 160, Ship Shoal Area  
Federal Offshore Louisiana

Ladies and Gentlemen:

Enclosed herewith you will find an executed copy of the following described Conveyance of Overriding Royalty Interest affecting the captioned lease for filing:

Conveyance of Overriding Royalty Interest dated effective October 17, 1988, executed on behalf of Walter Development Corporation, as Assignor, in favor of Leeway & Co., et al, as Assignees, covering Federal Lease OCS-G 5547, Block 160, Ship Shoal Area, Offshore Louisiana.

We also enclose our check in the the amount of \$25.00 to cover the filing fee for the above conveyance.

We hereby request that the above Conveyance be placed in the file affecting the captioned lease, and that you evidence such filing by signing and returning the enclosed duplicate of this letter to the attention of the undersigned.

Yours very truly,

Ron A. Wilson

RAW:hf

Enclosure

RECEIVED AND FILED THE ABOVE DESCRIBED CONVEYANCE  
AS OF THE 6<sup>th</sup> DAY OF February, 1989.

MINERALS MANAGEMENT SERVICE

BY

La Nelle Boehm  
La Nelle Boehm

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Minerals Management Service  
Leasing & Environment

CONVEYANCE OF OVERRIDING ROYALTY INTEREST  
(1988 Prospects)

THE STATE OF LOUISIANA            \$  
   \$    KNOW ALL MEN BY THESE PRESENTS:  
 PARISH OF TERREBONNE            \$

That WALTER DEVELOPMENT CORPORATION, a Texas corporation with offices at 240 The Main Building, 1212 Main Street, Houston, Texas 77002 ("Assignor"), for and in consideration of Ten and NO/100 Dollars (\$10.00) and other good and valuable considerations to it paid by the Purchasers named on the schedule attached hereto as Exhibit "A" and made a part hereof for all purposes ("Assignees"), the receipt and sufficiency of which are hereby acknowledged by Assignor, has Bargained, Sold, Granted, Conveyed, Transferred, Assigned, Set Over, and Delivered, and by these presents does hereby Bargain, Sell, Grant, Convey, Transfer, Assign, Set Over, and Deliver unto Assignees, their successors and assigns in the undivided several proportions as set forth on the said Exhibit "A" (and not jointly or as tenants in common), effective as of the Effective Date, an overriding royalty interest (the "Overriding Royalty Interest") in and to the Minerals in and under and produced and saved from the lands covered by the Leases, payable solely out of gross proceeds from the sale of the Subject Minerals produced and saved through the Subject Wells in excess of Manufacturing Proceeds in an amount equal to the Net Cash Flow attributable to the Subject Interests calculated with respect to all of the Subject Interests as a group, all as more fully provided hereinbelow.

TO HAVE AND TO HOLD the Overriding Royalty Interest, together with all and singular the rights and appurtenances thereto in anywise belonging, unto Assignees, their successors and assigns, subject, however, to the following terms and provisions, to-wit:

ARTICLE I

As used herein, the following terms shall have the meaning ascribed to them below:

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Minerals Management Service  
Leasing & Environment

"Abandonment Costs" shall mean the costs of plugging and abandoning the Subject Wells, the costs of dismantling and salvaging the platforms, pipelines and other facilities and structures on the Subject Interests and other costs associated with restoration of the Subject Interests in accordance with applicable law (and, if applicable) the rules and regulations of the Minerals Management Service of the U.S. Department of the Interior, net of estimated salvage value of any salvageable equipment or personalty on the Subject Interests.

"Assignees" shall have the meaning attributed to it in the first grammatical paragraph of this Conveyance, it being understood that Assignees shall not be deemed joint tenants, tenants in common or members of any association or mining partnership.

"Assignor" shall have the meaning attributed to it in the first grammatical paragraph of this Conveyance.

"Business Day" shall mean a day on which any bank to or from which a payment authorized hereunder may be made are not closed as authorized or required by law.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Conveyance" shall mean this Conveyance of Overriding Royalty Interest.

"Development Agreement" shall mean that certain Development Agreement dated as of January 1, 1987, between Assignor and Walter Oil & Gas Corporation pursuant to which Assignor participates in certain Prospects by paying a portion of the development costs related thereto.

"Development Interest" shall mean, as to a Prospect, the portion of the Subject Interests which are acquired by Assignor pursuant to the terms and provisions of the Development Agreement.

"Effective Date" shall mean 7:00 a.m., local time in effect where the Subject Interests are located on October 17, 1988.

"Exploration Interest" shall mean, as to a Prospect, the portion of the Subject Interests which are acquired by Assignor pursuant to the Walter Exploration Program Agreement.

"First Reversion Amount" shall mean an amount of cash which would have been distributed to Assignees hereunder if the Net Cash Flow had been computed with respect to the Development Interests only, equal to the total sum theretofore paid by Assignees in (a) Development ORI Purchase Price Amounts (as defined in the Master Purchase Agreement) and (b) sums, if any, paid by Assignees pursuant to Section 4.02 of the Master Purchase Agreement, all to be computed on the 1988 Prospects, as a group.

"Independent Petroleum Engineer" shall mean Raymond S. Hansen, or such other firm of independent petroleum engineers as may be approved by Assignees.

"Lease Acquisition Costs" shall have the meaning ascribed to it in the Walter Exploration Program Agreement.

"Leases" shall mean all of the oil, gas and other mineral leases, as a group, in which Assignor owns an interest pursuant to the Walter Exploration Program Agreement or the Development Agreement, including, but not limited to, (i) the oil and gas leases, oil, gas, and mineral leases, and other mineral leases described in Exhibit "B" attached hereto and any leasehold interest in any other oil and gas lease, oil, gas, and mineral lease, or other mineral lease derived from the pooling or unitization of such leases with the leases, or any part thereof, described in Exhibit "B" hereto, together with any and all extensions thereof or any part thereof in which Assignor acquires or maintains an interest, and (ii) any oil and gas lease, oil, gas, and mineral lease, or other mineral lease, together with any and all extensions thereof or any part thereof in which Assignor acquires or maintains an interest, executed subsequent to the Effective Date, to the extent, but only to the extent, that such subsequent lease (aa) covers all or any portion of the lands covered by the leases referred to in clause (i) of this sentence, and (bb) is acquired by or for the benefit of Assignor either prior to or within one (1) year after the expiration of the leases referred to in clause (i) of this sentence.

"Manufacturing Costs" shall mean the costs of manufacturing, processing, or refining operations (but not conventional mechanical liquid-gas separation) that generate Manufacturing Proceeds.

"Manufacturing Proceeds" shall mean the excess of (i) proceeds realized from the sale of Subject Minerals, or products thereof, that are the result of any manufacturing,

processing, or refining operations over (ii) the part of such proceeds that represents the fair market value at the wellhead (after being separated by a conventional mechanical liquid-gas separator) of such Subject Minerals before any such manufacturing, processing, or refining operation.

"Master Purchase Agreement" shall mean that certain Master Purchase Agreement entered into by and between Assignor, Assignees and others effective as of January 1, 1987.

"Minerals" shall mean (i) oil, (ii) gas, (iii) casing-head gas, (iv) sulfur, and (v) associated hydrocarbons produced with oil or gas or casinghead gas, but shall exclude coal, lignite, uranium, and all other non-hydrocarbon substances.

"Net Cash Flow" shall have the meaning attributed to it in Section 2.3(d).

"Net Cash Flow Account" shall mean the account maintained in accordance with the provisions of Section 2.3.

"1988 Prospects" shall mean all of the Prospects covered by the Walter Exploration Program Agreement as to which Assignees have acquired an Overriding Royalty Interest pursuant to the Master Purchase Agreement.

"NRI" shall mean the interest (expressed as a percentage) of Assignor in the production of Minerals from a Subject Well, after deducting all applicable royalties, overriding royalties, and other burdens (but computed prior to deducting the Overriding Royalty Interest conveyed pursuant to this Conveyance).

"Overriding Royalty Interest" shall have the meaning attributed to it in the first grammatical paragraph of this Conveyance.

"Person" shall mean any individual, partnership, corporation, trust, unincorporated association, governmental agency, subdivision, or instrumentality, or other entity or association.

"Proceeds Percentage" shall mean:

(a) With respect to all of Assignor's Exploration Interests:

(i) Ninety-five percent (95%) until such time as Assignees have paid an Initial ORI Purchase Price Amount, pursuant to the Master Purchase Agreement, for an Overriding Royalty Interest out of any of Assignor's Development Interests, and

(ii) 100% thereafter;

(b) With respect to all of Assignor's Development Interests:

(i) Ninety-five percent (95%) at all times when the First Reversion Amount is not deemed to have been distributed to Assignees, but

(ii) Forty-five percent (45%) at all times when the First Reversion Amount is deemed to have been distributed to Assignees but the Second Reversion Amount is not deemed to have been distributed to Assignees, but

(iii) Twenty-five percent (25%) at all times when the First Reversion Amount and the Second Reversion Amount are deemed to have been distributed to Assignees.

"Quarterly Record Date" shall mean for each of the months of April, July, October and January, the twenty-fifth (25th) day of such month, provided that if the twenty-fifth (25th) day of any such month is not a Business Day, then the Quarterly Record Date shall be the first Business Day following the twenty-fifth (25th) day of such month.

"Reference Quarter" shall have the meaning attributed to it in Section 2.3(d).

"Second Reversion Amount" shall mean an amount of cash which would have been distributed to Assignees hereunder if the Net Cash Flow had been computed with respect to the Development Interests only, equal to the total sum theretofore paid by Assignees in (a) Development ORI Purchase Price Amounts and (b) sums, if any, paid by Assignees pursuant to Section 4.02 of the Master Purchase Agreement, plus a twenty percent (20%) rate of return on such amounts described in (a) and (b) (as said amount is calculated in accordance with Exhibit "C" attached hereto and made a part hereof for all purposes), all to be computed on the 1988 Prospects, as a group.

"Subject Interests" shall mean each kind and character of right, title, claim, or interest (collectively the

"rights"); that Assignor has or may own pursuant to the Walter Exploration Program Agreement and the Development Agreement in and to the Leases (or portions thereof) described in clause (i) of the definition of "Leases" and each right that Assignor may acquire in the future in and to any Lease (or portions thereof) described in clause (i) or clause (ii) of the definition of "Leases", whether such right be under or by virtue of a lease, a unitization or pooling order, an operating agreement, a division order, or a transfer order or be under or by virtue of any other type of claim or title, legal or equitable, recorded or unrecorded, all as such right shall be (a) enlarged or diminished by virtue of the provisions of Article VII hereof and (b) enlarged by the discharge of any payments out of production or by the removal of any charges or encumbrances to which any of such rights are subject on the Effective Date and any and all renewals and extensions of the right occurring within one year after the expiration of such right.

"Subject Minerals" shall mean all Minerals in, on, under and that may be produced, saved, and sold from, and that shall accrue and be attributable to, the Subject Interests from and after the Effective Date. There shall not be included in the Subject Minerals any Minerals attributable to nonconsent operations conducted with respect to the Subject Interests (or any portion thereof) as to which Assignor shall be a nonconsenting party and dedicated to the recoupment or reimbursement of costs and expenses of the consenting party or parties by the terms of the relevant operating agreement, unit agreement, contract for development, or other instrument providing for such nonconsent operations, provided Assignor's election not to participate in such operations is made in conformity with the provisions of the Master Purchase Agreement.

"Subject Well" shall mean each well on the Subject Interests in respect of which Assignor owns any interest or is entitled to any of the Minerals production or the proceeds therefrom (whether directly or, by virtue of the effect of any non-consent provisions, farmout or farmin provisions, or other provisions, indirectly).

"Walter Exploration Program Agreement" shall mean the Walter 1988 Exploration Program Agreement between Assignor and Walter Oil & Gas Corporation dated as of January 1, 1988.

"WI" shall mean the leasehold or operating interest (expressed as a percentage) of Assignor in a Subject Well or



Lease, as applicable, with respect to the Minerals produced therefrom.

"Windfall Profit Tax" shall mean the tax imposed by the Crude Oil Windfall Profit Tax Act of 1980 or any excise tax to the same or similar effect.

## ARTICLE II

2.1 The Overriding Royalty Interest does not include any right, title, or interest in and to any personal property, fixtures, or equipment and is exclusively an interest in and to the Minerals in and under and produced and saved from the lands covered by the Leases, and Assignees shall look solely to the Subject Minerals and payments in respect thereof (as provided herein) for the satisfactory and realization of the Overriding Royalty Interest.

2.2 Except as set forth in the immediately succeeding sentence, Assignor shall have the right and, to the extent that Assignor is marketing or causing to be marketed its own share of Minerals, the obligation to market or cause to be marketed the Minerals allocable to the Overriding Royalty Interest and shall market or cause to be marketed such production proportionately with and on the same terms as Assignor's share of the production from such Lease but in no event for a price less than the price for which Assignor, acting as a reasonable and prudent operator, is marketing or causing to be marketed its own share of such Minerals from such Lease. To the extent Assignor is not marketing or causing to be marketed its own share of Minerals, Assignor shall use its best efforts to market or cause to be marketed, for a price that would be acceptable to a reasonable and prudent operator under the same or similar circumstances, the Minerals allocable to the Overriding Royalty Interest in respect of each Lease with purchasers possessing a credit standing that a prudent operator would find acceptable. Should Assignees dispose of their Overriding Royalty Interest in respect of a Lease to a third party, such third party shall have the right, by so notifying Assignor, to designate the purchaser of the Minerals allocable to the Overriding Royalty Interest, but until such time, if any, as such right is exercised, Assignor shall have the right and obligation to market such Minerals in accordance with the standard referred to in the immediately preceding two sentences.

2.3 Assignor shall maintain, on a cash basis, true and correct books and records in order to determine the credits

and debits to an account (the "Net Cash Flow Account") from and after the Effective Date, in accordance with the terms of this Conveyance and prudent and accepted accounting practices. For purposes of this Section 2.3,

(1) the revenues and expenses related to the Exploration Interests shall be computed, and the combined result of such revenues and expenses shall be determined, for all of the Exploration Interests as a group, and

(2) the revenues and expenses related to the Development Interests shall be computed, and the combined result of such revenues and expenses shall be determined, for all of the Development Interests, as a group.

The respective results of (1) and (2) from the preceding sentence shall be utilized to determine the Net Cash Flow in accordance with the provisions of Section 2.3(d) hereof.

(a) The Net Cash Flow Account shall be credited with an amount equal to the sum, from and after the Effective Date, of the gross proceeds (determined before calculating the Overriding Royalty Interest) from the sale of all Subject Minerals (including, without limitation, proceeds attributable to take or pay payments) attributable to the Leases; provided, however, that

(i) if any Subject Minerals are manufactured, refined, or processed (other than through liquid separation operations in the vicinity of the well using a conventional mechanical liquid-gas separator), the proceeds from the sale of such Subject Minerals shall be reduced by the Manufacturing Proceeds;

(ii) if as a result of the occurrence of the bankruptcy or insolvency or similar occurrence of the purchaser of such Subject Minerals any amounts previously credited to the Net Cash Flow Account are, in fact, reclaimed from Assignor or its representative, then a debit to the Net Cash Flow Account shall be made in the amounts reclaimed as promptly as practicable following Assignor's payment thereof;

(iii) the Net Cash Flow Account shall not be credited with any amount that Assignor shall receive for any sale or other disposition of any of the Subject Interests or out of any payments made to Assignor and related to "carried

interest" arrangements whereby Assignor's costs and expenses attributable to any of the Subject Interests is paid by a third party or in connection with any adjustment of any well and leasehold equipment upon unitization of any of the Subject Interests; and

(iv) if a controversy or possible controversy exists (whether by reason of any statute, order, decree, rule, regulation, contract, or otherwise) as to the correct or lawful sales price of any Subject Minerals, or if any amounts received by Assignor as "take-or-pay" or "ratable take" payments are subject to refund to any purchasers of Subject Minerals, then

(aa) amounts withheld by such purchaser or deposited by it with an escrow agent shall not be considered to have been received by Assignor and shall not be credited to the Net Cash Flow Account until actually collected by Assignor; provided, however, that the Net Cash Flow Account shall not be credited with any interest, penalty, or other amount that is not derived from the sale of Subject Minerals, but, instead, Assignor shall make payment directly to Assignees of Assignees' allocable share of any such amounts paid to Assignor by the purchaser of Subject Minerals or the escrow agent, and

(bb) amounts received by Assignor and promptly deposited by it with a non-affiliate escrow agent, to be placed in interest bearing accounts under usual and customary terms, shall not be considered to have been received by Assignor and shall not be credited to the Net Cash Flow Account until disbursed to Assignor by such escrow agent; provided, however, that the Net Cash Flow Account shall not be credited with any interest, but, instead, Assignor shall make payment directly to Assignees of Assignees' allocable share of any such interest disbursed to Assignor by the escrow agent.

(b) The Net Cash Flow Account in respect of the Subject Interests shall be debited with an amount equal to the sum of the following (other than Manufacturing Costs), to the extent that the same are properly allocable to the Subject Wells for which such Net Cash Flow Account is maintained and the production and marketing of Subject Minerals therefrom and have been incurred and paid by Assignor, with respect to each such well, subsequent to the Effective Date, but only to the extent that such items have not been used as a basis for measuring any purchase price

paid by Assignees to Assignor for this Conveyance, as provided in the Master Purchase Agreement:

(i) The costs incurred by Assignor of direct labor, transportation, and other services necessary for drilling, operating, maintaining, reworking, and producing the Subject Wells and for all material, equipment, and supplies purchased and used on such wells and overhead costs paid to the operator (including Assignor where it is the operator) of the wells pursuant to the applicable operating agreements; provided that such costs shall be reduced by amounts received by Assignor attributable to the Subject Interests for the sale of fixtures and equipment therefrom;

(ii) The costs of dehydration, compression, separation, transportation, and marketing of production from the Subject Wells;

(iii) The costs of litigation, liens, judgments, and liquidated liabilities including amounts paid as a refund, penalty, or interest because the amount initially received by Assignor as a sales price of Subject Minerals was more, or allegedly more, than permitted by the terms of any applicable contract, statute, regulation, order, decree, or other obligation (provided, however, that such amounts were previously credited to the Net Cash Flow Account) and claims attributable to the operation, maintenance, or production of the wells;

(iv) All taxes (except income taxes and the Windfall Profit Tax) assessed against or attributable to the Subject Wells or the Subject Minerals produced therefrom;

(v) Direct costs which Assignor may be required to pay to counsel for Assignees and to Huddleston & Co., as engineering consultant for Assignees in connection with or relating to the preparation of this Conveyance, the Master Purchase Agreement, the Development Agreement and the Walter Exploration Program Agreements; recording costs incurred in connection with the filing of this Conveyance; and the costs incurred by Assignor for the audits, if any, conducted by Assignees pursuant to Section 2.3(g) below;

(vi) Lease Acquisition Costs allocated to the Subject Interests by Assignor, all shut-in royalties or similar payments or rentals with respect to the Subject Interests;

(vii) Premiums on insurance carried pursuant to Section 6.1(h);

(viii) Subject to the provisions of Article VIII hereof, all Abandonment Costs;

(ix) The costs incurred by Assignor in connection with the exercise of its rights pursuant to Section 10.9;

(x) The cash payments made by Assignor upon any pooling or unitization of the Subject Interests;

(xi) All other costs reasonably incurred by Assignor for the necessary or proper drilling, completion, hook up, production, operation, reworking, recompleting, and maintenance of the Subject Wells and the Subject Interests;

(xii) All other costs incurred by Assignor pursuant to the Walter Exploration Program Agreement, the Development Agreement and any applicable operating agreement; and

(xiii) Provided that the costs referred to in this Section 2.3(b) shall be reduced by (a) amounts received by Assignor for dry hole, bottom hole or other similar contributions related to the Subject Interests, (b) the applicable actual salvage value (as determined in accordance with the applicable operating agreement then in effect and binding upon Assignor) of any personalty, platforms, equipment, pipelines or gathering lines related to the Subject Interests, less, in each instance the actual costs of salvage, (c) the cash payments received by Assignor as a result of any pooling or unitization of the Subject Interests, (d) any insurance proceeds received by Assignor in respect of the Subject Interests, (e) any excess amounts which are released to Assignor pursuant to Section 8.2 hereof, and (f) amounts received by Assignor upon the adjustment of Assignor's interest pursuant to Section 3.7 of the Walter Exploration Program Agreement and Section 5.02 of the Development Agreement.

(c) Nothing set forth in this Section 2.3 shall be interpreted or applied in any manner that shall ever require or permit any duplication of all or any part of any credit or charge to any Net Cash Flow Account with respect to the same transaction, item of expense or charge, whether under this Agreement or reflected in the Master Purchase Agreement, or that shall ever require or permit any

inclusion of any charge to any Net Cash Flow Account that is reimbursed to Assignor at any time by any Person. Further, no charge may be made to the Net Cash Flow Account which is used to measure any purchase price for this Conveyance pursuant to the Master Purchase Agreement.

(d) Each quarter year (ending on the last day of each March, June, September and December) (the "Reference Quarter") after the Effective Date:

(i) There shall be deducted (aa) the total debits properly made to the portion of the Net Cash Flow Account which is related to the Exploration Interests during such Reference Quarter pursuant to Section 2.3(b) from (bb) the total credits properly made to the portion of such Net Cash Flow Account which is related to the Exploration Interests during such Reference Quarter pursuant to Section 2.3(a), and

(ii) There shall be deducted (aa) the total debits properly made to the portion of the Net Cash Flow Account which is related to the Development Interests during such Reference Quarter pursuant to Section 2.3(b) from (bb) the total credits properly made to the portion of such Net Cash Flow Account which is related to the Development Interests during such Reference Quarter pursuant to Section 2.3(a).

The net cash flow ("Net Cash Flow") shall then be determined by (1) applying the applicable Proceeds Percentages to the portions of the respective balances in the Net Cash Flow Account which are derived from the Exploration Interests and Development Interests as determined by (i) and (ii) above, then (2) combining the results obtained from (1) above, and then (3) deducting any Debit Balance, if any, of Net Cash Flow from the end of the immediately preceding Reference Quarter. If the computations made in accordance with this Section 2.3(d) and the effect of amounts withheld or computed and paid for Assignees' Windfall Profit Tax result in a negative sum at the end of a Reference Quarter the negative sum shall be deemed the "Debit Balance". Any Debit Balance shall be carried forward to be applied to the end of the immediately following Reference Quarter or, if not completely utilized, to succeeding Reference Quarters. If there is a Debit Balance at the end of any Reference Quarter, no payments shall be made to Assignees in respect of the Overriding Royalty Interest nor shall Assignees ever be liable to make any payment to Assignor in respect of the Debit Balance.

(e) Unless the payments of Net Cash Flow have been suspended pursuant to Section 4.02 of the Master Purchase Agreement, on or before the Quarterly Record Date for each Reference Quarter, Assignor shall transfer or cause to be transferred to Assignees (by wire transfer to a bank account designated in writing by each Assignee from time to time) an amount in respect of the Subject Interests equal to the excess of the Net Cash Flow for the immediately preceding Reference Quarter over the amount of Windfall Profit Tax with respect to the immediately preceding Reference Quarter withheld or paid and computed by Assignor on behalf of each Assignee in accordance with the applicable provisions of the Code and the Department of Treasury regulations promulgated thereunder with respect to the production attributable to the Overriding Royalty Interest.

(f) All funds delivered to Assignees on account of the Overriding Royalty Interest shall be calculated and paid entirely and exclusively out of the proceeds attributable to the Subject Minerals in excess of the aggregate of Manufacturing Proceeds (as provided herein); and in no event shall such payments ever exceed 100% of the gross fair market value of such production (the "Gross Value") at the wellhead before the application of any manufacturing, processing, refining or conversion process or any transportation away therefrom; and should the payments to Assignees, computed in accordance herewith ever exceed such Gross Value, then the amounts by which such payments exceed the Gross Value (the "Overage") shall be suspended and accrued; and if the payments calculated in accordance herewith are ever again less than the Gross Value, the Overage shall be added to subsequent payments but not in an amount which would then cause payments to exceed the Gross Value so that Assignees shall, if possible, be entitled to receive the total amount to be distributed hereunder as if the limitation imposed by the Gross Value had not been in effect.

(g) The books of account and records of Assignor relating to the Net Cash Flow Account shall be open at all reasonable times for examination, inspection, copying, and audit by Assignees and its representatives, at Assignor's expense, subject to a charge to the Net Cash Flow Account as provided in Section 2.3(b)(v) hereinabove.

(h) No later than April 30 of each year, the determination of the amount that should have been paid to Assignees pursuant to Section 2.3(d) in respect of the immediately preceding calendar year shall be calculated by Assignor and submitted, together with substantiating data,

by Assignor to Assignees for approval. If Assignees shall have received less than the actual amount of its Overriding Royalty Interest, Assignor shall deliver to Assignees, within seven (7) days after Assignor and Assignees have reached agreement with respect to such actual amount, the amount necessary for Assignees to have received an amount equal to its Overriding Royalty Interest. If Assignees shall have received more than the amount of its Overriding Royalty Interest, Assignor, within seven (7) days after Assignor and Assignees have reached agreement with respect to such actual amount, may charge the Net Cash Flow Account with an amount necessary to correct the imbalance.

### ARTICLE III

3.1 Assignor shall furnish to Assignees (a) reports, in reasonable detail, with respect to (i) the productivity and productive life of all or any of the Subject Wells, (ii) the quantity of Subject Minerals recoverable from all or any of the Subject Wells, (iii) the projected proceeds and costs attributable to the Subject Interests in respect of each such well, (iv) any changes made or proposed to be made in the methods or treatment and operation of each such well, any proposed abandonment of a well, any plugging of a well and reopening thereof at a different level, any method of repressuring which may affect such well, or any other action that may materially increase or reduce the value of the Overriding Royalty Interest, and (b) if requested by Assignees and to the extent not prohibited by agreements with third parties (Assignor hereby agreeing to use its best efforts to obtain the requisite consent from such third parties to disclose such information to Assignees), pertinent well data sufficient for making well and reserve evaluations, including, without limitation, electric logs, core data, bottom hole pressure data, and other reasonable well data. In addition, except as set forth in the immediately succeeding sentence, Assignor shall notify Assignees ninety (90) days prior to the release, surrender, or termination of any of the Subject Interests. Should Assignor not have at least ninety (90) days prior notice of such release, surrender, or termination, then Assignor shall notify Assignees of such event as promptly as practicable after Assignor has such notice. Assignor shall not be required to furnish the items referred to in clauses (i) through (iii) of the first sentence of this Section 3.1 more frequently than once in each calendar year.

3.2 On or before April 30 of each year, Assignor shall furnish to Assignees a written engineering report with



respect to the Subject Interests and each Subject Well prepared as of January 1 of the year in question by the Independent Petroleum Engineer, setting forth such firm's evaluation of proved developed and proved undeveloped Mineral reserves (and containing such comments with respect to probable Mineral reserves as the Independent Petroleum Engineer may deem appropriate) attributable to the Subject Interests, using such set or sets of pricing assumptions as may be provided to the Independent Petroleum Engineer by Assignees. Such report shall set forth estimates of future net revenue, the present value thereof at discounted rates, and the assumptions utilized in arriving at the estimates contained therein.

3.3 No later than April 30 of each year, Assignor shall furnish to Agent an annual report for the immediately preceding calendar year containing the computation of the Net Cash Flow, including the components thereof, prepared on a cash basis and accompanied by a certified report of Arthur Andersen & Co. Such report shall include a detailed itemization, by type or classification, of the total costs and expenses paid by Assignor and used in calculating Net Cash Flow.

3.4 On or before the Quarterly Record Date, Assignor shall deliver to Assignees a statement showing:

(i) the computation of Net Cash Flow attributable to the immediately preceding quarter and the computation of Net Cash Flow paid to Assignees from and after the Effective Date until the close of such Reference Quarter;

(ii) a summary of the computation made or other methods used in determining the Manufacturing Proceeds during such Reference Quarter;

(iii) a list of the wells drilled on the Subject Interests, a statement of the cost of each well completed or abandoned, and a statement describing the reason for abandoning any well;

(iv) a general description of all marketing arrangements, or any changes thereof, that have been made with respect to Minerals produced from the Subject Interests during a Reference Quarter; and

(v) a description of each sale, farmout or other disposition of an interest in the Subject Interests by Assignor.

It is contemplated that in some instances Assignor will not be the operator of the Subject Interests and its access to information may be limited. Accordingly, the reports required by this Subsection 3.4 shall be prepared by Assignor based upon the best information reasonably available to it.

#### ARTICLE IV

THE PROVISIONS OF SECTION 2.3 AND THE NET CASH FLOW ACCOUNT PROVIDED FOR THEREIN ARE FOR THE SOLE PURPOSE OF PROVIDING A MEASURE FOR DETERMINING THE OVERRIDING ROYALTY INTEREST, AND IN NO EVENT SHALL ASSIGNEES EVER BE LIABLE OR RESPONSIBLE IN ANY WAY FOR PAYMENT OF ANY PART OF THE COSTS EXPENSES CHARGED AGAINST ANY NET CASH FLOW ACCOUNT OR ANY LIABILITIES INCURRED IN CONNECTION WITH THE DEVELOPING, EXPLORING, DRILLING, EQUIPPING, TESTING, OPERATING, PRODUCING, MAINTAINING, OR PLUGGING AND ABANDONING OF ANY WELL OR THE STORING, HANDLING, TREATING, OR MARKETING OF THE PRODUCTION THEREFROM, ASSIGNOR HEREBY AGREEING TO INDEMNIFY AND SAVE HARMLESS ASSIGNEES FROM AND AGAINST ANY SUCH RESPONSIBILITY AND LIABILITY AND FROM AND AGAINST ANY LOSS, COST (INCLUDING, WITHOUT LIMITATION, THE COST OF THE SUIT AND ATTORNEY'S FEES), CLAIM, CAUSE OF ACTION, AND LIABILITY ARISING OUT OF, RESULTING FROM, OR ATTRIBUTABLE TO SAME OR, TO THE BREACH OF ANY COVENANT OR WARRANTY OF ASSIGNOR UNDER THIS CONVEYANCE.

#### ARTICLE V

IT IS THE EXPRESS INTENT OF ASSIGNOR AND ASSIGNEES THAT THE OVERRIDING ROYALTY INTEREST SHALL CONSTITUTE (AND THIS CONVEYANCE SHALL CONCLUSIVELY BE CONSTRUED FOR ALL PURPOSES AS CREATING) A NON-OPERATING MINERAL RIGHT FOR ALL PURPOSES. WITHOUT LIMITATION OF THE GENERALITY OF THE IMMEDIATELY PRECEDING SENTENCE, ASSIGNOR AND ASSIGNEES ACKNOWLEDGE THAT ASSIGNEES HAVE NO RIGHT OR POWER TO PARTICIPATE IN THE SELECTION OF A DRILLING CONTRACTOR, TO PROPOSE THE DRILLING OF A WELL, TO DETERMINE THE TIMING OR SEQUENCE OF DRILLING OF A WELL, TO COMMENCE OR SHUT DOWN PRODUCTION, TO TAKE OPERATIONAL DECISIONS, OR TO SHARE IN ANY OPERATING DECISION WITH ASSIGNOR AND ASSIGNEES HEREBY EXPRESSLY NEGATE THE POSSIBILITY OF CREATING (AND THIS CONVEYANCE SHALL NEVER BE CONSTRUED AS CREATING) A MINING OR OTHER PARTNERSHIP OR JOINT VENTURE OR OTHER RELATIONSHIP SUBJECTING ASSIGNOR AND ASSIGNEES LIABLE JOINTLY.

## ARTICLE VI

6.1 Subject to the terms of the Master Purchase Agreement, Assignor covenants that it will cause:

(a) A prudent operating and maintenance program designed to drill and complete or abandon the Subject Wells to be conducted on the lands covered by the Leases and the spacing units containing any lands covered by the Leases as would a reasonable and prudent operator and in accordance with sound field practices;

(b) The Subject Wells to be maintained and operated for the production of Minerals in a good and workmanlike manner and in accordance with sound field practices, applicable operating agreements, unit operating agreements, contracts of development, or similar instruments and, in all material respects, with all applicable laws, rules, regulations, permits, orders, or decrees, except those being contested in good faith and by appropriate proceedings (provided that no forfeiture or loss of the Subject Interests or the Subject Minerals or any part thereof shall result during the pendency or in the resolution of such contest), and such wells to be produced at the maximum efficient legal rate (subject, however, to any applicable state and/or federal laws, rules, and/or regulations governing the amount of Minerals that may be produced from a Subject Well); provided, however, that nothing contained in this paragraph shall be deemed to prevent or restrict Assignor from electing not to participate in any operations that are to be conducted under the terms of any operating agreement, unit operating agreement, contract for development, or similar instrument affecting or pertaining to the Subject Interests (or any portion thereof) and permitting consenting parties to conduct non-consent operations thereon if a reasonable and prudent operator, acting in conformity with sound field practices, would make such elections;

(c) All rentals and royalties with respect to the Subject Interests and the Subject Wells to be paid;

(d) All taxes, assessments, and governmental charges or levies and all claims asserted or imposed upon the Subject Interests (other than those being contested in good faith and by appropriate proceedings; provided that no forfeiture or loss of the Subject Interests or the Subject Minerals or any part thereof shall result during the pendency of or in the resolution of such contest) that, if

unpaid, may become a lien upon the Subject Interests or any of the Subject Wells, to be paid prior to delinquency;

(e) All machinery, equipment, and facilities of any kind now or hereafter located on the Subject Interests necessary or useful in the operation thereof or for the production of Minerals therefrom, to be provided and to be kept in good and effective operating condition, and all repairs, renewals, replacements, additions, and improvements thereon or thereto needful to such end, to be promptly made, all as would a reasonable and prudent operator acting in accordance with sound field practices;

(f) Notice to be given to Assignees of every material adverse claim or demand of which Assignor has actual knowledge made by any Person, affecting the Subject Interests or one or more Subject Wells, or of any material proceedings instituted with respect thereto, and all reasonably necessary and proper steps to be diligently taken to protect and defend the Subject Interests and the Subject Minerals and such wells against any such adverse claim, demand, or proceeding, all as would a reasonable and prudent operator;

(g) The Subject Interests, the Subject Minerals, and the Subject Wells to be kept free and clear of liens, charges, and encumbrances of every character, other than (i) taxes constituting a lien but not yet due and payable, (ii) defects or irregularities of title or liens, charges, or encumbrances that are not such as to interfere materially with the operation, value, or use of the Subject Interests, the Subject Minerals, or the Subject Wells, and that do not materially affect title thereto, (iii) those being contested in good faith (provided, however, that no forfeiture or loss of the Subject Interests or the Subject Minerals or any part thereof shall result during the pendency or in the resolution of such contest), and (iv) those, if any, consented to by Assignees in writing;

(h) Insurance of the type and in the amounts as Assignor reasonably deems prudent in respect of the Subject Interests to be maintained, Assignees to be named as an additional assured on the Comprehensive General Liability Insurance policy, the Comprehensive Automobile Liability Insurance policy, the Umbrella Liability Insurance policy, and the Operator's Extra Expense Insurance policy, Assignees to be named as an additional assured on all third party liability policies, the insurers to waive any rights of subrogation against Assignees as respects activity under

this Conveyance or the Master Purchase Agreement and to waive any rights to require Assignees to pay any premiums or other costs in respect of the insurance referred to in this Section 6.1(h), a certificate of such insurance coverage to be furnished to Assignees and, if requested by Assignees, copies of the applicable policies to be furnished to Assignees and

(i) The Windfall Profit Tax attributable to Assignees' Overriding Royalty Interest to be withheld and deposited with the U.S. Treasury. Assignor shall contest any disputes relating to such Tax and, if a refund is obtained, Assignor will promptly pay such amount to Assignees.

6.2 Subject to the terms of the Master Purchase Agreement, Assignor covenants that it will:

(a) (i) Participate in each well drilled on the lands covered by the Leases and in each well drilled on each spacing unit containing any lands covered by the Leases unless a reasonable and prudent operator, acting in the same or similar circumstances, would elect not so to participate and (ii) pay all costs attributable to its WI in respect of each well in which it participates;

(b) Comply in all material respects with all government regulations and reporting requirements related to the Subject Interests and the Subject Wells that, if not complied with, would have a material adverse effect upon the Subject Interests or the Subject Wells;

(c) Perform all material obligations to be performed by it under all material contracts and agreements applicable to the Subject Interests, the Subject Minerals, and the Subject Wells (including, without limitation, operating agreements and Mineral sales contracts) and use its best efforts (by taking such action as is available to it by contract, at law, or in equity) to enforce the performance under such contracts and agreements of the other parties thereto.

6.3 Assignor shall comply with the provisions of Sections 6.1 and 6.2 without regard to the existence of the Overriding Royalty Interest or any other royalty, overriding royalty, or other interest created subsequent to the Effective Date. The provisions set forth in Sections 6.1 and 6.2 that require Assignor to perform certain duties or to take, or cause to be taken, certain actions that can only be

performed or taken by the operator of the well shall be construed to require Assignor, if it is not the operator, to use its best efforts (by taking such action as is available to it by contract, at law, or in equity) to cause the operator to perform the duty or to take action in question. Without limitation of the generality of the foregoing, if the operator elects, pursuant to the applicable operating agreement, to become a non-consenting party with respect to such duty or action, and if Assignor may cause such duty or action to be performed or taken by becoming a consenting party under the applicable operating agreement, then Assignor shall so elect to become a consenting party unless a reasonable and prudent operator, acting in accordance with sound field practices and without regard to the existence of the Overriding Royalty Interest or any other royalty, overriding royalty, or other interest created subsequent to the Effective Date, would refuse to undertake the performance of the duty or the taking of the action in question.

#### ARTICLE VII

Assignor shall have the right to pool or unitize all or any of the Leases as to any one or more of the formations or horizons thereunder, and as to any of the Subject Minerals, when, in the judgment of Assignor (exercising good faith and with fair dealing with respect to the interests of Assignees), it is necessary or advisable to do so in order to form a drilling or proration unit to facilitate the orderly development of the Subject Interests or to comply with the requirements of any law or governmental order or regulation relating to the spacing of wells or proration of the production therefrom. For purposes of computing the Overriding Royalty Interest, there shall be allocated to the Subject Interests included in such unit a pro rata portion of the Minerals produced from the pooled unit on the same basis that production from the pool or unit is allocated to other working interests in such pool or unit. Promptly after formation of any such unit, Assignor shall furnish to Assignees a true copy of the pooling or unitization agreement, declaration, or other instrument creating such unit. The interest in any such unit attributable to the Subject Interests (or any part thereof) included therein shall become a part of the Subject Interests and shall be subject to the Overriding Royalty Interest in the same manner and with the same effect as if such unit and the interest of Assignor therein were specifically described in Exhibit "B" to this Conveyance.

## ARTICLE VIII

8.1 In the event that, as of the end of any month, the aggregate estimated future Net Cash Flow from the Subject Interests, as estimated by the Independent Petroleum Engineer in such engineer's most current report, is less than 200% of the aggregate estimated future Abandonment Costs for the Subject Interests, as estimated by Assignor, Assignor may place in an escrow account (the "Abandonment Cost Escrow Account") an amount equal to sixty-two and one-half percent (62.5%) of the Net Cash Flow (calculated without taking into account the placing of such amounts in the Abandonment Cost Escrow Account for the Subject Interests) for such month. Subject to the provisions of Section 8.2 below, at such time as the amount in the Abandonment Cost Escrow Account for the Subject Interests exceeds 125% of the aggregate estimated future Abandonment Costs for all of the Subject Interests relating to the 1988 Prospects, as a group, no further amount shall be placed in such escrow account until such time as the escrowed funds in the Abandonment Cost Escrow Account shall again be less than 125% of said aggregate estimated future Abandonment Costs. The amounts placed in the Abandonment Cost Escrow Account shall be placed in escrow with an independent escrow agent, and the escrow agreement between Assignor and the escrow agent shall provide that the escrow agent shall place such escrowed funds in certificates of deposit or United States government securities having maturities not to exceed thirty (30) days. At any time, on or prior to the date which any such Abandonment Costs must be incurred and Assignor is required to expend amounts or has expended amounts for Abandonment Costs on the Subject Interests for which an Abandonment Cost Escrow Account has been established, Assignor shall cause the escrow agent to release from the Abandonment Cost Escrow Account for the Subject Interest the lesser of (i) an amount equal to said Abandonment Costs or (ii) the total amount of funds in the Abandonment Cost Escrow Account for the Subject Interests and to pay those amounts to Assignor. If less than all of the funds in the Abandonment Cost Escrow Account are to be released and paid to Assignor after Assignor has incurred and paid all Abandonment Costs relating to all of the Subject Interests on the 1988 Prospects, then the amounts, if any, in the Abandonment Cost Escrow Account shall be paid to Assignor.

8.2 Notwithstanding the provisions of Section 8.1 above, at such time as there remains a single Prospect on which Abandonment Costs are expected to be incurred, Assignor shall retain an independent appraiser satisfactory

to Assignees to estimate the Abandonment Costs to be incurred with respect to such Prospect. Thereupon, Assignor may never retain more than 110% of the estimated future Abandonment Costs with respect to such Prospect (as determined by the independent appraiser) in the Abandonment Cost Escrow Account. If, upon such independent appraisal, more than the required amount remains in the Abandonment Cost Escrow Account, any excess shall be released to Assignor and shall reduce the costs chargeable to the Net Cash Flow Account pursuant to Section 2.3(b) hereof.

#### ARTICLE IX

9.1 Assignor agrees to warrant and forever defend, all and singular, the Overriding Royalty Interest unto Assignees, severally as their respective interests appear, their respective successors and assigns, against all persons whomsoever claiming or to claim the same, or any part thereof, by, through or under Assignor, but not otherwise. This Conveyance shall cover and apply to any after acquired title owned or to be owned by Assignor in the Subject Interests pursuant to the Walter Exploration Program Agreement and the Development Agreement. Assignor also hereby transfers to Assignees by way of substitution and subrogation (to the fullest extent that same may be transferred), all rights or actions over and against all predecessor covenantors or warrantors of title.

9.2 THIS CONVEYANCE IS AN INTEREST IN REAL PROPERTY, AND THE COVENANTS CONTAINED IN THIS CONVEYANCE ARE COVENANTS RUNNING WITH AND BURDENING THE LAND. IN ADDITION TO THE RIGHTS AND COVENANTS CONTAINED IN THIS CONVEYANCE, ASSIGNEES ARE ENTITLED TO ALL OF THE BENEFITS, IMPLIED RIGHTS, AND COVENANTS TO WHICH OVERRIDING ROYALTY INTEREST OWNERS ARE ENTITLED AS A MATTER OF LAW.

9.3 Assignor agrees not to sell, transfer, dispose of, encumber, hypothecate or pledge the Subject Interests, or to borrow money (except for amounts advanced on Assignor's behalf under operating agreements or other similar agreements) or to enter into any agreement relating to any of the foregoing without the prior express written consent of Assignees.

9.4 No disposition of the Subject Interests or any portion thereof or any Subject Well or Subject Wells or any portion thereof shall be effected unless and until it is made expressly subject to the provisions of this Conveyance and unless the Person to whom same is disposed expressly



assumes, in a document delivered to Assignees, the covenants and warranties of Assignor to Assignees set forth in this Conveyance, to the extent that same are applicable to the period from and after the date on which the disposition in question occurs. No disposition or encumbrance of the Subject Interests or any portion thereof or any of the Subject Wells or any portion thereof shall release Assignor from its obligations and liabilities under this Conveyance or subdivide or affect any Net Cash Flow Account.

#### ARTICLE X

10.1 Except as set forth in Section 10.2, all notices, consents, approvals, requests, demands, or other communications required or permitted to be given under this Conveyance must be in writing and may be given by telex, telegram, or telecopier, or by depositing same in the mail, addressed to the party to be notified, postpaid, and registered or certified with return receipt requested, or by delivering such notice in person to such party. Notices given or served pursuant hereto shall be effective upon receipt by the Person to be notified. For purposes of notice, the addresses of Assignor and Assignees shall be as follows:

If to Assignor:           Walter Development Corporation  
                              240 The Main Building  
                              1212 Main Street  
                              Houston, Texas 77002

If to Assignees:           c/o Chase Investors Management  
                              Corporation New York  
                              1211 Avenue of the Americas  
                              New York, New York 10036

Attn: Managing Director  
      Oil & Gas Investments

10.2 Assignor shall transfer or cause to be transferred all monies to which Assignees are entitled hereunder by Federal funds wire transfer not later than the date when due, to each Assignee at the bank account specified by each Assignee in writing to Assignor.

10.3 This Conveyance may not be amended, altered, or modified except pursuant to a written instrument executed by Assignor and Assignees.

10.4 Assignor and Assignees shall from time to time do and perform such further acts and execute and deliver such

further instruments, conveyances, and documents as may be required or reasonably requested by the other party to establish, maintain, or protect the respective rights and remedies of Assignor and Assignees and to carry out and effectuate the intentions and purposes of this Conveyance, provided in each case the same does not conflict with any provision of this Conveyance or of the Master Purchase Agreement. Specifically, as provided in the Master Purchase Agreement, Assignor shall file or cause to be filed this Conveyance for recordation in any jurisdiction where the Subject Interests are located pursuant to laws and regulations of such jurisdiction and Assignor shall also file a copy of each Conveyance covering any of the Subject Interests in Brazoria County, Texas. Filings of this Conveyance shall also be made wherever necessary to establish Assignee's priority of interest and to prevent a trustee in bankruptcy from becoming a hypothetical bona fide purchaser thereof pursuant to Section 544 of the U.S. Bankruptcy Code. In addition, Assignor shall make or cause to be made any appropriate filings with the United States Minerals Management Service.

10.5 The failure of Assignor or Assignees to insist upon strict performance of any provision hereof shall not constitute a waiver of or estoppel against asserting the right to require such performance in the future, nor shall a waiver or estoppel in any one instance constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise.

10.6 Assignor and Assignees acknowledge that Assignees have no right or interest that would permit it to partition any portion of the Subject Interests, and Assignees hereby waive any such right.

10.7 THIS CONVEYANCE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS UNLESS THE REAL PROPERTY LAWS OF THE STATE IN WHICH THE SUBJECT INTERESTS ARE LOCATED ARE MANDATORILY APPLICABLE; AND THEN ONLY TO THE EXTENT OF SUCH MANDATORY APPLICATION.

10.8 Assignees agree to notify Assignor in the event of any conveyance, assignment, or other transfer by Assignees of all or any part of the Overriding Royalty Interest. Upon Assignor's receipt of such notification, Assignor agrees to acknowledge and ratify such transfer so that from and after the effective date thereof, the rights and privileges hereof (insofar as the interests transferred are concerned) shall remain in full force and effect as if and to the same extent

as if written as between Assignor and such transferee. All the covenants and agreements of Assignor and Assignees contained in this Conveyance shall be binding upon the successors and assigns of Assignor and shall inure to the benefit of the successors and assigns of Assignees.

10.9 Assignor shall have the unrestricted right to extend, modify, amend, or supplement the Leases with respect to any of the lands covered thereby in any particular without the consent of Assignees; provided, that no extension, modification, amendment, or supplementation shall adversely affect any of Assignees' rights hereunder or under the Master Purchase Agreement, including, without limitation, the amount, computation, or method of payment of the Overriding Royalty Interest. Assignor shall furnish Assignees with written notice of any extension, modification, amendment, or supplementation, which affects the Overriding Royalty Interest within thirty (30) days after Assignor has entered into the same, which notice shall specify the date thereof and the location and the acreage covered thereby.

10.10 It is not the intent of Assignor or Assignees that any provision herein violate any applicable law regarding the rule against perpetuities, the suspension of the absolute power of alienation, or other rules regarding the vesting or duration of estates, and this Conveyance shall be construed as not violating such rule to the extent the same can be so construed consistent with the intent of the parties. In the event, however, that any provision hereof is determined to violate such rule, then such provision shall nevertheless be effective for the maximum period (but not longer than the maximum period) permitted by such rule that will result in no violation. To the extent such maximum period is permitted to be determined by reference to "lives in being", Assignor and Assignees agree that "lives in being" shall refer to the lifetime of the last to die of the now living lineal descendants of the late Joseph P. Kennedy (father of the late President of the United States of America).

10.11 This Conveyance is subject in all respects to the Master Purchase Agreement.

EXECUTED effective for all purposes as of the Effective Date.

WITNESSES:

[Signature]  
[Signature]

ASSIGNOR:

WALTER DEVELOPMENT CORPORATION

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

STATE OF TEXAS §  
  §  
COUNTY OF HARRIS §

On this 18th day of January, 1989, before me appeared J. C. Walter, III, to me personally known, who, being by me duly sworn, did say that he is the Executive Vice President of Walter Development Corporation, and that said instrument was signed in behalf of said corporation by authority of its Board of Directors and said J. C. Walter, III acknowledged said instrument to be the free act and deed of said corporation.



Helen Fowler  
Notary Public in and for  
The State of Texas

My Commission Expires: \_\_\_\_\_

Printed Name of Notary: \_\_\_\_\_

SIGNATURE PAGE FOR THAT CERTAIN CONVEYANCE OF OVERRIDING ROYALTY INTEREST (1988 PROSPECTS) AMONG WALTER DEVELOPMENT CORPORATION AND LEEWAY & CO., ET AL.

E14DBG/125

EXHIBIT "A"

ASSIGNEES AND PERCENTAGES

<u>Assignees</u>	<u>Percentage</u>
Leeway & Co.	31%
Bost & Co.	17%
Pitt & Co.	17%
Howard Hughes Medical Institute	17%
Kane & Co.	13%
How & Company	5%

All Assignees' addresses are c/o Chase Investors Management Corporation as set forth in the Conveyance.

EXHIBIT "B"

Subject Interests

Oil and Gas Lease of Submerged Lands bearing Serial No. OCS-G 5547, effective July 1, 1983, granted by the United States of America, as Lessor, in favor of Texaco Inc. and Union Oil Company of California, as Lessees, covering all of Block 160, Ship Shoal / S Leasing Map, Louisiana Map No. 5, containing approximately 5,000.00 acres.

EXHIBIT "C"

DETERMINATION OF A 20% RATE OF RETURN

The Assignees shall be deemed to have obtained a 20% rate of return when the sum of the Discounted Net Cash Flow equals the sum of the Discounted Purchase Price. For the purposes of this Conveyance, "Discounted Net Cash Flow" shall mean the product of (i) the portion of the cash which is attributable solely to the Development Interests and which would have been paid to the Assignees, collectively, in a given month from their Overriding Royalty Interest in connection with the Development Interests if the Net Cash Flow attributable to the Exploration Interests had not been combined therewith, multiplied by (ii) the discount factor corresponding to such month as set forth below; "Discounted Purchase Price" shall mean the product of (i) the portion of the purchase price and payments made under Section 4.02 of the Master Purchase Agreement paid by the Assignees, collectively, in a given month pursuant to the Master Purchase Agreement in connection with the Development Interests, multiplied by (ii) the discount factor corresponding to such month as set forth below.

For the purpose of this Conveyance, all payments made or deemed to have been made by or to the Assignees in a given month shall be deemed made on the last day of such month.

Sample Discount Factors

<u>Period</u>	<u>End of Calendar Month/Year</u>	<u>Discount Factor</u>
1	8/87	.9849214
2	9/87	.9700701
3	10/87	.9554428
4	11/87	.9410360
5	12/87	.9268465
6	1/88	.9128709
7	2/88	.8991061
8	3/88	.8855488
9	4/88	.8721960
10	5/88	.8590444
11	6/88	.8460912
12	7/88	.8333333

Thereafter: Intentionally omitted, to be calculated in the same method as the above discount factors are derived.