

UPDATE

8/91

ANDREWS & KURTH

ATTORNEYS

TEXAS COMMERCE TOWER  
HOUSTON, TEXAS 77002

OTHER OFFICES  
WASHINGTON, D.C.  
DALLAS  
LOS ANGELES  
NEW YORK

TELEPHONE: (713) 220-4200  
TELECOPIER: (713) 220-4285  
TELEX: 79-1208

May 13, 1991

VIA FEDERAL EXPRESS

Ms. Deane Thigpen  
United States Department  
of the Interior  
Minerals Management Service  
Gulf of Mexico, OCS Region  
1201 Elmwood Park Blvd.  
New Orleans, Louisiana 70123-2394

**RECEIVED**

MAY 14 1991

**Minerals Management Service  
Leasing & Environment**

Re: TCB/Smith Offshore

Dear Ms. Thigpen:

Per our telephone conversation, enclosed herewith please find a "Mortgage, Deed of Trust, Assignment of Production, Security Agreement and Financing Statement" to be filed with the Minerals Management Service. I have enclosed a check in the amount of \$100.00 to cover any recording costs. Also, please file stamp the Acknowledgement Copy and send me a:

Andrews & Kurth  
4200 Texas Commerce Tower  
600 Travis  
Houston, Texas 77002

Should you have any questions, please feel free to contact me at (713) 220-4286.

Best regards,

*Jill Metzger*  
Jill Metzger  
Legal Assistant

5759.at  
Enclosures

10198

ANDREWS & KURTH  
ATTORNEYS  
TEXAS COMMERCE TOWER  
HOUSTON, TEXAS 77002

OTHER OFFICES  
WASHINGTON, D.C.  
DALLAS  
LOS ANGELES  
NEW YORK

TELEPHONE: (713) 220-4200  
TELECOPIER: (713) 220-4285  
TELEX: 79 1208

May 21, 1991

RECEIVED

MAY 24 1991

Minerals Management Service  
Leasing & Environment

VIA FEDERAL EXPRESS

Ms. Dionne Thigpen  
United States Department  
of the Interior  
Minerals Management Service  
Gulf of Mexico, OCS Region  
1201 Elmwood Park Blvd.  
New Orleans, Louisiana 70123-2594

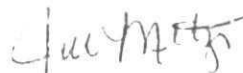
Re: TCB/Smith Offshore

Dear Ms. Thigpen:

I talked to someone in your office last week and they requested two more "Mortgage, Deed of Trust, Assignment of Production, Security Agreement and Financing Statement". As a result, enclosed herewith please find two copies of the Mortgage.

Should you have any questions, please feel free to contact me at (713) 220-4286.

Best regards,



Jill Metzger  
Legal Assistant

5759:ar  
Enclosures

10178

MORTGAGE, DEED OF TRUST, ASSIGNMENT OF PRODUCTION, SECURITY AGREEMENT AND FINANCING STATEMENT

RECEIVED

MAY 24 1991

Executed as of April 22, 1991

between

Minerals Management Services  
Leasing & Environment

SMITH OFFSHORE EXPLORATION COMPANY  
(Mortgagor and Debtor)

TO

JAMES C. NICHOLAS, TRUSTEE

and

TEXAS COMMERCE BANK NATIONAL ASSOCIATION  
(Mortgagee and Secured Party)

The mailing address of the above-named Mortgagee and Secured Party is 712 Main Street, Houston, Harris County, Texas 77002, the mailing address of Mortgagor and Debtor is 811 Dallas Street, Suite 800, Houston, Harris County, Texas 77002 and the mailing address of the Trustee is 712 Main Street, Houston, Harris County, Texas 77002.

This instrument contains after-acquired property provisions.

This instrument secures payment of future advances.

The oil and gas interests included in the Mortgaged Property will be financed at the wellheads of the wells located on the properties described in Exhibit A hereto, and this financing statement is to be filed or filed for record, among other places, in the real estate records.

The Mortgagor has an interest of record in the real estate concerned, which is described in Exhibit A hereto.

ATTENTION OF RECORDING OFFICERS: This instrument is a Mortgage of both real and personal property and is, among other things, a Security Agreement and Financing Statement under the Uniform Commercial Code. Some of the personal property constituting a portion of the Mortgaged Property is or is to be affixed to the Lands described in Exhibit A hereto, and this financing statement is to be filed or filed for record, among other places, in the real estate records. This instrument creates a lien on rights in, or relating to, Lands of the Mortgagor, which are described in Exhibit A hereto and, where applicable, is to be tract indexed with respect to all Lands described in said Exhibit A.

Recorded counterparts should be returned to:

Jill Metzger  
Andrews & Kurth  
4200 Texas Commerce Tower  
Houston, Texas 77002

BEST AVAILABLE COPY



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

This Deed of Trust, Assignment of Production, Security Agreement and Financing Statement (this "Deed of Trust") is from Smith Offshore Exploration Company (the "Mortgagor"), a Delaware corporation to James C. Nicholas, as Trustee (the "Trustee"), and Texas Commerce Bank National Association, a national banking association ("Bank" or "Mortgagee").

**RECITALS**

WHEREAS, Mortgagor has entered into a Credit Agreement, dated as of April 22, 1990, with the Bank (said Credit Agreement, as same may from time to time be amended and modified and in effect, being herein called the "Credit Agreement"); and

WHEREAS, pursuant to the Credit Agreement, the Bank has agreed to lend to Mortgagor amounts not to exceed in the aggregate \$10,000,000.00 in the manner provided for in the Credit Agreement, and the Mortgagor, to evidence the Mortgagor's indebtedness to the Bank under the Credit Agreement, has executed and delivered to the Bank a Note (as hereinafter defined); and

WHEREAS, Mortgagor is entering into this instrument with the Trustee and the Bank pursuant to the Credit Agreement and for the purpose of, among other things, securing and providing for the repayment of all amounts at any time owing and from time to time owing by Mortgagor to the Bank under or in connection with the Loans (as hereinafter defined) made pursuant to the Credit Agreement;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**ARTICLE I  
Definitions**

**1.1 Certain Defined Terms.** Unless the context otherwise requires, as used in this Deed of Trust and all amendments, extensions, modifications, renewals, supplements or waivers hereof or hereto, the following terms shall have the following meanings, which meanings shall be equally applicable to both the singular and plural form of such terms.

"Affiliate" shall have the meaning assigned to that term in the Credit Agreement.

"Bank" shall have the meaning assigned to that term in the Introduction to this Deed of Trust.

"Business Day" shall have the meaning assigned to that term in the Credit Agreement.

"Collateral" shall have the meaning assigned to that term in Article IX of this Deed of Trust.

"Contaminant" shall mean any chemical, waste, pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum-derived substance or waste, or any constituent of any such substances or wastes that are subject to any environmental Requirements of Law.

"Credit Agreement" shall have the meaning assigned to that term in the recitals to this Deed of Trust.

"Debtor" shall have the meaning assigned to that term in Article IX hereof.

"Debtor Relief Laws" shall mean the the Bankruptcy Code of the United States, as amended from time to time, and all other applicable dissolution, liquidation, conservatorship, bankruptcy, moratorium, readjustment of debt, compromise, rearrangement, receivership, insolvency, reorganization or similar debtor relief laws from time to time in effect affecting the rights of creditors generally.

"Deed of Trust" shall mean this Deed of Trust, Assignment of Production, Security Agreement and Financing Statement, as they may from time to time be amended, modified, supplemented or restated.

"Default" shall have the meaning assigned to that term in the Credit Agreement.

"Default Rate" shall have the meaning assigned to that term in the Credit Agreement.

"Environmental Laws" shall have the meaning assigned to that term in Section 4.13(a) hereof.

"Environmental Liabilities" shall mean all liabilities, obligations, responsibilities, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including, without limitation, attorneys' experts' and consultants' fees and costs of investigation and feasibility studies), fines, penalties and monetary sanctions, interest, direct or indirect known or unknown, absolute or contingent, past, present or future arising under, pursuant to or in connection with any Environmental Laws.

"Event of Default" shall have the meaning assigned to that term in Article VII hereof.

"Governmental Authority" shall mean any nation or government, any federal, state, province, city, town, municipality, county, local or other political subdivision thereof or thereto and any court, tribunal, department, commission, board, bureau, instrumentality, agency or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Highest Lawful Rate" shall have the meaning assigned to that term in the Credit Agreement.

"Hydrocarbons" shall mean oil, gas, casinghead gas, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all products separated, settled and dehydrated therefrom and all products refined therefrom, including, without limitation, kerosene, liquefied petroleum gas, refined lubricating oils, diesel fuel, drip gasoline, natural gasoline, and all other substances produced in association therewith.

"Indebtedness" shall mean all loans, advances, debts, liabilities, obligations, covenants and duties owing to the Bank, its successors and assigns, from or assumed by Mortgagor, of any kind or nature, present or future arising under the Credit Agreement or under any other Loan Document, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, interest rate swap transactions or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising. The term includes, without limitation, all principal, interest, reasonable charges, expenses, fees, attorneys' fees and disbursements chargeable to Mortgagor under the Credit Agreement or any other Loan Document, including without limitation, all obligations of Mortgagor now or hereafter existing under this Deed of Trust, and all interest that accrues, to the extent permitted under applicable law, on all or any part of the obligations after the filing of any petition or pleading against Mortgagor for a proceeding under any Debtor Relief Laws.

"Lands" shall mean the submerged lands situated offshore from the State of Texas and held and administered by the Minerals Management Service of the United States Department of the Interior that are covered by the Leases.

"Leases" shall mean the Oil and Gas Leases described in Exhibit A, as well as any extensions, renewals or replacements thereof.

"Lien" shall have the meaning assigned to that term in the Credit Agreement.

"Loan" and "Loans" shall have the meaning assigned to those terms in the Credit Agreement.

"Loan Documents" shall have the meaning assigned to that term in the Credit Agreement.

"Material Adverse Effect" shall have the meaning assigned to that term in the Credit Agreement.

"Mortgaged Property" shall have the meaning assigned to that term in Article II to this Deed of Trust.

"Mortgagee" shall have the meaning assigned to that term in the introduction of this Deed of Trust.

"Mortgagor" shall have the meaning assigned to that term in the introduction to this Deed of Trust.

"Note" shall be the collective reference to (i) the promissory note dated April 22, 1991 issued by Mortgagor in the principal sum of \$10,000,000 and payable to the order of the Bank bearing interest at the rates provided for in the Credit Agreement and providing for the payment of attorney's fees and acceleration of maturity as set forth in the Credit Agreement, and with a present maturity date of January 1, 1993 (or, if not a Business Day, the next preceding Business Day), all as more particularly described therein or in the Credit Agreement and (ii) any note given in substitution therefor, or in modification, renewal, extension or restatement thereof, in whole or in part, as any of the same may be endorsed, amended, modified or supplemented.

"Oil and Gas Leases" shall include oil, gas and mineral leases and shall also include subleases and assignments of operating rights.

"Operating Equipment" shall mean insofar and only insofar as attributable to the Subject Interests all personal property, surface or subsurface machinery, equipment, facilities, supplies or other property of whatsoever kind or nature now or hereafter located on or under or affixed to any of the Lands or on a unit including all or part of the Lands or now or hereafter used, held for use or useful in connection with the exploration, development and operation of the Lands and the production, treatment, storage, processing or transportation of Hydrocarbons produced or to be produced from or attributable thereto, including, but not by way of limitation, all oil wells, gas wells, water wells, injection wells, gas processing plants, casing, tubing, rods, pumps, pumping units and engines, christmas trees, derricks, separators, gun barrels, flow lines, tanks, tank batteries, gas systems (for gathering, treating, compression, disposal or injection), chemicals, solutions, water systems (for treating, disposal and injection), pipe, pipelines, meters, apparatus, boilers, compressors, liquid extractors, connectors, valves, fittings, power plants, poles, lines, cables, wires, transformers, starters and controllers, machine shops, tools, machinery and parts, storage yards and equipment stored therein, buildings and camps,

telegraph, telephone and other communication systems, roads, loading docks, loading racks and shipping facilities, fixtures, and other appurtenances, appliances and property of every kind and character, movable or immovable, together with all improvements, betterments and additions, accessions and attachments thereto and replacements thereof.

"Permitted Encumbrances" shall mean (i) the Lien hereof, (ii) any Lien permitted under Section 6.01(a) of the Credit Agreement; (iii) those restrictions, exceptions, reservations, conditions, limitations, interests and other matters, if any, set forth or referred to in Exhibit A; and (iv) those consented to in writing by the Bank.

"Production Sale Contracts" shall mean contracts now or hereafter in effect and entered into by Mortgagor, or Mortgagor's predecessors in interest, for the production, sale, purchase, exchange, processing, gathering, or transporting of Hydrocarbons produced from or attributable to the Leases, including, without limitation, those described in Exhibit B attached hereto, insofar and only insofar as such contracts relate to the Subject Interests.

"Release" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment or into or out of any Mortgaged Property, including the movement of Contaminants through or in the air, soil, surface water, groundwater or property.

"Remedial Action" shall mean actions required to (i) clean up, remove, treat or in any other way address Contaminants in the indoor or outdoor environment, (ii) prevent the Release or threat of Release or minimize the further Release of Contaminants so they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment or (iii) perform pre-remedial studies and investigations and post-remedial monitoring and care.

"Requirements of Law" shall mean any federal, state or local law, rule or regulation, permit or other binding determination of any Governmental Authority.

"Reserves Report" shall have the meaning assigned to that term in the Credit Agreement.

"Subject Interests" shall mean the specific undivided interests in and to the Leases as set forth in Exhibit A, whether now owned or hereafter acquired, including, without limitation, those undivided working interests, net revenue interests, and operating rights set forth in Exhibit A, whether such undivided interests be under and by virtue of a Lease, a unitization or pooling agreement, a unitization or pooling order, a bidding agreement, an operating agreement, a revenue sharing agreement, an exploration agreement, a division order, a transfer order, a farmout agreement, a fee simple conveyance or any other type of contract, conveyance or instrument or under any other type of claim or title, legal or equitable, recorded or unrecorded.

"Subject Minerals" shall mean all Hydrocarbons in, under, upon, produced or to be produced or which may be produced, saved and sold from or which shall accrue and be attributable to, the Subject Interests, including without limitation, all oil in tanks and all rents, issues, profits, proceeds, products, revenues, and other income arising from or attributable to the Subject Interests.

"Trustee" shall have the meaning assigned to that term in the introduction to this Deed of Trust and shall include his successors as appointed by the Mortgagee.

"Well Data" shall mean all logs, engineering data, formation tests, drilling reports, division orders, transfer orders, operating agreements, abstracts, title opinions, files, records, memoranda, data bases, information systems, wellcores, fluid samples, production data and reports, well testing data and reports, maps, seismic and geophysical, geological and chemical data and information, interpretive and analytical reports of any kind or nature (including, without limitation, reserve studies and reserve evaluations), computer hardware and software and all documentation therefor or relating thereto (including, without limitation, all licenses relating to or covering such computer hardware, software and/or documentation), and other written information in the possession or control of Mortgagor relating to any wells located on any of the Lands.

## ARTICLE II Mortgage, Deed of Trust

2.1 Grant of Deed of Trust on Real Property and Security Interest in Personal Property. Mortgagor, for and in consideration of the premises and of the debts and trusts hereinafter mentioned, and to secure the Indebtedness, has granted, bargained, sold, mortgaged, warranted, assigned, transferred and conveyed a security interest, and by these presents does grant, bargain, sell, mortgage, warrant, assign, transfer and convey a security interest unto the Trustee, for the use and benefit of the Bank, its successors and assigns, with power of sale, all of Mortgagor's right, title and interest in and to the following described real and personal property, whether now owned or hereafter acquired, namely:

- (a) the Subject Interests;
- (b) the Subject Minerals;
- (c) the Production Sale Contracts;
- (d) the Operating Equipment;
- (e) all unitization, communitization, operating agreements, pooling agreements and declarations of pooled units and the properties covered and the units created thereby (including all units formed under orders, regulations,

rules or other official action of any federal, state or other governmental agency providing for pooling or unitization, spacing orders or other well permits and other instruments) which relate to or affect all or any portion of the Subject Interests;

(f) all accounts receivable and other accounts, contract rights, operating rights, all intangibles, chattel paper, documents and instruments arising under Production Sale Contracts or pertaining to the Subject Interests;

(g) insofar and only insofar as attributable to the Subject Interests, all oil and gas produced, and/or general intangibles, accounts and other rights to payment under any and all contracts under which Mortgagor is entitled to share in the production from or the proceeds of production from any oil and/or gas wells located on the Lands and Leases described in Exhibit A hereto;

(h) all subleases, farmout agreements, assignments of interest, assignments of operating rights, contracts, operating agreements, bidding agreements, advance payment agreements, rights-of-way, surface leases, franchises, servitudes, privileges, permits, licenses, easements, tenements, hereditaments, improvements, appurtenances and benefits now existing or in the future obtained and incident and appurtenant to any of the foregoing;

(i) all Well Data which relates to any of the foregoing, subject to confidentiality agreements or restrictions existing in favor of third parties;

(j) any Liens and security interests in the Subject Interests securing payment of proceeds from the sale of the Subject Minerals including, but not limited to, those liens and security interests provided for in Tex. Bus. & Com. Code Ann. § 9.319 (Tex. UCC) (Vernon Supp. 1989), as amended;

(k) any other property not included within subparagraphs (a) through (j) above that may from time to time hereafter be subjected to the Lien created hereby and security interest hereof by the express consent of Mortgagor, and the Bank and the Trustee are hereby authorized to receive the same as additional security for the benefit of the Bank;

(l) all balances, credits, deposits, accounts and monies of Mortgagor with or in the possession of the Bank; and

(m) any and all proceeds, returns, rents, issues, profits, products, revenues and other income arising from or by virtue of the sale, lease or other disposition of, or from any condemnation proceeds payable with respect to loss of Lands, or from any insurance payable with respect to damage, loss or destruction of, the items described in subparagraphs (a) through (l) above;

together with any and all corrections or amendments to, or renewals, extensions or ratifications of, any of the same, or of any instrument relating thereto, all the aforesaid properties, rights and interests which are hereby subjected to the Lien of



this instrument, together with any additions thereto which may be subjected to the Lien of this instrument by means of supplements or amendments hereto, being hereinafter called the "Mortgaged Property."

Subject, however, to (i) Permitted Encumbrances, (ii) the assignment of production contained in Article VI hereof and (iii) the condition that neither the Trustee nor the Bank shall not be liable in any respect for the performance of any covenant or obligation of the Mortgagor in respect of the Mortgaged Property.

TO HAVE AND TO HOLD the Mortgaged Property unto the Trustee and its successors and assigns forever to secure the payment of the Indebtedness and to secure the performance of the covenants, agreements and obligations of Mortgagor herein contained.

BUT IN TRUST, NEVERTHELESS, for the benefit and security of the holders of the Indebtedness and upon the trusts and subject to the terms and provisions set forth herein.

### ARTICLE III

#### Particular Warranties and Representations of Mortgagor

Mortgagor hereby warrants and represents to the Trustee and the Bank as follows:

3.1 Leases. The Leases are in full force and effect, are valid, subsisting leases covering the entire estates to which they pertain and all rentals, royalties and other amounts due and payable in accordance with the terms of the Leases have been duly paid or provided for, the obligations to be performed under the Leases have been duly performed (and Mortgagor is not aware of any default by any third party with respect to such third party's obligations).

3.2 Documents. Each of the Production Sale Contracts is valid, binding and enforceable in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditor's rights generally and by general principles of equity which may limit the right to obtain equitable remedies (regardless of whether such enforceability is considered in a proceeding in equity or at law). All material amounts due and payable in accordance with the terms of each Production Sale Contract have been duly paid or provided for, and all material obligations to be performed under each of the Production Sale Contracts have been duly performed and each is in full force and effect.

3.3 Title. To the extent of Mortgagor's interests specified in Exhibit A and subject to Permitted Encumbrances, Mortgagor has good and indefeasible title to, and is possessed of each property, right, interest or estate constituting the Leases and interests derived therefrom. Subject to Permitted Encumbrances, Mortgagor has good and defensible title to all other Mortgaged Property. Each of the Production



Sale Contracts and each of the operating agreements governing any Lease units described on Exhibit A attached hereto is free from any material credit, deduction, allowance, defense, dispute, setoff, or counterclaim (other than current charges provided for in such instruments but not yet due and payable) and there is no extension or indulgence with respect thereto.

3.4 No Liens. The Mortgaged Property is free of any and all claims, liens, charges, encumbrances, mortgages, security interests, contracts, agreements, options, preferential purchase rights or other restrictions or limitations of any nature or kind except Permitted Encumbrances. There is no unexpired financing statement covering the Mortgaged Property on file in any public office naming any party other than Mortgagee as secured party.

3.5 Net Interest in Production. The net revenue interest of the Mortgagor in each producing well located on the Lands or attributable to the Leases is not less than the net revenue interests set forth in Exhibit A in connection with such producing well or Lease.

3.6 Power and Authority. Mortgagor has the full power and legal right to grant, bargain, sell, mortgage, assign, transfer and convey a security interest in all of the Mortgaged Property in the manner and form herein provided and without obtaining the waiver, consent or approval of any lessor, sublessor, governmental agency or entity or party whomsoever or whatsoever.

3.7 Contracts. As of the date hereof and except as set forth on Exhibit 3.7 hereto, (i) neither Mortgagor nor Mortgagor's predecessors in title have received prepayments (including, but not limited to, payments for gas not taken pursuant to "take or pay" arrangements for any Hydrocarbons produced from the Mortgaged Properties after the date hereof; (ii) no Mortgaged Property is subject to any contractual or other arrangement whereby, payment for production from such Mortgaged Property is to be deferred for a substantial period after the end of the calendar month in which such production is delivered (but not in excess of 60 days); (iii) no Mortgaged Property is subject to any contractual, or other arrangement for the sale of crude oil which cannot be cancelled on 60 days' (or less) notice; (iv) no Mortgaged Property is subject at the present time to any regulatory refund obligation and, to the best of Mortgagor's knowledge, no situations exist where the same might be imposed; (v) no Mortgaged Property is subject to a gas balancing arrangement under which an imbalance exists with respect to which imbalance Mortgagor is in an overproduced status and is required to (A) permit one or more third parties to take a portion of the production attributable to such Mortgaged Property without payment (or without full payment) therefor and/or (B) make payment in cash, in order to correct such imbalance; or (vi) to the best of Mortgagor's knowledge, no Mortgaged Property is subject to having allowable production after the date of this Deed of Trust reduced below the full and regular allowable because of any over-production prior to the date of this Deed of Trust.

3.8 No Governmental Approvals. Mortgagor warrants that no approval or consent of any regulatory or administrative commission or authority, or of any

other governmental body, is necessary to authorize the execution and delivery of this Deed of Trust, or that such approvals as are required have been obtained; and that no such approval or consent is necessary to authorize the observance or performance by Mortgagor of the covenants herein contained, or that such approvals as are required have been obtained.

3.9 Producing Wells. All producing wells located on the Lands have been drilled, operated and produced in conformity with all applicable laws, rules, regulations and orders of all regulatory authorities having jurisdiction, and are subject to no penalties on account of past production, and are bottomed under and are producing from, and the well bores are wholly within, the Lands.

3.10 Principal Place of Business. The principal place of business and chief executive office of the Mortgagor and the place where the Mortgagor's books and records of account are kept is located at 811 Dallas Street, Suite 800, Houston, Texas 77002.

#### ARTICLE IV

##### Particular Covenants and Agreements of Mortgagor

Mortgagor hereby covenants to and agrees with the Trustee and the Bank as follows:

4.1 Payment of the Indebtedness. Mortgagor will duly and punctually pay the principal of and interest on all of the Indebtedness, including each and every obligation owing under the Note and the Credit Agreement as the same shall become due and payable whether at a date for payment of a fixed installment, or contingent on other payment, or as a result of acceleration or otherwise.

4.2 Operation of Mortgaged Property. So long as the Indebtedness or any part thereof remains unpaid, and whether or not Mortgagor is the operator of the Mortgaged Property, Mortgagor shall, but in the event that the Mortgagor is not the operator of the Mortgaged Property, only to the extent such obligations are consistent with the terms of any operating agreement or other agreement effectively governing the operation of the Mortgaged Property, at Mortgagor's own expense:

(a) Do all things necessary to keep unimpaired in all material respects Mortgagor's rights and interests in the Mortgaged Property and shall not, except in the ordinary course of business as a reasonably prudent operator would do under similar circumstances, abandon any well or forfeit, surrender, release or default under any Lease or any working interest unit described in Exhibit A attached hereto or any Production Sale Contract, or consent to any of the foregoing, directly or indirectly, except as otherwise permitted herein or unless Mortgagor has obtained the express prior written consent of the Bank;

(b) Except as otherwise set forth in Section 4.2(a), perform or cause to be performed, each and all covenants, agreements, terms, conditions and

limitations imposed upon Mortgagor or its predecessors in interest and expressly contained in (i) the Leases, the operating agreements governing any working interest units described in Exhibit A attached hereto, any Production Sale Contract, or any instrument or document relating thereto, and (ii) any assignment or other form of conveyance, under or through which the Leases or an undivided interest therein are now held, except where the failure to so perform, individually or in the aggregate, will not have a Material Adverse Effect, and to perform or cause to be performed all implied covenants and obligations imposed upon Mortgagor in connection with the Leases, the operating agreements governing any working interest units described in Exhibit A attached hereto, any Production Sale Contract or any document or instrument relating thereto, except where the failure to so perform, individually or in the aggregate, will not have a Material Adverse Effect.

(c) Cause, or in the event Mortgagor is not the operator of the Subject Interests, use its best efforts to cause, the Subject Interests to be maintained, developed, protected against drainage, and continuously operated for the production of Hydrocarbons in a good and workmanlike manner as would a prudent operator and in compliance with all applicable operating agreements and contracts;

(d) Cause to be paid, promptly as and when due and payable, (i) all rentals, delay rentals and royalties and indebtedness payable in respect of the Subject Interests, and all expenses incurred in or arising from the operation or development of the Subject Interests and (ii) all amounts due and payable in accordance with the terms of each Production Sale Contract, other than such amounts which the Mortgagor is diligently contesting in good faith and by appropriate proceedings;

(e) Cause, or in the event the Mortgagor is not the operator of the Subject Interests, use its best efforts to cause, the Operating Equipment to be kept in good and effective operating condition, and all repairs, renewals, replacements, additions and improvements thereof or thereto, needful to the production of Hydrocarbons from the Subject Interests to be promptly made;

(f) Cause the Mortgaged Property or any part thereof or the rents, issues, revenues, profits and other income therefrom to be kept free and clear of all liens, charges, security interests and encumbrances of every character, other than Permitted Encumbrances and Mortgagor will not, without the prior written consent of the Bank, modify, or permit any modification of, any Permitted Encumbrance;

(g) Keep adequately insured by insurers of recognized responsibility, all of the Mortgaged Property of an insurable nature and of a character usually insured by persons engaged in the same or similar business, against all risks customarily insured against by such persons. Mortgagor will maintain: pollution control insurance; well blow out control insurance; liability insurance against claims for personal injury or death or property damage suffered by

members of the public or others in or about the Mortgaged Property or occurring by reason of Mortgagor's ownership, maintenance, use or operation of any Operating Equipment, automobiles, trucks or other vehicles, or other facilities on or in connection with the Mortgaged Property; all such workmen's compensation or similar insurance as may be required under the laws of any jurisdiction in which any of the Mortgaged Property may be situated. All such insurance shall be maintained in such amounts (subject to deductibles customary in the oil and gas industry for persons of a similar size and similar business) as is usually carried by persons engaged in the same or a similar business and shall be effected under a valid and enforceable policy or policies issued by insurers of recognized responsibility. The loss payable clauses or provisions in said policy or policies (other than workers' compensation or similar insurance) shall be endorsed in favor of and made payable to the Bank. Additionally, it is agreed said policies shall contain provisions that the same may not be canceled or altered unless the Bank is given thirty (30) days' prior written notice thereof.

(h) Comply with, or cause to be complied with, or, if Mortgagor is not the operator of the Mortgaged Property, use its best efforts to cause to be complied with, all applicable and valid laws, rules and regulations of the United States of America, the State of Texas or any other governmental body exercising jurisdiction, with respect to the operation and development of the Lands and the production and sale of Hydrocarbons therefrom; and

(i) Deliver, or cause to be delivered, to the Bank a copy of any notice, demand or other material communication from any other party to the Leases, the operating agreements governing any of the Leases described in Exhibit A attached hereto or any Production Sale Contract relating to any alleged, potential or actual material breach thereunder or material breach of any of the covenants, agreements, terms, or limitations thereof or purporting to terminate or in any other way materially and adversely affect the rights of Mortgagor hereunder.

4.3 Taxes. Mortgagor will pay or cause to be paid, before delinquent, all lawful taxes, assessments and other charges of every kind and character imposed upon this Deed of Trust or upon the Mortgaged Property or any part thereof or upon the interest of the Trustee or the Bank therein (excluding taxes upon the income of the Trustee or the Bank), or upon the income, rents, issues, revenues, profits or other income from the Mortgaged Property, or incident to or in connection with the production of Hydrocarbons or other minerals therefrom, or the operation and development thereof, including, but not limited to, all ad valorem taxes assessed against the Mortgaged Property or any part thereof and all occupation taxes and all production, severance, windfall profit, and/or excise and other taxes assessed against, and/or measured by, the production of (or the value, or proceeds, of production of) Hydrocarbons that accrue to the Mortgaged Property except those contested in good faith in appropriate proceedings for which adequate reserves have been established.

4.4 Recording, etc. Upon the request of the Bank, Mortgagor, at its expense, will promptly record, register, deposit and file this and every other instrument in addition or supplemental hereto in such offices and places and at such times and as often as may be necessary to preserve, protect and renew the Lien hereof as a first priority perfected Lien on real or personal property as the case may be and the rights and remedies of the Trustee and of the Bank, and otherwise will do and perform all matters or things necessary or expedient to be done or observed by reason of any law or regulation of any state or of the United States of America or of any other competent authority, for the purpose of effectively creating, maintaining and preserving the Lien of this Deed of Trust and the perfection and priority thereof.

4.5 Sale or Mortgage of Mortgaged Property. Except for Permitted Encumbrances, Mortgagor will not sell, convey, mortgage, pledge, or otherwise dispose of or encumber the Mortgaged Property or any portion thereof, or any of Mortgagor's rights, titles, interests or estates therein without first securing the express written consent of the Bank other than the sale of Hydrocarbons produced from the Subject Interests in the ordinary course of business; and Mortgagor will not enter into any arrangement with any gas pipeline company or other consumer of Hydrocarbons regarding the Mortgaged Property whereby said gas pipeline company or consumer may set off any claim against Mortgagor by withholding payment for any Hydrocarbons actually delivered.

4.6 Records, Statements and Reports. Mortgagor will keep proper books of record and account in which complete and correct entries will be made of Mortgagor's transactions in accordance with generally accepted accounting principles and will furnish or cause to be furnished to the Bank (a) as soon as possible upon request, not more than once a year, reports prepared by an independent person or firm acceptable to the Bank concerning: (1) the quantity of Hydrocarbons recoverable from the Subject Interests, (2) the projected income and expense attributable to the Mortgaged Property and (3) the expediency of any change in methods of treatment or operation of all or any wells productive of Hydrocarbons, any new drilling or development, any method of secondary recovery by repressuring or otherwise, or any other action with respect to the Subject Interests, the decision as to which may increase or reduce the quantity of Hydrocarbons ultimately recoverable, or the rate of production thereof to the extent any such information is not contained in the most recent Reserves Report delivered to the Bank in accordance with Section 2.02 of the Credit Agreement and (b) as soon as possible on request, monthly, a report showing the gross proceeds from the sale of Hydrocarbons produced from the Subject Interests (including any thereof taken by the Mortgagor for the Mortgagor's own use), the quantity of such Hydrocarbons sold, the severance, gross production, occupation, or gathering taxes deducted from or paid out of such proceeds, the number of wells operated, drilled or abandoned, (c) within forty-five (45) days after the end of each calendar month beginning April 30, 1991, a report of the Mortgagor describing (i) all prepayments received during such calendar quarter for Hydrocarbons to be produced from the Mortgaged Properties at a later date; (ii) all contracts for the sale of crude oil produced from the Mortgaged Properties which can not be cancelled on at least 60 days notice; (iii) all contracts whereby payment for production of Hydrocarbons from the Mortgaged Property is to be deferred for a



period of time in excess of 60 days after the calendar month in which it was delivered; (iv) all regulatory refund obligations, if any, with respect to the Mortgaged Property; and (v) all gas balancing arrangements, if any, with respect to the Mortgaged Property under which an imbalance exists and such other information as the Bank may reasonably request. The reports referred to in clauses (a) and (b) above shall set forth such information on a monthly or well basis and shall include like or similar information with respect to the Mortgagor's production attributable to the operating agreements covering any of the Lands described in Exhibit A attached hereto).

4.7 Right of Entry and Inspection of Books. Mortgagor will permit the Trustee and the Bank and the agents of either of them, (i) to the extent Mortgagor has authority to do so, to enter upon the Lands, and all parts thereof, for the purpose of investigating and inspecting the condition and operation thereof, (ii) to examine the books of account of Mortgagor and (iii) to discuss the affairs, finances or accounts of Mortgagor and be advised as to the same by any officer or employee of Mortgagor, all at such reasonable times or intervals as the Trustee or the Bank may desire.

4.8 Qualification to do Business and Maintenance of Existence. Mortgagor will (i) continue to be in good standing and qualified to transact business in the State of Texas and in each other state in which the conduct of its business requires it to be qualified and (ii) maintain its corporate existence.

4.9 Expenses. Mortgagor will promptly upon demand by the Bank pay all reasonable costs and expenses heretofore or hereafter incurred by the Trustee and/or the Bank for legal, engineering, geological or accounting services rendered to it in connection with the making and documenting of the Loans to Mortgagor secured in whole or in part by the Lien and security interest hereof and/or in connection with the enforcement of any of the Trustee's and/or the Bank's rights hereunder.

4.10 Further Assurances. Mortgagor will execute and deliver such other and further instruments and will use its best efforts to do such other and further acts as in the reasonable opinion of the Trustee or the Bank may be necessary or desirable to carry out more effectually the purposes of this instrument, including, without limiting the generality of the foregoing, (a) prompt correction of any defect which may hereafter be discovered in the title to or description of the Mortgaged Property or any part thereof or in the execution and acknowledgment of this instrument, any Note, or other document executed in connection herewith, (b) upon the occurrence and during the continuance of an Event of Default, prompt execution and delivery of all division or transfer orders which in the opinion of the Bank are needed to transfer effectively to the Bank the assigned proceeds of production from the Subject Interests and (c) obtain any necessary governmental approvals, including, without limitation, those of the State of Texas.

4.11 Adverse Claims. Mortgagor will warrant and forever defend, subject to the Permitted Encumbrances, the title to the Mortgaged Property unto the Trustee and the Bank against every Person whomsoever lawfully claiming the same or any part thereof, and Mortgagor will maintain and preserve the lien created hereby so

long as any of the Indebtedness remains unpaid. Should an adverse claim be made against or a cloud develop upon the title to any part of the Mortgaged Property, Mortgagor agrees it will immediately defend against such adverse claim or take appropriate action to remove such cloud at Mortgagor's expense if such claim would, in the reasonable judgment of the Mortgagee, materially and adversely affect the Mortgaged Property, or any material part thereof, and Mortgagor further agrees that the Bank and/or the Trustee may take such other action as either of them deems advisable to protect and preserve their interests in the Mortgaged Property, and in such event Mortgagor will indemnify the Bank and/or the Trustee against any and all costs, reasonable attorney's fees and other expenses which they may incur in defending against any such adverse claim or taking action to remove any such cloud.

4.12 Relocation of Offices. The Mortgagor shall not change its name or identity or its corporate structure, or relocate its principal place of business or chief executive office to a county or state other than that specified in Section 3.10 of this Deed of Trust or otherwise relocate any portion of the personal property comprising part of the Mortgaged Property to a county or state other than that where it is presently located unless prior to such relocation the Mortgagor (a) gives 30 days' prior written notice to the Bank and the Trustee, which notice shall include, without limitation, the name of the county and state into which such relocation is to be made, and (b) executes and delivers all such additional documents and performs all additional acts as the Bank or the Trustee or their counsel shall reasonably feel is necessary or advisable in order to continue and maintain the existence and priority of the Bank's security interest in the personal property comprising part of the Mortgaged Property so relocated.

4.13 Environmental Matters.

(a) Compliance with Environmental Laws. Mortgagor is currently in compliance and shall continue to comply with all material laws, statutes, regulations, ordinances, rules, standards, orders or determinations of any local, state or federal governmental authority (including related determinations, orders or opinions by any judicial or administrative authority) which has jurisdiction over the Mortgagor or the Mortgaged Property pertaining to protection or conservation of the air, land, water, human health, or other aspects of the environment, including, without limitation, the following statutes and implementing regulations, as supplemented or amended: the Clean Air Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Federal Water Pollution Control Act; the Solid Waste Disposal Act; the Resource Conservation and Recovery Act; the Safe Drinking Water Act; the Toxic Substances Control Act; the Occupational Safety and Health Act; the Hazardous Materials Transportation Act; the National Environmental Policy Act; and any and all comparable statutes of the State of Texas and local governmental authorities (herein referred to as "Environmental Laws") except where such noncompliance is not likely to have a material adverse effect on the business, condition (financial or otherwise), affairs or operations of Mortgagor. The provisions of this paragraph shall not limit any other provisions of this Deed of Trust.

(b) Spills or Releases. Mortgagor shall not become subject to any Environmental Liabilities and Costs deemed material by the Bank arising out of or related to (i) the Release or threatened Release at any location of any Contaminant into the environment, or any Remedial Action in response thereto, or (ii) any violation of any environmental, health and safety Requirements of Law, which, in either case, would have a material adverse effect on the condition (financial or otherwise), operations or properties of Mortgagor and its Subsidiaries taken as a whole, provided, however, that if Mortgagor promptly and diligently responds to the material Release or threatened Release or material violation and complies with all Requirements of Law, including notices, orders, penalties, fines or request of Governmental Authorities, including Remedial Action in response to any such Release or threatened Release, the material Release or threatened Release or material violation and any Environmental Liabilities and costs associated therewith shall not be deemed an Event of Default under this Deed of Trust with respect to the covenant contained in this Section 4.13.

(c) Underground Storage Tanks. If and to the extent there are now or hereafter located any underground storage tanks on the Mortgaged Property, Mortgagor has registered all underground storage tanks which are now located on the Mortgaged Property and has paid all fees assessed in connection with such tanks (and Mortgagor will so register and pay said fees with respect to any underground storage tanks hereafter located on the Mortgaged Property). Mortgagor will fully comply with all state and local statutes and regulations, the Federal Solid Waste Disposal Act, and 40 C.F.R. Part 280, as supplemented and amended, including, without limitation, requirements for financial assurance, tank replacement, and monitoring except where such noncompliance is not likely to have a material adverse effect on the business, condition (financial or otherwise), affairs or operations of Mortgagor.

(d) Litigation Expenses; Hold Harmless. In case of any litigation involving the title to any part of the Mortgaged Property or the validity of this Deed of Trust as a first lien against the Mortgaged Property, the Bank may be represented in such litigation through attorneys of its own selection, and in such event Mortgagor shall, upon demand, promptly reimburse the Bank for all court costs and reasonable attorneys' fees incurred by the Bank in defending and/or protecting its rights in such litigation. Mortgagor shall defend, at its own cost and expense, and hold the Bank harmless from any proceeding or claim affecting the Mortgaged Property or any instrument executed in connection with or as security for the Indebtedness, and/or any public or private proceeding relating to or arising out of the use or presence of any Contaminant on the Mortgaged Property, or the application of Environmental Laws. All costs and expenses incurred by the Bank in protecting its interests hereunder, including all court costs and reasonable attorneys' fees, shall be borne by Mortgagor.

(e) Indemnification. To the fullest extent permitted under applicable law, Mortgagor shall indemnify the Bank and hold the Bank



harmless from and against any loss, liability, damage, or expense, including reasonable attorneys' fees, suffered or incurred by the Bank, whether as beneficiary under this Deed of Trust, or as the Bank in possession, or as successor in interest to Mortgagor as owner or lessee of the Mortgaged Property by virtue of foreclosure or a deed or other conveyance in lieu of foreclosure, (i) under or on account of the Environmental Laws, including the assertion of any lien thereunder, (ii) with respect to any past, present or future release of any Contaminant affecting the Mortgaged Property, whether or not the same originate or emanate from the Mortgaged Property or any contiguous real estate, including any loss of value of the Mortgaged Property as a result of a Contaminant affecting the Mortgaged Property, provided that the Mortgagor shall never be required to pay more than the amounts due under the Credit Agreement and any other Loan Documents executed in connection therewith with respect to any such loss of value; and (iii) with respect to any other matter affecting the Mortgaged Property within the jurisdiction of any federal, state, or municipal official administering the Environmental Laws; provided, however, Mortgagor shall not indemnify or hold the Bank harmless from or against any such loss, liability, damage or expense arising from any violation of Environmental Laws or contamination of the Mortgaged Property occurring as a result of actions taken by the Bank, its agents, employees or representatives, after the date that the Bank either (i) acquires ownership of the Mortgaged Property by foreclosure or a deed or other conveyance in lieu of foreclosure or (ii) takes possession of the Mortgaged Property and commences to hold, use, administer, manage and operate the same pursuant to Section 8.12 hereof. If any claim, demand, action or cause of action is asserted against the Bank and the Bank intends to claim indemnification from Mortgagor under this Section 4.13(e), the Bank shall promptly notify Mortgagor, but the failure to so promptly notify Mortgagor shall not effect Mortgagor's obligations under this Section 4.13(e) unless such failure materially prejudices Mortgagor's right to participate in, or Mortgagor's rights in, if any, the contest of such claim, demand, action or cause of action. If the Bank proposes to settle or compromise any claim or proceeding for which Mortgagor may be liable for payment of indemnity hereunder, the Bank shall give Mortgagor written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain Mortgagor's prior written consent, which consent shall not be unreasonably withheld. The terms and provisions of this paragraph shall specifically survive payment in full of the Indebtedness, release of liens, assignments and security agreements of this Deed of Trust, the exercise by the Bank of any and all remedies hereunder and/or acceptance of a deed or other conveyance in lieu of foreclosure with respect to the Mortgaged Property or any part thereof.

## ARTICLE V Alienation

If Mortgagor other than as permitted under the Credit Agreement or hereunder grants, sells, conveys, transfers, disposes of or leases the Mortgaged

Property, or any portion thereof, either voluntarily, involuntarily, or by operation of law, or enters into an agreement so to do (unless expressly subject to the written consent of the Bank) without the prior written consent of the Bank, the Bank may declare that an Event of Default has occurred.

Upon written request from Mortgagee, Mortgagor shall submit or cause to be submitted to Mortgagee within 30 days after December 31 of each calendar year after the date hereof, a certificate signed by Mortgagor stating whether the Mortgaged Property or any part thereof has been transferred.

The foregoing notwithstanding, so long as no Event of Default has occurred, Mortgagor may sell Subject Minerals which have been produced in the ordinary course of business.

## ARTICLE VI Assignment of Production

6.1 Assignment of Rents. Mortgagor hereby absolutely and unconditionally assigns and transfers to the Bank all the income, rents, royalties, revenue, issues, profits, and proceeds of the Subject Interests, whether now due, past due or to become due, and hereby gives to and confers upon the Bank the right, power and authority to collect such income, rents, royalties, revenue, issues, profits and proceeds. Mortgagor irrevocably appoints the Bank its true and lawful attorney at the option of the Bank at any time to demand, receive, and enforce payment, to give receipts, releases, and satisfactions and to sue, either in the name of Mortgagor or in the name of the Bank, for all such income, rents, royalties, revenue, issues, profits and proceeds. Neither the foregoing assignment nor the exercise by the Bank of any of its rights or remedies under this Deed of Trust shall be deemed to make the Bank a "mortgagee-in-possession" or otherwise responsible or liable in any manner with respect to the Mortgaged Property or the use, occupancy, enjoyment or operation of all or any portion thereof, unless the Bank, in person or by agent, assumes actual possession thereof, nor shall appointment of a receiver for the Subject Interests by any court at the request of the Bank or by agreement with Mortgagor or the entering into possession of the Subject Interests or any part thereof by such receiver be deemed to make the Bank a "mortgagee-in-possession" or otherwise responsible or liable in any manner with respect to the Subject Interests or the use, occupancy, enjoyment or operation of all or any portion thereof. Notwithstanding anything to the contrary contained herein, until such time as the Bank or Mortgagor shall have instructed such parties to deliver such rents, income, royalties, revenues, issues, profits or proceeds directly to the Bank, such parties shall be entitled to deliver such rents, income, royalties, revenues, issues, profits and proceeds to Mortgagor for Mortgagor's use and enjoyment.

6.2 Assignment of Production. As further security for the payment of the Indebtedness, Mortgagor has transferred, assigned, warranted and conveyed and does hereby transfer, assign, warrant and convey to the Bank, its successors and assigns, and grants to the Bank a security interest in, effective as of the date hereof,

at 7:00 o'clock a.m., local time, subject to Permitted Encumbrances, all Hydrocarbons which are thereafter produced and which accrue to the Subject Interests, all products obtained or processed therefrom and all revenues and proceeds now or hereafter attributable to said Hydrocarbons and said products as well as any Liens and security interests securing any sales of said Hydrocarbons, including, but not limited to, those liens and security interests provided for in the Tex. Bus. & Com. Code Ann. §9.319 (Tex. UCC) (Vernon Supp. 1989), as amended. All parties producing, purchasing or receiving any such Hydrocarbons or products, or having such Hydrocarbons, products, or proceeds therefrom in their possession for which they or others are accountable to the Bank by virtue of the provisions of this Article, are authorized and directed to treat and regard the Bank as the assignee and transferee of Mortgagor and entitled in such Mortgagor's place and stead to receive such Hydrocarbons and all proceeds therefrom; and said parties and each of them shall be fully protected in so treating and regarding the Bank and shall be under no obligation to see to the application by the Bank of any such proceeds or payments received by it; provided, however, that, until the Bank or Mortgagor shall have instructed such parties to deliver such Hydrocarbons and all proceeds therefrom directly to the Bank (which such instructions may be given only after the occurrence and during the continuance of an Event of Default, but the giving of such instructions shall as to such parties be conclusive as to the occurrence of an Event of Default), such parties shall be entitled to deliver such Hydrocarbons and all proceeds therefrom to Mortgagor for Mortgagor's use and enjoyment, and such Mortgagor shall be entitled to execute division orders, transfer orders and other instruments as may be required to direct all proceeds to Mortgagor without the necessity of joinder by the Bank in such division orders, transfer orders or other instruments. Mortgagor agrees to perform all such acts, and to execute all such further assignments, transfers and division orders, and other instruments as may be required or desired by the Bank or any party in order to have said revenues and proceeds so paid to the Bank. The Bank is fully authorized to receive and receipt for said revenues and proceeds, to endorse and cash any and all checks and drafts payable to the order of such Mortgagor or the Bank for the account of Mortgagor received from or in connection with said revenues or proceeds and apply the proceeds thereof in accordance with Section 6.3 hereof, and to execute transfer and division orders in the name of Mortgagor, or otherwise, with warranties binding Mortgagor. Mortgagor will execute and deliver to the Bank any instruments the Bank may from time to time request for the purpose of effectuating this assignment and the payment to the Bank of the proceeds assigned. Neither the foregoing assignment nor the exercise by the Bank of any of its rights under this Deed of Trust shall be deemed to make the Bank a "mortgagee-in-possession" or otherwise responsible or liable in any manner with respect to the Subject Interests or the use, occupancy, enjoyment or operation of all or any portion thereof, unless and until the Bank, in person or by agent, assumes actual possession thereof, nor shall appointment of a receiver for the Mortgaged Property by any court at the request of the Bank or by agreement with either Mortgagor or the entering into possession of the Mortgaged Property or any part thereof by such receiver be deemed to make the Bank a "mortgagee-in-possession" or otherwise responsible or liable in any manner with respect to the Mortgaged Property or the use, occupancy, enjoyment or operation of all or any portion thereof.

6.3 Application of Proceeds. All payments received by the Bank pursuant to Section 6.1 or 6.2 hereof shall be promptly applied to the Indebtedness as follows:

First: To the payment and satisfaction of all costs and expenses incurred in connection with the collection of such proceeds and the payment and reimbursement of all amounts of Indebtedness (except that included in "Second" and "Third" below);

Second: To the payment and satisfaction of the accrued interest and/or any principal amount then due and owing on the Loans, such application to be as set forth in the Credit Agreement; and

Third: The balance, if any, shall be applied on the then unmatured principal amounts of the Loans and all other amounts owed under the Credit Agreement, such application to be as set forth in the Credit Agreement.

6.4 No Liability of the Bank in Collecting. The Bank is hereby absolved from all liability for failure to enforce collection of any proceeds so assigned and from all other responsibility in connection therewith, except the responsibility to account to Mortgagor for funds actually received. The Bank shall have the right, at its election, to prosecute and defend any and all actions or legal proceedings deemed advisable by the Bank in order to collect such funds and to protect the interests of the Bank and/or Mortgagor, with all reasonable costs, expenses and attorneys' fees incurred in connection therewith being paid by Mortgagor.

6.5 Assignment Not a Restriction on the Bank's Rights. Nothing herein contained shall detract from or limit the absolute obligation of Mortgagor to make payment in full of the Indebtedness regardless of whether the proceeds assigned by this Article are sufficient to pay the same, and the rights under this Article shall be in addition to all other security now or hereafter existing to secure the payment of the Indebtedness.

6.6 Status of Assignment. Notwithstanding the other provisions of this Article VI, the Trustee or the Bank or any receiver appointed in judicial proceedings for the enforcement of this instrument shall have the right to receive all of the Hydrocarbons herein assigned and the proceeds therefrom after the Note has been declared due and payable in accordance with the provisions of Section 7.2 hereof and to apply all of said proceeds as set forth in Section 6.3 hereof. Upon any sale of the Subject Interests or any part thereof pursuant to Article VIII hereof, the Hydrocarbons thereafter produced from the Subject Interests so sold, and the proceeds therefrom, shall be included in such sale and shall pass to the purchaser free and clear of the assignment contained in this Article.

6.7 Indemnity. (a) Mortgagor agrees to indemnify the Trustee and the Bank and their respective directors, officers, agents, attorneys, representatives and employees (the "Indemnitees") against all claims, actions, liabilities, judgments, costs, attorneys' fees or other charges of whatsoever kind or nature, (collectively,

"Claims") made against or incurred by them or any of them as a consequence of the assertion, either before or after the payment in full of the Indebtedness, that they or any of them received Hydrocarbons herein assigned or the proceeds thereof claimed by third persons, provided, that no Indemnitee shall be entitled to indemnification for any claim, action, liability, judgment, cost, fee or other charge caused by its own gross negligence or willful misconduct. If any claim, demand, action or cause of action is asserted against any Indemnitee and such Indemnitee intends to claim indemnification from Borrower under this Section 6.7, such Indemnitee shall promptly notify Mortgagor, but the failure to so promptly notify Mortgagor shall not affect Mortgagor's obligations under this Section 6.7 unless such failure materially prejudices Mortgagor's right to participate in, or Mortgagor's rights in, if any, the contest of such claim, demand, action or cause of action, as hereinafter provided. Each Indemnitee may, and if requested by Mortgagor in writing shall, in good faith contest the validity, applicability and amount of such claim, demand, action or cause of action with counsel selected by such Indemnitee and reasonably acceptable to Mortgagor, and shall permit Mortgagor to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which Mortgagor may be liable for payment of indemnity hereunder shall give Mortgagor written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain Mortgagor's prior written consent, which consent shall not be unreasonably withheld. In connection with any claim, demand, action or cause of action covered by this Section 6.7 against more than one Indemnitee, each Indemnitee shall be represented by the same legal counsel selected by the Indemnitees and reasonably acceptable to Mortgagor; provided, that if such legal counsel determines in good faith and advises Mortgagor in writing that representing all such Indemnitees would or could result in a conflict of interest under laws or ethical principles applicable to such legal counsel or that a defense or counterclaim is available to an Indemnitee that is not available to each Indemnitee, then to the extent reasonably necessary to avoid such a conflict of interest or to permit unqualified assertion of such a defense or counterclaim, each Indemnitee shall be entitled to separate representation by legal counsel selected by that Indemnitee and reasonably acceptable to Mortgagor.

(b) Without limiting any provision of this Deed of Trust or any other Loan Document, it is the express intention of the Mortgagor that the Indemnitees shall be indemnified and held harmless against any and all losses, liabilities, claims, deficiencies, judgments or expenses arising out of or resulting from sole or concurrent negligence of such Indemnitee. Mortgagor will indemnify and pay to the Trustee and/or the Bank any and all such amounts as may be paid in respect thereof or as may be successfully adjudged against the Bank and the Trustee or either of them. The obligations of Mortgagor as hereinabove set forth in this Section 6.7 shall survive the release of this Deed of Trust.

6.8 Rights to Timely Payment. For purposes of more fully effecting the assignment made under this Article VI and continuing the rights of the Trustee and the Bank thereunder, Mortgagor hereby appoints the Trustee and the Bank as its attorneys-in-fact to pursue any and all rights, remedies and payments in respect of the Hydrocarbons and proceeds therefrom, including, but not limited to, proceeds



accruing prior to the effective date of the assignment contained in this Article VI. The power of attorney granted to the Trustee and the Bank under this Section 6.8, being coupled with an interest, shall be irrevocable so long as the Indebtedness or any part thereof remains unpaid.

## ARTICLE VII Events of Default

7.1 Events of Default. Each of the following events shall constitute an "Event of Default" hereunder, provided that any requirement for notice or lapse of time or other condition precedent set forth below has been satisfied:

(a) Payment Default - default in the payment or prepayment when due of any installment of principal or interest on any Note; or

(b) Credit Agreement Default - the occurrence of an "Event of Default" under the terms and provisions of the Credit Agreement; or

(c) Representations and Warranties - any warranty or representation, made by Mortgagor herein proves to have been incorrect in any material respect as of the date when made or deemed made; or

(d) Affirmative Covenants and Agreements - default is made in the due observance or performance by Mortgagor of any of the covenants, obligations or agreements contained herein, other than those contained in Sections 4.1 or 4.5 of this Deed of Trust, and such default is not remedied within thirty (30) days after written notice of the existence of such default is given by the Bank to the Mortgagor;

(e) Other Covenants and Agreements - default is made in the due observance or performance by Mortgagor of the covenants or agreements contained in Section 4.1 or 4.5 of this Deed of Trust; or

(f) Attachment - any substantial part of the Mortgaged Property shall be attached or shall be placed in the hands of a receiver or receivers, or trustee or trustees, or other officer or officers, or representative or representatives of a court or of creditors.

7.2 Effect of Event of Default. If any Event of Default of the type described in Section 7(h) or (i) of the Credit Agreement shall occur and be continuing, the Note and all other outstanding Indebtedness secured hereby shall automatically become and be immediately due and payable in each instance without grace, demand, presentment for payment, protest or notice (including, but not limited to, notice of intent to accelerate and notice of acceleration) of any kind to Mortgagor or any other Person, all of which are hereby expressly waived, and the Bank may proceed to enforce its rights hereunder. If an Event of Default (other than an Event of Default of

the type described in Section 7(h) or (i) of the Credit Agreement) shall occur and be continuing:

(a) the Bank may by notice in writing to Mortgagor declare the principal of and accrued interest on the Note and all other outstanding Indebtedness secured hereby to be immediately due and payable whereupon the outstanding balance on the Note and all other outstanding Indebtedness shall become and be immediately due and payable, in each instance without (except for grace and notice expressly provided for) grace, demand, presentment for payment, protest or notice (including, but not limited to, notice of intent to accelerate and notice of acceleration) of any kind to Mortgagor or any other person, all of which are hereby expressly waived, and

(b) the Bank may proceed to enforce its rights hereunder.

## ARTICLE VIII Enforcement of Remedies

8.1 Power of Sale of Real Property Constituting a Part of the Mortgaged Property. Upon the occurrence and continuance of an Event of Default, the Trustee is hereby authorized and empowered to sell or offer for sale any part of the Mortgaged Property located in the State of Texas, with or without having first taken possession of same, to the highest bidder for cash at public auction. Such sale shall be made at the courthouse of the county in Texas in which the Texas portion of the Mortgaged Property or any part thereof is situated, as herein described, between the hours of 10:00 a.m. and 4:00 p.m. on the first Tuesday of any month, beginning within three (3) hours of the time provided in the notices described herein, after posting a written or printed notice or notices of the place, earliest time at which the sale will begin and the terms of said sale, and the portion of the Mortgaged Property to be sold, by posting (or having some person or persons acting for the Trustee post) for at least twenty-one (21) days preceding the date of the sale, written or printed notice of the proposed sale at the courthouse door of said county in which the sale is to be made; and if such portion of the Mortgaged Property lies in more than one county, one such notice of sale shall be posted at the courthouse door of each county in which such part of the Mortgaged Property is situated and such part of the Mortgaged Property may be sold at the courthouse door of any one of such counties, and the notice so posted shall designate in which county such property shall be sold. In addition to such posting of notice, the Bank, Trustee or other holder of the Indebtedness hereby secured (or some person or persons acting for the Trustee, the Bank or other such holder) shall, at least twenty-one (21) days preceding the date of sale, file a copy of such notice(s) in the office of the county clerk in each of such counties and serve or cause to be served written notice of the proposed sale by certified mail on Mortgagor and on each other debtor, if any, obligated to pay the Indebtedness according to the records of the Bank. Service of such notice shall be completed upon deposit of the notice, enclosed in a postpaid wrapper properly addressed to Mortgagor and such other debtors at their most recent address or addresses as shown by the records of the Bank in a post office or official depository under the care and custody of the United

States Postal Service. The affidavit of any person having knowledge of the facts to the effect that such a service was completed shall be prima facie evidence of the fact of service. Mortgagor agrees that no notice of any sale, other than as set out in this paragraph, need be given by the Trustee, the Bank or any other person. Mortgagor hereby designates as its address for the purpose of such notice, the address set out on the signature page hereof; and agrees that such address shall be changed only by depositing notice of such change enclosed in a postpaid wrapper in a post office or official depository under the care and custody of the United States Postal Service, certified mail, postage prepaid, return receipt requested, addressed to the Bank or other holder of the Indebtedness at the address of the Bank set out herein (or to such other address as the Bank or other holder of the Indebtedness may have designated by notice given as above provided to Mortgagor and such other debtors). Any such notice of change of address of Mortgagor or other debtors or of the Bank or other holders of the Indebtedness shall be effective three (3) business days after such deposit if such post office or official depository is located in the State of Texas, otherwise to be effective upon receipt. Mortgagor authorizes and empowers the Trustee to sell the Texas portion of the Mortgaged Property in lots or parcels or in its entirety as the Trustee shall deem expedient; and to execute and deliver to the purchaser or purchasers thereof good and sufficient deeds of conveyance thereto, with evidence of general warranty by Mortgagor, and the title of such purchaser or purchasers when so made by the Trustee, Mortgagor binds itself to warrant and forever defend. Where portions of the Mortgaged Property lie in different counties, sales in such counties may be conducted in any order that the Trustee may deem expedient; and one or more such sales may be conducted in the same month, or in successive or different months as the Trustee may deem expedient. The Trustee may postpone the sale of all or any part of the Mortgaged Property by public announcement at the time and place of such sale, and from time to time thereafter may further postpone such sale by public announcement made at the time of sale fixed by the preceding postponement. The right of sale hereunder shall not be exhausted by one or any sale, and the Trustee may make other and successive sales until all of the trust estate be legally sold.

8.2 Rights of the Trustee With Respect to Personal Property Constituting a Part of the Mortgaged Property. Upon the occurrence and during the continuance of an Event of Default, the Trustee will have all rights and remedies granted by law, and particularly by the Uniform Commercial Code, including, but not limited to, the right to take possession of all personal property constituting a part of the Mortgaged Property, and for this purpose the Trustee may enter upon any premises on which any or all of such personal property is situated and take possession of and operate such personal property (or any portion thereof) or remove it therefrom. The Trustee may require Mortgagor to assemble such personal property and make it available to the Trustee at a place to be designated by the Trustee which is reasonably convenient to all parties. Unless such personal property is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Trustee will give Mortgagor reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition of such personal property is to be made. This requirement of sending reasonable notice will



be met if the notice is mailed by first class mail, postage prepaid, to Mortgagor at the address shown below the signatures at the end of this instrument at least five (5) days before the time of the sale or disposition.

8.3 Rights of the Trustee With Respect to Fixtures Constituting a Part of the Mortgaged Property. Upon the occurrence and during the continuance of an Event of Default, the Trustee may elect to treat the fixtures constituting a part of the Mortgaged Property as either real property collateral or personal property collateral and proceed to exercise such rights as apply to such type of collateral.

8.4 Judicial Proceedings. Upon occurrence and during the continuance of an Event of Default, the Trustee, in lieu of or in addition to exercising any power of sale hereinabove given, may proceed by a suit or suits in equity or at law, whether for a foreclosure hereunder, or for the sale of the Mortgaged Property, or for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, or for the appointment of a receiver pending any foreclosure hereunder or the sale of the Mortgaged Property, or for the enforcement of any other appropriate legal or equitable remedy. Upon occurrence and during the continuance of an Event of Default, Mortgagor agrees that the appointment of a receiver shall be as a matter of right and without proof of insolvency, fraud, insecurity or mismanagement on the part of Mortgagor. Mortgagor agrees that such receiver may be appointed to take possession of, hold, maintain, operate and preserve the Mortgaged Property, including the production and sale of all Hydrocarbons therefrom, and to apply the proceeds of the sale thereof in the fashion set forth in Section 8.9 hereof; and said receiver may be authorized to sell and dispose of the Mortgaged Property under orders of the Court appointing such receiver.

8.5 Possession of the Mortgaged Property. It shall not be necessary for the Trustee to have physically present or constructively in his possession at any sale held by the Trustee or by any court, receiver or public officer any or all of the Mortgaged Property, and Mortgagor shall deliver to the purchaser at such sale on the date of sale the Mortgaged Property owned by Mortgagor and purchased by such purchasers at such sale, and if it should be impossible or impracticable for any of such purchasers to take actual delivery of the Mortgaged Property, then the title and right of possession to the Mortgaged Property shall pass to the purchaser at such sale as completely as if the same had been actually present and delivered.

8.6 Certain Aspects of a Sale. The Bank shall have the right to become the purchaser at any sale held by the Trustee or by any court, receiver or public officer, and the Bank shall have the right to credit upon the amount of the bid made therefor, the amount payable out of the net proceeds of such sale to it. Recitals contained in any conveyance made to any purchaser at any sale made hereunder shall conclusively establish the truth and accuracy of the matters therein stated, including, without limiting the generality of the foregoing, nonpayment of the unpaid principal sum of, and the interest accrued on, the Note after the same have become due and payable, advertisement and conduct of such sale in the manner provided herein or appointment of any successor Trustee hereunder.

8.7 Receipt to Purchaser. Upon any sale, whether made under the Uniform Commercial Code, the power of sale herein granted and conferred or by virtue of judicial proceedings, the receipt of the Trustee, or of the officer making sale under judicial proceedings, acknowledging the payment of purchase money with respect thereto, shall be sufficient discharge to the purchaser or purchasers at any sale for his or their purchase money, and such purchaser or purchasers and his or their assigns or personal representatives, shall not, after paying such purchase money and receiving such receipt of the Trustee or of such officer therefor, be obliged to see to the application of such purchase money, or be in anywise answerable for any loss, misapplication or non-application thereof.

8.8 Effect of Sale. Any sale or sales of the Mortgaged Property or any part thereof, whether under the Uniform Commercial Code, the power of sale herein granted and conferred or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever either at law or in equity, of Mortgagor of, in and to the Mortgaged Property sold, and shall be a perpetual bar, both at law and in equity, against Mortgagor, and Mortgagor's successors or assigns, and against any and all persons claiming or who shall thereafter claim all or any of the property sold from, through or under Mortgagor, or Mortgagor's successors or assigns. Nevertheless, Mortgagor, if requested by the Trustee or the Bank so to do, shall join in the execution and delivery of all proper conveyances, assignments and transfers of the properties so sold.

8.9 Application of Proceeds. The proceeds of any sale of the Mortgaged Property, or any part thereof, whether under the Uniform Commercial Code, the power of sale herein granted and conferred or by virtue of judicial proceedings, whose application has not elsewhere herein been specifically provided for, shall be applied to the Indebtedness as follows:

First: To the payment of all reasonable expenses incurred by the Trustee or the Bank incident to the enforcement of this Deed of Trust, the Note or any of the Indebtedness including, without limiting the generality of the foregoing, all expenses of any entry or taking of possession, of any sale, of advertisement thereof, and of conveyances, and as well, court costs, compensation of agents and employees and legal fees and a reasonable fee to the Trustee;

Second: To the payment of all other costs, charges, expenses, liabilities and advances incurred or made by the Trustee or the Bank under this Deed of Trust or in executing any trust or power hereunder;

Third: To the payment of the Note and any other Indebtedness, with interest to the date of such payment, in such order and manner as set forth in the Credit Agreement;

Fourth: Any surplus thereafter remaining shall be paid to Mortgagor or Mortgagor's successors or assigns, as their interests shall appear or as a court of competent jurisdiction may direct.

8.10 Mortgagor's Waiver of Appraisal, Marshaling, etc. Rights. Mortgagor agrees, to the full extent that Mortgagor may lawfully so agree, that Mortgagor will not at any time insist upon or plead or in any manner whatever claim the benefit of any appraisal, valuation, stay, extension or redemption of law now or hereafter in force, in order to prevent or hinder the enforcement or foreclosure of this Deed of Trust or the absolute sale of the Mortgaged Property or the possession thereof by any purchaser at any sale made pursuant to any provision hereof, or pursuant to the decree of any court of competent jurisdiction; but Mortgagor, for Mortgagor and all who may claim through or under Mortgagor, so far as Mortgagor or those claiming through or under Mortgagor now or hereafter lawfully may, hereby waives the benefit of all such laws. Mortgagor, for Mortgagor and all who may claim through or under Mortgagor (including, without limitation, a holder of a Lien subordinate to the Lien created hereby, without implying that Mortgagor has, except as expressly provided herein, a right to grant an interest in, or subordinate a Lien on, the Mortgaged Property), hereby waives, to the fullest extent permitted by applicable law, any and all right to have any of the Mortgaged Property marshaled upon any foreclosure of the Lien hereof, or sold in inverse order of alienation, and agrees that the Trustee or any court having jurisdiction to foreclose such Lien may sell the Mortgaged Property as an entirety. If any law in this paragraph referred to and now in force, of which Mortgagor or Mortgagor's successor or successors might take advantage despite the provisions hereof, shall hereafter be repealed or cease to be in force, such law shall not thereafter be deemed to constitute any part of the contract herein contained or to preclude the operation or application of the provisions of this paragraph.

8.11 Costs and Expenses. All costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or the Bank in protecting and enforcing their rights hereunder, shall, to the extent permitted by applicable law, constitute a demand obligation owing by Mortgagor to the party incurring such costs and expenses and shall bear interest until paid at the Default Rate.

8.12 Operation of Property by the Trustee. Upon the occurrence of an Event of Default and in addition to all other rights herein conferred on the Trustee, the Trustee (or any person, firm or corporation designated by the Trustee) shall have the right and power, but shall not be obligated, to enter upon and take possession of any of the Mortgaged Property, and to exclude Mortgagor, and Mortgagor's agents or servants, wholly therefrom, and to hold, use, administer, manage and operate the same to the extent that Mortgagor shall be at the time entitled and in his place and stead. The Trustee, or any person, firm or corporation designated by the Trustee, may operate the same without any liability to Mortgagor in connection with such operations, except for gross negligence or willful misconduct in the operation of such Mortgaged Property, and the Trustee or any person, firm or corporation designated by the Trustee, shall have the right and power, but shall not be obligated, to collect, receive and receipt for all Hydrocarbons produced and sold from said Mortgaged Property, to make repairs, purchase machinery and equipment, conduit and power, to enter work-over operations, drill additional wells and to exercise every power, right and privilege of Mortgagor with respect to the Mortgaged Property. When and if the expenses of such operation and development (including costs of unsuccessful work-

over operations or additional wells) have been paid and the Indebtedness paid, said Mortgaged Property shall, if there has been no sale or foreclosure, be returned to Mortgagor.

## ARTICLE IX Security Agreement

Without limiting any of the provisions of this instrument, in order to secure the Indebtedness, Mortgagor, as Debtor (referred to in this Article IX as "Debtor"), hereby expressly GRANTS, ASSIGNS, TRANSFERS and SETS OVER unto the Bank, as Secured Party (the Bank being referred to in this Article IX as "Secured Party"), a first Lien upon and a security interest in all the Mortgaged Property (including, without limitation, all Mortgaged Property that constitutes equipment, accounts, contract rights, goods, instruments, general intangibles, inventory, Hydrocarbons, fixtures and other personal property of any kind or character (including both those now and those hereafter existing)) to the full extent that such Mortgaged Property may be subject to the Uniform Commercial Code of the state or states where such Mortgaged Property is located, including all products and proceeds of such Mortgaged Property, subject only to Permitted Encumbrances (said Mortgaged Property, products and proceeds being hereinafter collectively referred to as the "Collateral" for the purposes of this Article IX). The Lien and security interest created by this Deed of Trust attaches upon the delivery hereof. Debtor covenants and agrees with Secured Party that:

(a) In addition to and cumulative of any other remedies granted in this instrument to Secured Party or to the Trustee, Secured Party may, upon the occurrence and during the continuance of an Event of Default, proceed under said Uniform Commercial Code as to all or any part of the Collateral and shall have and may exercise with respect to the Collateral all the rights, remedies and powers of a secured party after default under said Uniform Commercial Code, including, without limitation, the right and power to sell, at public or private sale or sales, or otherwise dispose of, lease or utilize the Collateral and any part or parts thereof in any manner authorized or permitted under said Uniform Commercial Code after default by a debtor, and to apply the proceeds thereof toward payment of any costs and expenses and attorneys' fees and legal expenses thereby incurred by Secured Party, and toward payment of the Indebtedness in such order or manner as set forth in this Deed of Trust.

(b) Upon the occurrence and during the continuance of an Event of Default, Secured Party shall have the right (without limitation) to take possession of the Collateral and to enter upon any premises where same may be situated for such purpose without being deemed guilty of trespass and without liability for damages thereby occasioned, and to take any action deemed necessary or appropriate or desirable by Secured Party, at its option and in its discretion, to repair, refurbish or otherwise prepare the Collateral for sale, lease or other use or disposition as herein authorized.

(c) To the extent permitted by law, Debtor expressly waives notice of any right or remedies of a debtor (other than notice of sale or other disposition of the Collateral) or formalities prescribed by law relative to sale or disposition of the Collateral or exercise of any other right or remedy of Secured Party existing after default hereunder; and with respect to any required notice, Debtor agrees that if such notice is mailed, postage prepaid, to Debtor at the address shown with Debtor's signature hereinbelow at least five (5) days before the time of the sale or disposition, such notice shall be deemed reasonable and shall fully satisfy any requirement for giving of said notice. Such notice, in case of a public sale or disposition, shall state the time and place fixed for such sale or disposition and, in case of a private sale or disposition, shall state the date after which such sale or disposition is to be made.

(d) Any public sale of the Collateral shall be held at such time or times within ordinary business hours and at such places as Secured Party may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as Secured Party may determine.

(e) Secured Party shall not be obligated to make any sale pursuant to any such notice. Secured Party may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same shall be so adjourned.

(f) In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by Secured Party until the selling price is paid by the purchaser thereof, but Secured Party shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice.

(g) Upon the occurrence and during the continuance of an Event of Default, Secured Party is expressly granted the right, at its option, to transfer at any time to itself or to its nominee the Collateral, or any part thereof and to hold the same as security for the Indebtedness, and to receive the monies, income, proceeds or benefits attributable or accruing thereto and to apply the same toward payment of the Indebtedness, whether or not then due, in such order or manner as Secured Party may elect. All rights to marshaling of assets of Debtor, including any such right with respect to the Collateral, are hereby waived.

(h) All recitals in any instrument of assignment or any other instrument executed by Secured Party incident to sale, transfer, assignment, lease or other disposition or utilization of the Collateral or any part thereof hereunder shall be full proof of the matter stated therein, no other proof shall be required to establish full legal propriety of the sale or other action or of any fact, condition or thing incident thereto, and all prerequisites of such sale or other action and of



any fact, condition or thing incident thereto shall be presumed conclusively to have been performed or to have occurred.

(i) Upon the occurrence and during the continuance of an Event of Default, Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party that is reasonably convenient to both parties. All expenses of retaking, holding, preparing for sale, lease or other use or disposition, selling, leasing or otherwise using or disposing of the Collateral and the liens which are incurred or paid by Secured Party as authorized or permitted hereunder, including also all attorneys' fees, legal expenses and costs, shall be added to the Indebtedness.

(j) Should Secured Party elect to exercise its rights under said Uniform Commercial Code as to part of the personal property and fixtures described herein, this election shall not preclude Secured Party or the Trustee from exercising the rights and remedies granted by the preceding paragraphs of this instrument as to the remaining personal property and fixtures.

(k) Secured Party may, at its election, at any time after delivery of this instrument, sign one or more photocopies hereof in order that such photocopies may be used as a financing statement under said Uniform Commercial Code. Such signature by Secured Party may be placed between the last sentence of this instrument and Debtor's acknowledgment or may follow Debtor's acknowledgment. Secured Party's signature need not be acknowledged and is not necessary to the effectiveness hereof as a deed of trust, mortgage, assignment, pledge or security agreement.

(l) So long as any amount remains unpaid on the Indebtedness, Debtor will not execute or file in any public office any financing statement(s) affecting the Collateral (other than Liens arising under operating, pooling or unitization agreements of a scope and nature customary in the oil and gas industry) other than financing statements in favor of Secured Party hereunder, unless the prior written specific consent and approval of Secured Party shall have first been obtained.

(m) Secured Party is authorized to file, in any jurisdiction where Secured Party deems it necessary, a financing statement or statements, and at the request of Secured Party, Debtor will join Secured Party in executing one or more financing statements pursuant to said Uniform Commercial Code in form satisfactory to Secured Party, and will pay the cost of filing or recording this or any other instrument, as a financing statement, in all public offices at any time and from time to time whenever filing or recording of any financing statement or of this instrument is deemed by Secured Party to be necessary or desirable.

(n) Without in any manner limiting the generality of any of the other provisions of this Deed of Trust: (i) some portions of the goods described or to which reference is made herein are or are to become fixtures on the Lands; (ii) the security interests created hereby under applicable provisions of the

Uniform Commercial Code of one or more of the jurisdictions in which the Mortgaged Property is situated will attach to Hydrocarbons or the accounts resulting from the sale thereof at the wellhead or minehead located on the Lands; (iii) this instrument is to be filed or filed of record in the real estate records as a financing statement; (iv) Debtor is the record owner of the real estate or interests in the real estate comprised of the Leases and the Lands described in Exhibit A and (v) the name and address of each of the Secured Party and Debtor is set forth on the signature page hereof.

(o) Debtor hereby irrevocably designates and appoints Secured Party as its attorney-in-fact, with full power of substitution, for the purposes of carrying out the provisions of this Deed of Trust and taking any action and executing any instrument that Secured Party may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact effective upon the occurrence and during the continuance of an Event of Default (but the determination of an Event of Default by the Bank shall as to all parties for the purposes hereof be conclusive as to the occurrence of an Event of Default) and is irrevocable and coupled with an interest.

(p) Without limiting the generality of the foregoing, Debtor hereby irrevocably authorizes and empowers Secured Party, upon the occurrence and during the continuance of an Event of Default, at the expense of Debtor, either in Secured Party's own name or in the name of Debtor, at any time and from time to time (a) to ask, demand, receive, receipt, give acquittance for, settle and compromise any and all monies which may be or become due or payable or remain unpaid at any time or times to Debtor under or with respect to the Collateral; (b) to endorse any drafts, checks, orders or other instruments for the payment of money payable to Debtor on account of the Collateral (including any such draft, check, order or instrument issued by an insurance company payable jointly to Debtor and Secured Party); and (c) in the discretion of Secured Party, to settle, compromise, prosecute or defend any action, claim or proceeding, or take any other action, all either in its own name or in the name of Debtor or otherwise, which Secured Party may deem to be necessary or advisable for the purpose of exercising and enforcing its powers and rights under this Deed of Trust or in furtherance of the purposes hereof, including any action which by the terms of this Deed of Trust is to be taken by Debtor. Nothing in this Deed of Trust shall be construed as requiring or obligating Secured Party to make any demand or to make any inquiry as to the nature or sufficiency of any payment received by it or to present or file any claim or notice, or to take any other action with respect to any of the Collateral or the amounts due or to become due under any thereof, or to collect or enforce the payment of any amounts assigned to it or to which it may otherwise be entitled hereunder at any time or times.

(q) Secured Party shall incur no liability as a result of the sale of Collateral, or any part thereof, at any private sale. Debtor hereby waives, to the extent permitted by applicable law, any claims against Secured Party arising by reason of the fact that the price at which the Collateral may have been sold at such a private sale was less than the price which might have been obtained at

a public sale or was less than the aggregate amount of the Indebtedness, even if Secured Party accepts the first offer received and does not offer such Collateral to more than one offeree if such sale is otherwise commercially reasonable.

(r) Without precluding any other methods of sale, Debtor acknowledges that the sale of the Collateral shall have been made in a commercially reasonable manner if conducted in conformity with reasonable commercial practices of banks disposing of similar property. Secured Party shall not be liable for any depreciation in the value of the Collateral.

## ARTICLE X Miscellaneous

10.1 Pooling and Unitization. Mortgagor shall have the right, and is hereby authorized, to pool or unitize all or any part of the Leases insofar as related to the Mortgaged Property, with adjacent lands, leaseholds and other interests, when, in the reasonable judgment of Mortgagor, it is necessary or advisable to do so in order to form a drilling unit to facilitate the orderly development of that part of the Mortgaged Property affected thereby, 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; and further provided that the Hydrocarbons produced from any unit so formed shall be allocated among the separately owned tracts or interests comprising the unit in proportion to the respective surface areas or reservoir volumes thereof or in such proportion as is prescribed by applicable law. Any unit so formed may relate to one or more zones or horizons, and a unit formed for a particular zone or horizon need not conform in area to any other unit relating to a different zone or horizon, and a unit formed for the production of oil need not conform in area with any unit formed for the production of gas. Upon the written request of the Bank, as to all such units theretofore formed, and thereafter immediately after formation of any such unit, Mortgagor shall furnish to the Trustee and the Bank a true copy of the pooling agreements, declarations of pooling or other instruments creating such units, in such number of counterparts as the Bank may reasonably request. The interest in any such unit attributable to the Mortgaged Property (or any part thereof) included herein shall become a part of the Mortgaged Property and shall be subject to the lien hereof in the same manner and with the same effect as though such unit and the interest of Mortgagor therein were specifically described in Exhibit A. Mortgagor may enter into pooling or unitization agreements not hereinabove authorized only with the prior written consent of Trustee and the Bank.

10.2 Successor Trustees. The Trustee may resign in writing addressed to the Bank or be removed at any time with or without cause by an instrument in writing duly executed by the Bank. In case of the death, resignation or removal of a Trustee, a successor Trustee or Trustees may be appointed by the Bank from time to time by instrument of substitution complying with any applicable requirements of law, and in the absence of any such requirement without other formality than appointment and designation in writing. Such appointment and designation shall be



full evidence of the right and authority to make the same and of all facts therein recited, and upon the making of any such appointment and designation, this conveyance shall vest in the named successor Trustee or Trustees all the estate and title of the prior Trustee or Trustees in all of the Mortgaged Property and such successor Trustee or Trustees shall thereupon succeed to all the rights, powers, privileges, immunities and duties hereby conferred upon the Trustee named herein. All references herein to the Trustee shall be deemed to refer to the Trustees from time to time acting hereunder.

10.3 Legal Proceedings By and Against Trustee. The Trustee shall not be required to take any action for the enforcement of this instrument or the exercise of any rights or remedies hereunder or to appear in or defend any action, suit or other proceeding in connection therewith, where, in the opinion of the Trustee, such action will be likely to involve him in expense or liability, unless the Trustee be tendered security and indemnity satisfactory to him against cost, expense or liability in connection therewith.

10.4 Responsibilities of Trustee. It shall be no part of the duty of the Trustee to see to any recording, filing or registration of this instrument or of any instrument supplemental hereto, or to see to the payment of or be under any duty in respect of any tax or assessment or other governmental charge which may be levied or assessed on the Mortgaged Property or against Mortgagor or to see to the performance or observance by Mortgagor of any of the covenants or agreements herein contained. The Trustee shall not be responsible for the execution, acknowledgment or validity of this instrument or of any instrument supplemental hereto or of the Note, or for the sufficiency of the security purported to be created hereby, and the Trustee makes no representation in respect thereof or in respect of the rights of the holder of any of the Note. The Trustee shall have the right to consult with counsel upon any matters arising hereunder and shall be fully protected in relying as to legal matters on the advice of such counsel. The Trustee shall not incur any personal liability hereunder except for his own willful misconduct; and the Trustee shall have the right to rely on any instrument, document or signature authorizing or supporting any action taken or proposed to be taken by him hereunder which is believed by him in good faith to be genuine.

10.5 Advances by the Bank or Trustee. Each and every covenant herein contained shall be performed and kept by Mortgagor solely at Mortgagor's expense. If Mortgagor shall fail to perform or keep any of the covenants of whatsoever kind or nature contained in this instrument and any applicable cure period has expired, the Bank, the Trustee or any receiver appointed hereunder, may, but shall not be obligated to, make advances to perform the same in Mortgagor's behalf. The Bank shall notify Mortgagor as soon as practicable of any such action taken by the Bank, provided that the failure of the Bank to so notify Mortgagor shall not relieve Mortgagor of any of its obligations hereunder. Mortgagor hereby agree to repay such sums within ten (10) days of demand plus interest until paid at the Default Rate; provided, however, that in no event shall such interest rate ever exceed the Highest Lawful Rate. No such advance shall be deemed to relieve Mortgagor from any default hereunder.

10.6 Defense of Claims. Mortgagor will notify the Trustee and the Bank, in writing, promptly of the commencement of any legal proceedings affecting the Lien hereof or the Mortgaged Property, or any part thereof, and will take such action, employing attorneys agreeable to the Trustee and the Bank, as may be necessary to preserve Mortgagor's, the Trustee's and the Bank's rights affected thereby; and should the Mortgagor fail or refuse to take any such action, the Trustee or the Bank may, upon giving prior written notice thereof to Mortgagor, take such action on behalf and in the name of Mortgagor and at Mortgagor's expense. Moreover, the Bank, or the Trustee on behalf of the Bank, may take such independent action in connection therewith as they may in their discretion deem proper, Mortgagor hereby agreeing that all sums advanced or all expenses incurred in such actions plus interest at the Default Rate will, on demand, be reimbursed to the Bank, the Trustee or any receiver appointed hereunder; provided, however, that in no event shall such interest rate ever exceed the Highest Lawful Rate.

10.7 Property to Revert. If the Indebtedness shall be fully paid and the covenants herein contained shall be well and truly performed, then all of the Mortgaged Property shall revert to Mortgagor and the entire estate, right, title and interest of the Trustee and the Bank shall thereupon cease; and the Bank (without the joinder of the Trustee, which shall not be required) in such case shall, upon the request of Mortgagor and at Mortgagor's cost and expense, deliver to Mortgagor, proper instruments acknowledging satisfaction of this instrument.

10.8 Renewals and Other Security. Renewals and extensions of the Indebtedness may be given at any time and the Bank may take or may now hold other security for the Indebtedness without notice to or consent of Mortgagor. The Trustee or the Bank may resort first to such other security or any part thereof or first to the security heretofore given or any part thereof, or from time to time to either or both, even to the partial or complete abandonment of any security, and such action shall not be a waiver of any rights conferred by this instrument, which shall continue as a perfected Lien upon the Mortgaged Property not expressly released until the Indebtedness is fully paid.

10.9 Instrument an Assignment, etc. This instrument shall be deemed to be and may be enforced from time to time as an assignment, chattel mortgage, hypothecation, contract, deed of trust, conveyance, financing statement, real estate mortgage, pledge or security agreement, and from time to time as any one or more thereof in order fully to effectuate the lien and security interest granted hereby and the purposes and agreements herein set forth.

10.10 Subrogation. To the extent that any of the Indebtedness represents funds utilized to satisfy any outstanding indebtedness or obligations secured by liens, rights or claims against the Mortgaged Property or any part thereof, the Bank shall be subrogated to any and all liens, rights, superior titles and equities owned or claimed by the holder of any such outstanding indebtedness or obligation so satisfied, however remote, regardless of whether said liens, rights, superior titles and equities are by the holder(s) thereof assigned to the Bank or released.

10.11 Usury Savings. In no event shall any provision of this instrument, the Credit Agreement, the Note, or any other instrument evidencing or securing the Indebtedness ever obligate Mortgagor to pay or allow the Bank to collect interest on the Note or any other indebtedness secured hereby at a rate greater than the maximum non-usurious rate permitted by applicable law (herein referred to as the "Highest Lawful Rate"), or obligate Mortgagor to pay any amounts that would be held or deemed to constitute interest under applicable law which, when added to the interest payable on the Note or any other notes secured hereby, would be held to constitute the payment by Mortgagor of interest at a rate greater than the Highest Lawful Rate; and this provision shall control over any provision to the contrary. To the extent the Highest Lawful Rate is determined by reference to the laws of the State of Texas, same shall be determined by reference to the indicated (weekly) rate ceiling (as defined and described in Texas Revised Civil Statutes Article 5069-1.04, as amended) at the applicable time in effect.

Without limiting the generality of the foregoing, in the event the maturity of all or any part of the principal amount of the Indebtedness shall be accelerated for any reason, then such principal amount so accelerated shall be credited with any interest theretofore paid thereon in advance and remaining unearned at the time of such acceleration. If, pursuant to the terms of this instrument, the Credit Agreement or the Note, any funds are applied to the payment of any part of the principal amount of the Indebtedness prior to the maturity thereof, then (a) any interest which would otherwise thereafter accrue on the principal amount so paid by such application shall be canceled, and (b) the Indebtedness remaining unpaid after such application shall be credited with the amount of all interest, if any, theretofore collected on the principal amount so paid by such application and remaining unearned at the date of said application; and if the funds so applied shall be sufficient to pay in full all the Indebtedness, then the Bank shall refund to Mortgagor all interest theretofore paid thereon in advance and remaining unearned at the time of such acceleration. Regardless of any other provision in this instrument, or in any of the written evidences of the Indebtedness, Mortgagor shall never be required to pay any unearned interest on the Indebtedness or any portion thereof, and shall never be required to pay interest thereon at a rate in excess of the Highest Lawful Rate construed by courts having competent jurisdiction thereof. It is further agreed that, without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received by the Bank under the Note held by it, or under the Credit Agreement or the other Loan Documents, made for the purpose of determining whether such rate exceeds the Highest Lawful Rate applicable to the Bank shall be made, to the extent permitted by usury laws applicable to the Bank (now or hereafter enacted), by amortizing, prorating and spreading in equal parts during the period of the full stated term of the Loans evidenced by the Note all interest at any time contracted for, charged or received by the Bank in connection therewith.

10.12 Professional Fees. To the extent not prohibited by applicable law, Mortgagor will pay all costs and expenses and reimburse the Bank for any and all reasonable expenditures of every character incurred or expended from time to time, regardless of whether or not a default shall have occurred hereunder or

otherwise in connection herewith, in connection with the Bank's evaluating, monitoring, administering and protecting the Mortgaged Property or any part thereof, and creating, perfecting and realizing upon the Bank's security interests in and liens on the Mortgaged Property or any part thereof, and all reasonable costs and expenses relating thereto, including, without limitation, all appraisal fees, consulting fees, filing fees, taxes, brokerage fees and commissions, fees incident to security interest, lien and other title searches and reports, escrow fees, attorneys' fees, legal expenses, court costs, auctioneer fees and expenses, other fees and expenses incurred in connection with liquidation or sale of Mortgaged Property and all other professional fees. Any amount to be paid hereunder by the Mortgagor to the Bank and, to the extent not prohibited by applicable law, shall bear interest from ten (10) days following demand by the Bank until paid at the Default Rate.

10.13 Indemnification. Mortgagor will defend, at its own cost and expense, and hold the Bank harmless from, any action, proceeding or claim affecting the Mortgaged Property or this instrument, and all costs and expenses incurred by the Bank in protecting its interests hereunder in such an event (including all court costs and reasonable attorneys' fees) shall be borne by Mortgagor. This Section 10.13 shall not apply to actions, proceedings, or claims accruing as a result of actions taken or not taken by the Bank, its agents, employees or representatives, after the date that the Bank either (i) acquires ownership of the Mortgaged Property by foreclosure or a deed or other conveyance in lieu of foreclosure or (ii) takes possession of the Mortgaged Property and commences to hold, use, administer, manage and operate the same pursuant to Section 8.12 hereof.

10.14 Future Appraisals. At any time and from time to time after the occurrence of a Default and during the continuance thereof, the Bank in its sole discretion and at Mortgagor's sole cost and expense may require an appraisal of the Mortgaged Property, the Collateral, or any part thereof by a professional appraiser of the Bank's selection. In such event the Bank shall cause such appraisal to be made, and Mortgagor agrees to reimburse the Bank for the costs thereof promptly upon request. Any such costs which are not paid to the Bank by Mortgagor within ten (10) days after such request shall bear interest from the date of such request to the date of payment at the Default Rate. Additionally, any funds advanced by the Bank in connection with any such appraisal shall become a part of the Indebtedness and shall be secured by this Deed of Trust. At any time and from time to time hereafter, regardless of whether or not a Default has occurred and is continuing, the Bank in its discretion and at its expense may require an appraisal of the Mortgaged Property, the Collateral on any part thereof by a professional appraiser of the Bank's selection.

10.15 Separability. If any provision hereof or of the Note is invalid or unenforceable in any jurisdiction, the other provisions hereof or of the Note shall remain in full force and effect in such jurisdiction, and the remaining provisions hereof shall be liberally construed in favor of the Trustee and the Bank in order to effectuate the provisions hereof, and the invalidity of any provision hereof in any jurisdiction shall not affect the validity or enforceability of any such provision in any other jurisdiction. Any reference herein contained to the law of a state in

which no part of the Mortgaged Property is situated shall be deemed inapplicable to, and not used in, the interpretation hereof.

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

10.17 Binding Effect. This instrument is binding upon Mortgagor and Mortgagor's successors and assigns and shall inure to the benefit of the Trustee, his successors and assigns, the Bank, its successors and assigns and the provisions hereof shall likewise constitute covenants running with the land.

10.18 Article and Section Headings. The article and section headings in this instrument are inserted for convenience and shall not be considered a part of this instrument or used in its interpretation.

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

10.20 Notices. Any notice, request, demand or other instrument which may be required or permitted to be given or served upon Mortgagor shall be sufficiently given when mailed by certified mail, return receipt requested, addressed to Mortgagor at the address shown below the signatures at the end of this Deed of Trust or to such different address as Mortgagor shall have designated by written notice received by the Bank or the Trustee.

10.21 Amendments, Modification and Waivers, etc. This instrument may be amended, modified, revised, discharged, released or terminated only by a written instrument or instruments executed by Mortgagor and the Bank, but without the joinder of the Trustee which shall not be required. Any alleged amendment, revision, discharge, release or termination which is not so documented shall not be effective as to any party. No waiver of any provision of this Deed of Trust nor consent to any departure by Mortgagor therefrom shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

10.22 Survival of Agreements. All representations and warranties of Mortgagor herein and all covenants and agreements herein not fully and finally performed before the effective date or dates of this Deed of Trust shall survive such date or dates. All covenants and obligations in this Deed of Trust are intended by the parties to be, and shall be construed as, covenants running with the lands.

10.23 Governing Law. THIS DEED OF TRUST, INCLUDING IN PARTICULAR ANY PROVISION OF THIS DEED OF TRUST RELATING TO THE CREATION, EXISTENCE OR VALIDITY OF THE INDEBTEDNESS AND THE OBLIGATIONS CONTAINED HEREIN SHALL BE DEEMED CONTRACTS AND INSTRUMENTS MADE UNDER THE LAWS OF THE STATE OF TEXAS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE SUBSTANTIVE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.



IN WITNESS WHEREOF, Mortgagor has executed or caused to be executed this, Deed of Trust, Assignment of Production, Security Agreement and Financing Statement in multiple originals on the 22nd day of April, 1991.

The address of the  
Mortgagor/Debtor is:  
  
811 Dallas Street  
Suite 800  
Houston, Texas 77002

**MORTGAGOR:**

**SMITH OFFSHORE  
EXPLORATION COMPANY**



By: \_\_\_\_\_  
Name: Lester H. Smith  
Title: President  
Tax Identification Number: 76-0209404

STATE OF TEXAS           §  
  §  
COUNTY OF HARRIS       §

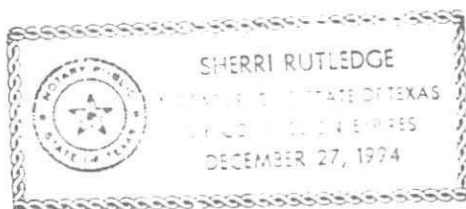
This instrument was acknowledged before me on April 22, 1991 by-  
Lester H. Smith, President of SMITH OFFSHORE  
EXPLORATION COMPANY, a Delaware corporation        on behalf of said corporation.



\_\_\_\_\_  
Notary Public in and for  
State of Texas

Printed Name: \_\_\_\_\_

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



## EXHIBIT A

1. An undivided 9.44799% interest in the record title to that certain Oil and Gas Lease OCS-G 8998, effective November 1, 1987, from the United States of America, as Lessor, to Apache Corporation, et al., as Lessees, covering all of Block 650, Matagorda Island Area, Texas OCS Leasing Map No. 4, which interest entitles Mortgagor to a 7.54649% net revenue interest in all wells drilled in Block 650.
2. An undivided 9.44799% interest in the record title to that certain Oil and Gas Lease OCS-G 11268, effective October 1, 1989, from the United States of America, as Lessor, to Apache Corporation, et al., as Lessees, covering all of Block 671, Matagorda Island Area, Texas OCS Leasing Map No. 4, which interest entitles Mortgagor to a 7.54649% net revenue interest in all wells drilled in Block 671.
3. An undivided 9.44799% interest in the record title to that certain Oil and Gas Lease OCS-G 10198, effective December 1, 1988, from the United States of America, as Lessor, to Apache Corporation, et al., as Lessees, covering all of Block 672, Matagorda Island Area, Texas OCS Leasing Map No. 4, which interest entitles Mortgagor to a 7.54649% net revenue interest in all wells drilled in Block 672.
4. An undivided 22.91667% interest in the operating rights before well payout in OCS-G 6045 Well No. 2, and an undivided 18.80342% interest in the operating rights after well payout in OCS-G 6045 Well No. 2, to that certain Oil and Gas Lease OCS-G 6045, effective October 1, 1983, from the United States of America, as Lessor, to Corpus Christi Exploration Company, as Lessee, covering all of Block 651, Matagorda Island Area, Texas OCS Leasing Map No. 4, INsofar AND ONLY INsofar as said operating rights cover the depths above 13,000 feet (true vertical depth) beneath mean sea level which interests entitle Mortgagor to (a) a 16.47413% net revenue interest before well payout in OCS-G 6045 Well No.2 and (b) a 14.17432% net revenue interest after well payout in OCS-G 6045 Well No.2 and in all other wells drilled in Block 651.

**Gas Imbalances  
as of February 28, 1991  
Over/(Under) Produced**

	<u>Cumulative Balance in MCFs</u>
Matagorda Island Block 650	13,549
Matagorda Island Block 651	<u>30,342</u>
	<u>43,891</u>

END

UPDATE