



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 EE-3-1

RE: Federal Lease OCS-G 10229
Block 573, Brazos Area
Federal Offshore Texas

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 November
4, 1988, executed on behalf of Walter Development Corporation, as
Assignor, in favor of Leeway & Co., et al, as Assignees, covering
Federal Lease OCS-G 10229, Block 573, Brazos Area, Offshore Texas.

We also enclose our check in 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 6th 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 TEXAS \$
 \$ KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF BRAZORIA \$

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, less 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 November 4, 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 Amount* (as defined in the Master Purchase Agreement) and (b) _____, 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 engineer 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) 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(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 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 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 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,

(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 6.1.1.1;

(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, platform equipment, pipelines or gathering lines related to the Subject Interests, less, in each instance the actual cost 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 abandonment 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 determine 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) as 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 4.05 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 balance.

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 of 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 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 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 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;

(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 "P" to this Conveyance.

ARTICLE VIII

8.1 In the event that, as at 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 100% 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 Abandonment Costs for all of the Subject Interests, the 1988 Prospects, as a group, no further amounts 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

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 and 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 INCLUDES ALL 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 Assignor, the covenants and warranties of Assignor to Assignees 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 to such 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 agreement 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.

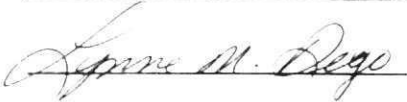
10.10 It is not the intent of Assignor or Assignees that any provision herein violate any applicable law regarding the rule against perpetuities, the suspension of the absolute power of alienation, or other rules regarding the vesting or duration of estates, and this Conveyance shall be construed as 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.

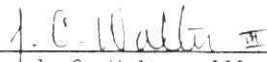
WITNESSES:





ASSIGNOR:

WALTER DEVELOPMENT CORPORATION


By 
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.



My Commission Expires: _____


Notary Public in and for
The State of Texas

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>
Seaway & Co.	31%
West & 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 dated effective as of November 1, 1988, bearing Serial No. OCS-G 10229, between the United States of America, as Lessor, and Walter Oil & Gas Corporation, as Lessee, covering all of Block 573, Brazos Area, OCS Leasing Map, Texas Map No. 5, containing approximately 5,760.00 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



WALTER OIL & GAS CORPORATION

December 7, 1989

L10229

United States Department of 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 10229
Block 573, Brazos Area
Federal Offshore Texas

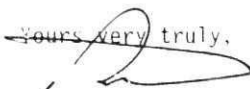
Ladies and Gentlemen:

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

Assignment of Overriding Royalty Interest dated effective November 2, 1988, executed on behalf of Walter Oil & Gas Corporation, as Assignor, in favor of Robert D. Jolly, David A. Pustka, and Rodney L. Cottrell, as Assignees, affecting Federal Lease OCS-G 10229, Block 573, Brazos Area, Federal Offshore Texas.

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

We request that the above Assignment of Overriding Royalty Interest be placed in the file affecting the captioned lease, and that you evidence such filing by signing and returning the enclosed copy of this letter to the attention of the undersigned.


~~Yours very truly,~~


Ron A. Wilson

RAW:hcf
Enclosures

RECEIVED AND FILED THE ABOVE DESCRIBED
ASSIGNMENT OF OVERRIDING ROYALTY INTEREST
THIS 8th DAY OF December, 19 89.

MINERALS MANAGEMENT SERVICE

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

RECEIVED

DEC 8 1989

Minerals Management Service
Leasing & Environment

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

RECEIVED

BRAZOS AREA BLOCK 573
GULF OF MEXICO
FEDERAL OFFSHORE, TEXAS

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{
{

DEC 8 1989
Minerals Management Service
Leasing & Environment

WHEREAS, WALTER OIL & GAS CORPORATION, a Texas corporation, whose address is 240 The Main Building, 1212 Main Street, Houston, Texas, 77002, is the owner of certain undivided interests in and to the hereinafter described Lease:

Oil and Gas Lease of Submerged Lands (the "Lease") dated effective as of November 1, 1988, between the United States of America, as Lessor, and Walter Oil & Gas Corporation, as Lessee, covering all of Block 573, Brazos Area, as shown on OCS Leasing Map, Texas Map No. 5, and bearing Serial No. OCS-G 10229.

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 2.08333% 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.

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, then the overriding royalties payable to Assignee shall be proportionately reduced in accordance with the ratio that the mineral interest in said land covered by the Lease bears to the full and undivided mineral fee interest in such land.

2.

The conveyance of the foregoing overriding royalties on oil, gas and other minerals shall never be deemed as imposing any obligation upon Assignor, or its 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.

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 or 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 herein as is specified as is allocated to the lease as to which the 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.

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 properly deductible from Lessors' royalty under the terms of the

Lease and applicable regulations. In no event and under no circumstances shall Assignor have the right to take gas or gaseous hydrocarbons from the Leasehold.

5.

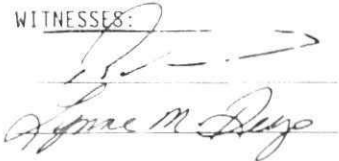
In the event it is determined that the price for the sale of oil, gas or other hydrocarbons and upon which payments have been made hereunder, is in excess of that allowed by rule, order, statute, regulation or other governmental or regulatory determination, Assignee agrees that Assignor shall be allowed 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.

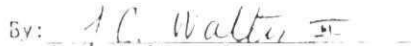
The provisions hereof shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors or assigns; however, no change or division in the ownership of said overriding royalty interest shall be binding on Assignor until thirty (30) days after Assignor shall have 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 22nd day of August, 1989, but made effective for all purposes as of the 2nd day of November, 1988.

WITNESSES:



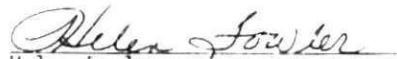
WALTER OIL & GAS CORPORATION

By: 
J. E. Walter, III
President

STATE OF TEXAS {
 {
COUNTY OF HARRIS {

On this 22nd day of August, 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
Notary Public in and for the
State of Texas

Commission Expires 9/30/92.

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST
BLOCK 573, BRAZOS AREA
FEDERAL OFFSHORE, TEXAS



WALTER OIL & GAS CORPORATION

February 26, 1990

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

RECEIVED

FEB 28 1990

**Minerals Management Service
Leasing & Environment**

RE: Federal Lease OCS-G 10229
Block 573, Brazos Area
Federal Offshore Texas

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 January 1, 1989, executed on behalf of Walter Offshore, Inc., as Assignor, in favor of Leeway & Co., et al, as Assignees, affecting Federal Lease 10229, Block 573, Brazos Area, Federal Offshore, Texas.

We also enclose our check in 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

RECEIVED

RAW:hfr

Enclosure

RECEIVED AND FILED THE ABOVE DESCRIBED CONVEYANCE
AS OF THE 28th DAY OF February, 1990.

MINERALS MANAGEMENT SERVICE

BY:
La Nelle Boehm

FEB 28 1990

**Minerals Management Service
Leasing & Environment**

RECEIVED

FEB 28 1990

CONVEYANCE OF OVERRIDING ROYALTY INTEREST

(Brazos & West Delta Blocks)

Minerals Management Service
Leasing & Environment

That WALTER OFFSHORE, INC., 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 Expenses 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 and Development Agreement*" shall mean that certain Acquisition and Development Agreement dated effective as of January 1, 1989, between Assignor and Walter Oil & Gas Corporation pursuant to which the Prospects were acquired by Assignor.

"*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 January 1, 1989.

"*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 Exploration Program Agreement, as such term is defined in the Acquisition and Development 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 and 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, 1989.

"*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(d).

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

"*NRRI*" 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 seventy percent (70%) at any time when the Reversion Amount has actually been distributed to Assignees; and ninety percent (90%) at all other times.

"Prospects" shall mean collectively all of the West Delta Blocks and the Brazos Blocks, as those terms are defined in the Acquisition and Development Agreement.

"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).

"Reversion Amount" shall mean an amount equal to the total sum theretofore paid by Assignees pursuant to Article V of the Master Purchase Agreement, all to be computed on the 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 Acquisition and 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 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 of 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 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 occurred 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 estimated to be incurred pursuant to Section 4.02 of the Master Purchase Agreement) 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 Assignees and to Huddleston & Co., as engineering consultant for Assignees in connection with or relating to the preparation of 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(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, an amount equal to all amounts deposited into the Abandonment Cost Escrow Account (as defined in Section 8.1 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 and Development Agreement and any applicable operating agreement;

(xiii) 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 a 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) amounts received by Assignor upon the adjustment of Assignor's interest pursuant to Section 2.7 of the Exploration Program Agreement, as said term is defined in the Acquisition and Development Agreement, (f) any excess amounts released to Assignor pursuant to the provisions of Section 2.3(a)(v)(dd) hereof, (g) any interest amounts released to Assignor under Sections 2.3(a)(v)(bb) and 2.3(a)(v)(cc) hereof, and (h) any amounts received by Assignor from third parties as rental or use fees for personalty, 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) Each quarter year (ending on the last day of each March, June, September and December) (the "*Reference Quarter*") after the Effective Date there shall be deducted (i) the total debits properly made to the Net Cash Flow Account during the Reference Quarter pursuant to Section 2.3(b) from (ii) the total credits properly made to such Net Cash Flow Account during the Reference Quarter pursuant to Section 2.3(a).

The net cash flow ("*Net Cash Flow*") shall then be determined by taking the results obtained from the foregoing paragraph and (1) applying the applicable Proceeds Percentage to the balance in the Net Cash Flow Account at the end of each Reference Quarter, and then (2) deducting the 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) 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) 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 Net Cash Flow for the immediately preceding Reference Quarter.

(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) here nabove.

(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 II:

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, payment 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 ACKNOWLEDGING TO INDEMNIFY AND HAVE 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 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 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 or amounts owing 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, maintenance, 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 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. 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 paid 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 and 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, 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 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 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 Offshore, Inc.
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 full 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:

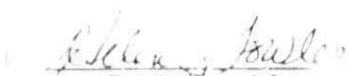
ASSIGNOR:

WALTER OFFSHORE, INC.

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

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

On this 19th day of February, 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 Offshore, Inc., 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"

ASSIGNEES AND PERCENTAGES

<u>Assignees</u>	<u>Percentages</u>
Leeway & Co.	35%
Bost & Co.	15%
Pitt & Co.	25%
Howard Hughes Medical Institute	5%
Pace & Co.	20%

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

EXHIBIT "B"

SUBJECT INTERESTS

1. BRAZOS BLOCK 550

Oil and Gas Lease of Submerged Lands ("the Lease") dated effective as of October 1, 1983, by and between the United States of America, as Lessor, and Conoco Inc. and The Superior Oil Company, as Lessee covering all of Block 550, Brazos Area, as shown on OCS Leasing Map, Texas Map No. 5, and bearing Serial No. OCS-G 6080;

INSOFAR AND ONLY INSOFAR as the Lease covers operating rights in depths from the surface down to a depth 100' below the stratigraphic equivalent of 5,712' TVD as seen in OCS-G 6080 Well No. 2.

2. BRAZOS BLOCK 573

Oil and Gas Lease of Submerged Lands dated effective as of November 1, 1988, by and between the United States of America, as Lessor, and Walter Oil & Gas Corporation, as Lessee, covering all of Block 573, Brazos Area, as shown on OCS Leasing Map, Texas Map No. 5, and bearing Serial No. OCS-G 10229.

3. BRAZOS BLOCK 572

Oil and Gas Lease of Submerged Lands dated effective as of November 1, 1988, by and between the United States of America, as Lessor, and Walter Oil & Gas Corporation, as Lessee, covering all of Block 572, Brazos Area, as shown on OCS Leasing Map, Texas Map No. 5, and bearing Serial No. OCS-G 10228.

4. BRAZOS BLOCK 583

Oil and Gas Lease of Submerged Lands ("the Lease") dated effective as of November 1, 1985, by and between the United States of America, as Lessor, and Atlantic Richfield Company, as Lessee, covering all of Block 583, Brazos Area, as shown on OCS Leasing Map, Texas Map No. 5, and bearing Serial No. OCS-G 8117;

INSOFAR AND ONLY INSOFAR as the Lease covers operating rights in depths from the surface down to the stratigraphic equivalent of 100' below a true vertical depth of 5,850' as encountered in OCS-G 8117 Well No. 1.

5. 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, (the "Lease") 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 the Lease covers and affects the following described area and depths:

- (1) 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
- (2) 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'.

6. 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.

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	6/89	.9849214
2	7/89	.9700701
3	8/89	.9554428
4	9/89	.9410360
5	10/89	.9268465
6	11/89	.9128709
7	12/89	.8991061
8	1/90	.8855488
9	2/90	.8721960
10	3/90	.8590444
11	4/90	.8460912
12	5/90	.8333333

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

JACKSON & WALKER
ATTORNEYS AND COUNSELORS

2009 FEDERAL BUILDING

NEW ORLEANS, LOUISIANA 70112

TELEPHONE (504) 584-5228

TELEFAX (504) 584-5219

R. H. E. 7

OTHER LOCATIONS

DALLAS
HOUSTON
FORT WORTH

April 16, 1990

RECEIVED

APR 16 1990

By Courier

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

Minerals Management Service
Leasing & Environment

Attention: Ms. Ruby L. Boehm

Re: Filing of Deed of Trust, Security Agreement, Assignment of
Security Interests and Liens, Assignment of Production and
Financing Statement
Our File 02853.0002

Dear Ms. Boehm:

Enclosed herewith is one original of the following instrument,
which we request be filed in the records of the Minerals Management
Service:

1. Deed of Trust, Security Agreement, Assignment of Security
Interests and Liens, Assignment of Production and
Financing Statement, dated April 12, 1990 from Walter Oil
& Gas Corporation, debtor in favor of Citibank, N.A.

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

1. O -G 6080
2. CCS-G 10229
3. OCS-G 10228
4. OCS-G 8117

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 original
of the instrument in one lease file, and to file letters in the

Minerals Management Service
April 16, 1990
Page -2-

remaining lease files reflecting the filing and referencing the lease file where the instrument can be found. We therefore request that the aforesaid original of the instrument be recorded in the lease file for OCS-G 6080 and we enclose 3 copies of this letter to be filed in the remaining lease files. The person delivering this instrument will have our firm check for payment of the filing fees. We estimate the cost of filing to be \$100.00 (\$25.00 for the document and three 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 6080 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 6080 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

757/N

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

UNITED STATES MINERALS MANAGEMENT SERVICE

BY: LaNelle Barber

757/N