

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1996

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transaction period from \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER 0-9592

LOMAK PETROLEUM, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State of incorporation)

34-1312571  
(I.R.S. Employer  
Identification No.)

500 THROCKMORTON STREET, FT. WORTH, TEXAS  
(Address of principal executive offices)

76102  
(Zip Code)

Registrant's telephone number, including area code: (817) 870-2601

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, \$.01 PAR VALUE  
PREFERRED STOCK, \$1 PAR VALUE  
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock of the Registrant held by non-affiliates (excluding voting shares held by officers and directors) was \$398,718,000 on March 17, 1997.

Indicate the number of shares outstanding of each of the Registrant's classes of stock on March 17, 1997: Common Stock \$.01 par value: 20,272,242; Preferred Stock \$1 par value: 1,150,000.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III of this report incorporates by reference the Proxy Statement relating to the Registrant's 1997 Annual Meeting of Stockholders.

## LOMAK PETROLEUM, INC.

ANNUAL REPORT ON FORM 10-K  
YEAR ENDED DECEMBER 31, 1996

## PART I

## ITEM 1. BUSINESS

## GENERAL

Lomak Petroleum, Inc. ("Lomak" or the "Company") is an independent oil and gas company engaged in the development, exploration and acquisition of oil and gas properties in the United States. Lomak's core areas of operation are located in Midcontinent, the Gulf Coast and Appalachia. The Company has grown through a combination of development, exploration and acquisition activities. Since January 1, 1991, 62 acquisitions have been consummated at a total cost of approximately \$250 million and approximately \$40 million has been expended on development and exploration activities. As a result, reserves and production have each grown during this period at a rate in excess of 69% per annum. At December 31, 1996, proved reserves totaled 384 Bcfe, having a pre-tax present value at constant prices of \$492 million and a reserve life of nearly 14 years.

At December 31, 1996, Lomak held interests in 6,761 gross (5,187 net) productive oil and gas wells. The Company currently operates over 6,500 wells which account for more than 95% of its developed reserves. In addition, the Company owns and operates approximately 1,900 miles of gas gathering systems in proximity to its principal gas properties. The Company also provides oil field services, including brine disposal and various well services primarily for certain of its own properties. The operations of the Company are considered to fall within a single industry segment; the exploration for, development and production of crude oil and natural gas.

The Company recently acquired oil and gas properties located in West Texas, South Texas and the Gulf of Mexico (the "Cometra Properties") from American Cometra, Inc. ("Cometra") for a purchase price of \$385 million (the "Cometra Acquisition"). On a pro forma basis, the Cometra Acquisition increases the Company's proved reserves at December 31, 1996 by 68% to 644 Bcfe and increased its Present Value by 98% to \$974 million. The Cometra Properties, located primarily in the Company's core operating areas, include 515 producing wells, 401 proven development projects and substantial additional development and exploration potential on approximately 150,000 gross acres (90,000 net acres). In addition, the Cometra Properties include 265 miles of gas pipelines, a 25,000 Mcf/d gas processing plant and an above-market gas contract with a major Texas gas utility covering approximately 30% of the December 1996 production from the Cometra Properties. Forward looking statements included hereafter will include the effects of the Cometra Acquisition.

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "LOM". During 1996, trading volume averaged 117,600 shares per day. The Company maintains its corporate headquarters at 500 Throckmorton Street, Fort Worth, Texas 76102 and its telephone number is (817) 870-2601.

## DESCRIPTION OF THE BUSINESS

## Strategy

The Company's objective is to continue to increase its asset base, cash flow and earnings through a balanced strategy of development, exploration and acquisition activities in core operating areas. In each core area, the Company establishes separate acquisition, engineering, operating, geological and other technical expertise. The Company currently has core operating areas in Midcontinent, the Gulf Coast and Appalachia. Through its strategy, the Company does not depend solely on any one region or activity to grow its asset base. In addition, by operating in three core areas, the Company has expanded its development, exploration and acquisition opportunities.

**Development.** The Company's development activities include recompletions of existing wells, infield drilling and installation of secondary recovery projects. Development projects are generated within core operating areas where the Company has significant operational and technical experience. At December 31, 1996, including the effect of the Cometra Acquisition, over 1,100 proven development projects were in inventory. These projects are geographically diverse, vary between oil and gas, and are balanced with regard to risk. Between 175 and 200 of these projects are expected to be initiated in 1997 at a total cost of approximately \$45 million. Based on the number of projects currently in inventory, development expenditures are currently projected to approximate \$130 million for the next three years.

**Exploration.** Historically, the Company's drilling activities concentrated on development drilling in its core operating areas. Beginning in 1994, the Company began participating in exploration projects in less developed or lightly explored formations within its core operating areas. The Company has an inventory of nearly 300 moderate risk/moderate reward exploitation drilling opportunities, as well as higher risk/higher reward exploration projects. The Company's existing inventory of exploration projects and leads varies in risk and reward based on their depth, location and geology. Lomak has identified 250 exploitation drilling projects principally consisting of step-out drilling from existing proved or proved undeveloped locations. Current exploration projects target deeper horizons within existing Company-operated fields, as well as establishing new fields in exploration trend areas in which Lomak's technical staff has experience. Lomak's strategy is based upon limiting its risk by allocating no more than 10% of its cash flow to higher risk exploration activities and by participating in a variety of projects with differing characteristics. The Company projects exploitation and exploratory expenditures to range between \$6 million and \$7 million in 1997 and currently estimates that it will spend \$25 million on exploitation activities and \$20 million on exploration activities over the next three years.

**Acquisitions.** Since January 1, 1991, including the Cometra Acquisition, 63 acquisitions have been completed for a total consideration of \$635 million. These acquisitions have been made at an average cost of \$.74 per Mcfe. The Company's acquisition strategy has historically been based on: (i) Locale: focusing in areas containing many small oil and gas operators and where larger companies are no longer active; (ii) Efficiency: targeting acquisitions in which operating and cost efficiencies can be obtained; (iii) Reserve Potential: pursuing properties with the potential for reserve increases through recompletions and drilling; (iv) Incremental Purchases: seeking acquisitions where opportunities for purchasing additional interests in the same or adjoining properties exist; and (v) Complexity: pursuing more complex but less competitive corporate or partnership acquisitions.

## Development Activities

The Company's development activities include recompletions of existing wells, infill drilling and installation of secondary recovery projects. Development projects are generated within core operating areas where the Company has significant operational and technical expertise. Currently, as described below, the Company has 1,163 proven development projects in inventory. These projects are geographically diverse, vary between oil and gas and are balanced with regard to risk. The following table sets forth information pertaining to the Company's proven development inventory at December 31, 1996.

## PROVEN DEVELOPMENT INVENTORY

	NUMBER OF PROJECTS		TOTAL
	RECOMPLETIONS	DRILLING LOCATIONS	
Midcontinent Region			
Permian Basin.....	85	129	214
Val Verde Basin.....	76	134	210
Anadarko Basin.....	117	86	203
San Juan Basin.....	18	29	47
Subtotal.....	296	378	674
Appalachian Region.....	43	320	363
Gulf Coast Region.....	79	47	126
Total.....	418	745	1,163

The Company currently anticipates that it will initiate 175 to 200 development projects in 1997. Assuming that 200 projects are initiated per year, the Company currently has more than a five year inventory of proven development projects. Lomak expects to spend approximately \$130 million over the next three years for development.

## Exploration Activities

The Company has an inventory of nearly 300 moderate risk/moderate reward exploitation drilling opportunities, as well as higher risk/higher reward exploration projects. Lomak has identified 250 exploitation drilling projects, principally consisting of step-out drilling from existing proved or proved undeveloped locations. Current exploration projects target deeper horizons within existing Company-operated fields, as well as establishing new fields in exploration trend areas in which Lomak's technical staff has experience. The Company has not previously, and does not currently, plan to participate in wildcat exploratory drilling outside its core operating areas.

Lomak's strategy is based on limiting its risk by allocating no more than 10% of its cash flow to higher risk exploration activities and by participating in a variety of projects with differing characteristics. The Company's existing inventory of exploration projects and leads varies in risk and reward based on their depth, location and geology. A significant portion of the existing, as well as future, exploration projects will be enhanced by use of advanced technology including 3-D seismic and improved completion techniques.

In each of its core operating areas, the Company's geological and geophysical staff generate both exploitation and exploration projects with the assistance of the Company's reservoir engineers, landmen and production engineers. The Company currently estimates that it will spend \$25 million on exploitation activities and \$20 million on exploration activities over the next three years. Existing exploitation and exploration project inventory is described below.

Midcontinent. Exploitation projects in the Midcontinent region include 116 infill or step-out drilling locations on leasehold acreage held by currently producing wells adjacent to the Company's production in the Sterling area of the Permian Basin, as well as 134 infill or step-out locations on leasehold acreage held by currently producing wells primarily in the Oakridge and Francis Hill Fields in the Val Verde Basin. In the Big Lake area of the Permian Basin, the Company is conducting an analysis to determine the potential for recovery of additional reserves through increased density drilling. Based on the initial results of the study, the Company believes there is potential for 200 economic drill sites on its Big Lake area acreage. Current exploration projects include deeper drilling to the Ellenburger and Fussleman formations in the Permian and Val Verde Basins. Several projects targeting the Red Fork, Morrow and Hunton formations are in various stages of development in the Anadarko Basin. In the San Juan Basin, the Company's acreage holds exploration potential for production from the Pictured Cliffs, Gallup and Dakota formations.

Appalachia. In the Appalachian region, the Company has identified approximately 100 infill or step-out drilling projects on existing leasehold acreage. In addition, the Company has identified several hundred additional potential locations near Company-owned gathering systems on acreage the Company believes will be available for leasing in the future. The Company believes that the location of its pipelines will provide it with a competitive advantage in leasing this acreage, which is currently unleased. These locations target the blanket Clinton and Medina sandstones. Exploration activity in Appalachia centers around the drilling of deeper formations from leasehold acreage generally being held by existing production from shallower production. The targeted formations are in the Knox Sequence trend, which includes the Rose Run, Beekmantown and Trempealeau formations. Lomak currently owns leasehold acreage aggregating over 250,000 net acres in the Knox Sequence trend area. With the assistance of higher quality 2-D seismic as well as 3-D seismic, Lomak believes the Knox Sequence trend area could generate substantial reserves over the next five years.

Gulf Coast. Exploitation projects in the Gulf Coast region include 34 infill or step-out drilling locations for the Yegua and Frio formations in South Texas and the Wilcox and Carrizo formations in East Texas. Deeper, higher risk exploratory projects have been generated in South Texas targeting the Wilcox and Vicksburg formations. On the offshore properties, 11 exploitation and exploration projects have been identified to the Lenticulina and Marginulina sands. There are four exploration projects targeting the Taylor sand of the Cotton Valley formation in East Texas.

#### Acquisition Activities

The following table sets forth information pertaining to acquisitions completed during the period January 1, 1991 through December 31, 1996 (including the Cometra Acquisition).

Period	Number of Transactions	Purchase Price (1) (In thousands)	MMcfe Acquired	Cost per Mcfe (2)
1991	9	\$ 11,189	14,602	\$ 0.75
1992	7	6,884	12,513	0.41
1993	12	40,527	64,552	0.59
1994	17	63,354	92,851	0.67
1995	9	71,074	103,849	0.61
1996	9	441,812	369,986	0.84
	=====	=====	=====	=====
Total	63	\$ 634,840	658,353	\$ 0.74
	=====	=====	=====	=====

(1) Includes purchase price for proved reserves as well as other acquired assets, including gas gathering lines, undeveloped leasehold and field service assets.

(2) Includes purchase price for proved reserves only. For the Cometra Acquisition, the purchase price for proved reserves includes the amount attributable to the above-market gas contract. If the cost per Mcfe was adjusted for the above-market gas contract, the 1996 cost per Mcfe would be reduced from \$0.84 to \$0.74 and the total cost per Mcfe would be reduced from \$0.74 to \$0.69.

### Recent Significant Acquisitions

In addition to the Cometra Acquisition, the Company completed a number of significant acquisitions in 1995 and 1996 as described below. See "Cometra Acquisition" for a description of the Cometra Acquisition.

**Bannon Interests.** In April 1996, the Company acquired interests in approximately 270 producing wells and 108 proven recompletion and development drilling opportunities for \$37.0 million. After giving effect to a subsequent sale of certain Rocky Mountain region interests for \$6.5 million, the acquired properties were estimated to contain approximately 71 Bcfe of proved reserves. Also included were 17,300 net undeveloped acres located in east and south Texas.

**Red Eagle Resources Corporation.** Through a series of transactions effected in late 1994 and early 1995, the Company acquired Red Eagle Resources Corporation for \$29.6 million in cash and \$16.9 million of Common Stock. Red Eagle's assets included interests in approximately 370 producing wells located primarily in the Okeene Field of Oklahoma's Anadarko Basin. Subsequently, the Company acquired additional interests in over 100 Red Eagle wells for \$3.9 million.

**Eastern Petroleum Company.** In January 1996, the Company acquired proved oil and gas reserves and 40 miles of gas gathering lines in Ohio for \$13.7 million. In the second quarter of 1996, the Company initiated a program extending purchase offers to other interest owners in these properties. Through September 30, 1996, interests in 61 wells had been purchased for approximately \$100,000.

**Transfuel Interests.** In September 1995, the Company acquired proved oil and gas reserves, 1,100 miles of gas gathering lines and 175,000 undeveloped acres in Ohio, Pennsylvania and New York from Transfuel, Inc. for \$21.0 million.

**Parker & Parsley Interests.** In August 1995, the Company purchased proved oil and gas reserves, 300 miles of gas gathering lines and 16,400 undeveloped acres in Pennsylvania and West Virginia from Parker & Parsley Petroleum Company for \$20.2 million.

### Cometra Acquisition

#### GENERAL

The Company recently acquired the Cometra Properties for a purchase price of \$385 million, consisting of \$355 million in cash and 1,410,106 shares of Common Stock. The Company financed the cash portion of the purchase price with \$221 million of borrowings under the Credit Agreement and the issuance to Cometra of a \$134 million non-interest bearing promissory note due March 31, 1997, which is secured by a bank letter of credit. As a result of the Cometra Acquisition, the Company has significantly expanded its inventory of both development and exploration projects, increased its proved reserves at December 31, 1996 by 68% to 644 Bcfe and increased the Company's Present Value at December 31, 1996 by 98% to \$974 million. On March 14, 1997, \$186.1 million of the bank borrowings were repaid through the issuance of 4 million shares of Common Stock and \$125 million of Senior Subordinated Notes.

#### COMETRA PROPERTIES

The Cometra Properties include 150,000 gross acres (90,000 net) located within the Company's core operating areas in West Texas, South Texas and the Gulf of Mexico. Netherland, Sewell & Associates, Inc., independent petroleum consultants, estimated that at December 31, 1996, the Cometra Properties had proved reserves of 202 Bcf of gas and 9.7 Mmmbbls of oil with a Present Value of \$481 million. In December 1996, the Cometra Properties produced at a rate of 66 Mmcfe/d through 515 wells. The Cometra Properties include 265 miles of gas pipelines and a 25,000 Mcf/d capacity gas processing plant.

The West Texas properties are located in the Val Verde and Permian Basins and account for 81% of the acquired reserves on a Present Value basis. The South Texas/Gulf of Mexico properties account for 19% of the acquired reserves on a Present Value basis. All of the Cometra Properties, except for the Gulf of Mexico properties, are within the Company's existing core operating areas. As a result, the Company expects to be able to quickly integrate the properties and begin exploitation activities. To facilitate the integration, the Company plans to offer positions to substantially all of Cometra's field and technical staff associated with these properties.

On a Present Value basis, 95% and 70%, respectively, of the West Texas and South Texas/Gulf of Mexico properties are operated by the Company. The offshore properties are operated by experienced third parties. Although the Company has no definitive plans to do so at this time, the Company has previously announced that it may elect to sell all or part of the Gulf of Mexico properties because they are not located in the Company's core areas.

#### RESERVES

The following table sets forth summary information with respect to the proved reserves of the Cometra Properties by region at December 31, 1996:

	Present Value		Oil & NGLs (Mbbbls)	Natural Gas (Mmcf)	Natural Gas Equiv. (Mmcfe)
	Amount (In thousands)	%			
West Texas.....	\$387,852	81%	8,271	174,339	223,965
South Texas/Gulf of Mexico....	93,639	19	1,459	27,667	36,422
	-----	---	-----	-----	-----
Total.....	\$481,491	100%	9,730	202,006	260,387
	=====	===	=====	=====	=====

The West Texas properties consist of 450 producing wells on 99,000 gross acres (70,000 net) located principally in the Val Verde and Permian Basins. The Company operates 95% of the properties on a Present Value basis and the pipelines and gas processing plant. Existing production ranges in depth from 3,000 to 7,000 feet. The Company has identified 365 proven recompletion and development drilling projects in this area. In the Val Verde Basin, the Company benefits from a \$3.70 per Mcf gas sales contract covering 20,000 acres currently producing approximately 20,000 Mcf/d. The contract is with a large gas utility and expires in June 2000.

The South Texas/Gulf of Mexico properties consist of 65 producing wells on 51,000 gross acres (20,000 net). The Company operates 70% of the properties on a Present Value basis, primarily in South Texas. The Gulf of Mexico properties include 14 producing wells on seven offshore platforms, all of which are operated by third parties, including affiliates of National Fuel Gas Co., Noble Affiliates, Inc. and British Borneo Petroleum Syndicate plc. Total net daily production from the South Texas/Gulf of Mexico properties currently is 22,300 Mcfe. Onshore, production comes from depths ranging from 1,000 to 12,000 feet, and has an estimated reserve life in excess of seven years. In the Gulf of Mexico, production ranges in depth from 8,000 to 14,000 feet, while water depths vary from 50 to 220 feet. The Company has identified a total of 36 development projects. Both shallower and deeper horizons hold potential exploration opportunities, which the Company expects to evaluate further with the assistance of 3-D seismic technology.

## GAS PLANT AND PIPELINES

As part of the Cometra Acquisition, the Company has acquired 265 miles of gas pipelines and a 25,000 Mcf/d capacity gas processing plant in the Permian Basin. The gas plant, located outside Sterling City, Texas, was constructed in 1995 and is currently processing gas, approximately 50% of which is attributable to Company operated wells, at the rate of 20,000 Mcf/d. The Company believes that the plant's capacity could be expanded to 35,000 Mcf/d for an additional capital expenditure of approximately \$4.0 million.

## Production

Production revenue is generated through the sale of oil and gas from properties held directly and through partnerships and joint ventures. Additional revenue is received from royalties. While oil and gas production is sold to a limited number of purchasers, none accounts for more than 10% of oil and gas revenues, it is believed that the loss of any one of them would not have a material adverse effect on the business. Proximity to local markets, availability of competitive fuels and overall supply and demand are factors affecting the ability to market production. While the Company anticipates an upward trend in energy prices, factors outside its control such as political developments in the Middle East, overall energy supply, weather conditions and economic growth rates have had, and may continue to have, an unpredictable effect on energy prices.

The following table sets forth historical revenue and expense information for the periods indicated (in thousands, except average sales price and operating cost data).

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Production					
Oil (Bbl) .....	199	318	640	913	1,068
Gas (Mcf) .....	1,796	2,590	6,996	12,471	21,231
Mcf (a) .....	2,990	4,498	10,836	17,949	27,641
Revenues					
Oil .....	\$ 3,660	\$ 5,118	\$ 9,743	\$15,133	\$20,425
Gas .....	4,043	6,014	14,718	22,284	47,629
	=====	=====	=====	=====	=====
Total .....	\$ 7,703	\$11,132	\$24,461	\$37,417	\$68,054
	=====	=====	=====	=====	=====
Average Sales Price					
Oil (Bbl) .....	\$ 18.40	\$ 16.07	\$ 15.23	\$ 16.57	\$ 19.12
Gas (Mcf) .....	\$ 2.25	\$ 2.32	\$ 2.10	\$ 1.79	\$ 2.24
Mcf (a) .....	\$ 2.58	\$ 2.47	\$ 2.26	\$ 2.08	\$ 2.46
Average Operating Cost					
Per Mcfe .....	\$ 0.99	\$ 0.98	\$ 0.93	\$ 0.83	\$ 0.88

(a) Oil is converted to Mcfe at a rate of 6 Mcf per barrel.

On a Mcfe basis, approximately 77% of 1996 production was natural gas. Gas production was sold to utilities, brokers or directly to industrial users. Gas sales are made pursuant to various arrangements ranging from month-to-month contracts, one year contracts at fixed or variable prices and contracts at fixed prices for the life of the well. All contracts other than the fixed price contracts contain provisions for price adjustment, termination and other terms customary in the industry. A number of the Appalachian gas contracts hold favorable sales prices when compared to spot market prices. Oil is sold on a basis such that the purchaser can be changed on 30 days notice. The price received is generally equal to a posted price set by the major purchasers in the area. Oil purchasers are selected on the basis of price and service. In 1996, revenues from oil and gas production amounted to \$68.1 million, representing 75% of revenues. Oil and gas revenues for 1996 increased 82% over 1995.



## Field Services

The field services area is comprised of three components -- well operations, brine disposal and well servicing. As of December 31, 1996, Lomak acted as operator of, or provided pumping services for, over 6,500 wells. For its well operations, the Company receives a monthly fee plus reimbursement of third party charges. In September 1994, the Company sold substantially all of its brine disposal and well servicing assets located in Ohio. During 1996 the majority of the Company's brine disposal and well servicing activities are carried out in Oklahoma. In January 1997, the Company completed the sale of its brine disposal and well servicing activities in Oklahoma.

In total, field services provided revenues of \$14.2 million in 1996, representing 16% of total revenues. Field service revenues for 1996 increased 41% over the prior year.

## Gas Transportation and Marketing

The gas transportation and marketing revenues are comprised of fees for the transportation of production through gathering lines and income from marketing of oil and gas.

The Company's natural gas gathering and processing assets are primarily comprised of (i) its Sterling system obtained through the Cometra Acquisition, which consists of 265 miles of gas gathering pipelines and a gas processing plant in the Sterling area of the Permian Basin, and (ii) over 1,900 miles of gas gathering pipelines in Appalachia. The Sterling plant is a refrigerated turbo-expander cryogenic gas plant that was placed in service in early 1995. The plant, designed for approximately 25,000 Mcf/d, is currently operating at 87% of capacity. The Company estimates that the plant's capacity can be increased to 35,000 Mcf/d for approximately \$4.0 million in additional capital expenditures.

The Appalachian gas gathering systems serve to transport a majority of the Company's Appalachian gas production as well as third party gas to major trunklines and directly to industrial end-users. This affords the Company considerable control and flexibility in marketing its Appalachian production. Third parties who transport their gas through the systems are charged a gathering fee ranging from \$0.20 to \$0.32 per Mcf.

In order to handle more efficiently the sale of its natural gas, the Company began to market its own gas production in 1993. Including activities of the Cometra properties, the Company is currently marketing 173 Mmcf/d for its own account as well as additional volumes for third party producers. The Company's gas production is sold primarily to utilities and directly to industrial users. The Company has managed the impact of potential price declines by developing a balanced portfolio of fixed price and market sensitive contracts and commodity hedging. Including production from the Cometra Properties, approximately 47% of average gas production at December 31, 1996 was sold subject to fixed price sales contracts. These fixed price contracts are at prices ranging from \$2.15 to \$3.70 per Mcf. The fixed price contracts with terms of less than one year, between one and five years and greater than five years constitute approximately 31%, 65% and 4%, respectively, of the volume sold under fixed price contracts.

From time to time, the Company enters into oil and natural gas price hedges to reduce its exposure to commodity price fluctuations. At December 31, 1996, approximately 12% on an Mcfe basis of the Company's monthly production for the period January 1997 to April 1997 was hedged under such arrangements. No production after this period was hedged. In the future, the Company may hedge a larger percentage of its production, however, it currently anticipates that such percentage would not exceed 50%. Although these hedging activities provide the Company some protection against falling prices, these activities also reduce the potential benefits to the Company of price increases above the levels of the hedges.

## Interest and Other

The Company earns interest on its cash and investment accounts, as well as on various notes receivable. Other income in 1996 was comprised principally of gains on sales of marketable equity securities and gains on sales of non-strategic properties. The Company expects to continue to sell assets which have no strategic benefit. Interest and other income in 1996 amounted to \$3.4 million, representing 4% of total revenues. Revenues from interest and other for 1996 increased 157% from the 1995 level.

## COMPETITION

The Company encounters substantial competition in acquiring properties, marketing oil and gas, securing personnel and conducting its field services operations. Many competitors have financial and other resources which substantially exceed those of the Company. The competitors in acquisitions, development, exploration and production include the major oil companies in addition to numerous independents, individual proprietors and others. Therefore, competitors may be able to pay more for desirable leases and to evaluate, bid for and purchase a greater number of properties or prospects than the financial or personnel resources of the Company permit. The ability of the Company to replace and expand its reserve base in the future will be dependent upon its ability to select and acquire suitable producing properties and prospects for future drilling.

The Company's acquisitions have been partially financed through issuances of equity and debt securities and internally generated cash flow. The competition for capital to finance oil and gas acquisitions and drilling is intense. The ability of the Company to obtain such financing is uncertain and can be affected by numerous factors beyond its control. The inability of the Company to raise capital in the future could have an adverse effect on certain areas of its business.

## GOVERNMENTAL REGULATION

The Company's operations are affected from time to time in varying degrees by political developments and federal, state and local laws and regulations. In particular, oil and natural gas production and related operations are or have been subject to price controls, taxes and other laws and regulations relating to the oil and gas industry. Failure to comply with such laws and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases the Company's cost of doing business and affects its profitability. Although the Company believes it is in substantial compliance with all applicable laws and regulations, because such laws and regulations are frequently amended or reinterpreted, the Company is unable to predict the future cost or impact of complying with such laws and regulations.

## ENVIRONMENTAL MATTERS

The Company's oil and natural gas exploration, development, production and pipeline gathering operations are subject to stringent federal, state and local laws governing the discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental departments such as the Environmental Protection Agency ("EPA") issue regulations to implement and enforce such laws which are often difficult and costly to comply with and which carry substantial civil and criminal penalties for failure to comply. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with drilling, production and pipeline gathering activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands, frontier and other protected areas, require some form of remedial action to prevent pollution from former operations, such as plugging abandoned wells, and impose substantial liabilities for pollution resulting from the Company's operations. In addition, these laws, rules and regulations may restrict the rate of oil and natural gas production below the rate that would otherwise exist. The regulatory burden on the oil and gas industry increases the cost of doing business and consequently affects its profitability. Changes in environmental laws and regulations

occur frequently, and any changes that result in more stringent and costly waste handling, disposal or clean-up requirements could adversely affect the Company's operations and financial position, as well as the oil and gas industry in general. While management believes that the Company is in substantial compliance with current applicable environmental laws and regulations and the Company has not experienced any material adverse effect from compliance with these environmental requirements, there is no assurance that this will continue in the future.

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to be responsible for the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances at the site where the release occurred. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damages allegedly caused by the release of hazardous substances or other pollutants into the environment. Furthermore, although petroleum, including crude oil and natural gas, is exempt from CERCLA, at least two courts have ruled that certain wastes associated with the production of crude oil may be classified as "hazardous substances" under CERCLA and thus such wastes may become subject to liability and regulation under CERCLA. State initiatives to further regulate the disposal of oil and natural gas wastes are also pending in certain states, and these various initiatives could have a similar impact on the Company.

Stricter standards in environmental legislation may be imposed in the oil and gas industry in the future. For instance, legislation has been proposed in Congress from time to time that would reclassify certain oil and natural gas exploration and production wastes as "hazardous wastes" and make the reclassified wastes subject to more stringent handling, disposal and clean-up restrictions. If such legislation were to be enacted, it could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general. Compliance with environmental requirements generally could have a material adverse effect upon the capital expenditures, earnings or competitive position of the Company. Although the Company has not experienced any material adverse effect from compliance with environmental requirements, no assurance may be given that this will continue in the future.

The Federal Water Pollution Control Act ("FWPCA") imposes restrictions and strict controls regarding the discharge of produced waters and other oil and gas wastes into navigable waters. Permits must be obtained to discharge pollutants to state and federal waters. The FWPCA and analogous state laws provide for civil, criminal and administrative penalties for any unauthorized discharges of oil and other hazardous substances in reportable quantities and may impose substantial potential liability for the costs of removal, remediation and damages. State water discharge regulations and the federal (NPDES) permits prohibit or are expected to prohibit within the next year the discharge of produced water and sand, and some other substances related to the oil and gas industry, to coastal waters. Although the costs to comply with zero discharge mandated under federal or state law may be significant, the entire industry will experience similar costs and the Company believes that these costs will not have a material adverse impact on the Company's financial condition and results of operations. Some oil and gas exploration and production facilities are required to obtain permits for their storm water discharges. Costs may be incurred in connection with treatment of wastewater or developing storm water pollution prevention plans.

The Resources Conservation and Recovery Act ("RCRA"), as amended, generally does not regulate most wastes generated by the exploration and production of oil and natural gas. RCRA specifically excludes from the definition of hazardous waste "drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas or geothermal energy." However, these wastes may be regulated by the EPA or state agencies as solid waste. Moreover, ordinary industrial wastes, such as paint wastes, waste solvents, laboratory wastes and waste compressor

oils, are regulated as hazardous wastes. Although the costs of managing solid hazardous waste may be significant, the Company does not expect to experience more burdensome costs than similarly situated companies involved in oil and gas exploration and production.

In addition, the U.S. Oil Pollution Act ("OPA") requires owners and operators of facilities that could be the source of an oil spill into "waters of the United States" (a term defined to include rivers, creeks, wetlands and coastal waters) to adopt and implement plans and procedures to prevent any spill of oil into any waters of the United States. OPA also requires affected facility owners and operators to demonstrate that they have at least \$35 million in financial resources to pay for the costs of cleaning up an oil spill and compensating any parties damaged by an oil spill. Substantial civil and criminal fines and penalties can be imposed for violations of OPA and other environmental statutes.

#### EMPLOYEES

As of December 31, 1996, the Company had approximately 300 full time employees, of whom 190 were field personnel. None are covered by a collective bargaining agreement and management believes that its relationship with its employees is good.

#### ITEM 2. PROPERTIES

On December 31, 1996, including the Cometra Properties the Company held working interests in 7,280 gross (5,586 net) productive oil and gas wells and royalty interests in 310 additional wells. The properties contained, net to the Company's interest, estimated proved reserves of 498 Bcf of gas and 24 million barrels of oil or a total of 644 Bcfe. The Company also held interests in 902,700 gross (628,700 net) undeveloped acres at year end.

#### PROVED RESERVES

The following table sets forth estimated proved reserves for each year in the five year period ended December 31, 1996 and pro forma for the Cometra Acquisition.

	December 31,					Pro Forma 1996
	1992	1993	1994	1995	1996	
Natural gas (Mmcf)						
Developed.....	13,171	38,373	97,251	174,958	207,601	311,350
Undeveloped.....	4,444	36,190	52,119	57,929	87,993	186,250
Total.....	17,615	74,563	149,370	232,887	295,594	497,600
Oil and NGL's (Mbbbls)						
Developed.....	1,643	3,344	6,431	8,880	10,703	15,298
Undeveloped.....	337	1,195	2,018	1,983	3,972	9,107
Total.....	1,980	4,539	8,449	10,863	14,675	24,405
Total equivalents (Mmcfe).....	29,495	101,797	200,064	298,065	383,644	644,030

In connection with the evaluation of its reserves, the Company has engaged the following independent petroleum consultants: Netherland, Sewell & Associates, Inc. (Cometra Properties), Wright & Company, Inc. (Appalachia), H.J. Gruy and Associates, Inc. (Midcontinent and Gulf Coast), Huddleston & Co., Inc. (Midcontinent) and Clay, Holt & Klammer (Appalachia). These engineers have been employed primarily based on geographic expertise as well as their history in engineering certain of the acquired properties. At December 31, 1996, approximately 95% of the proved reserves set forth above were evaluated by independent petroleum consultants, while the remainder were evaluated by the Company's engineering staff. All estimates of oil and gas reserves are subject to significant uncertainty.

The following table sets forth as of December 31, 1996 the estimated future net cash flow from and the present value of the proved reserves. Future net cash flow represents future gross cash flow from the production and sale of proved reserves, net of production costs (including production taxes, ad valorem taxes and operating expenses) and future development costs. Such calculations, which are prepared in accordance with the Statement of Financial Accounting Standards No. 69 "Disclosures about Oil and Gas Producing Activities" are based on cost and price factors on December 31, 1996. Average product prices in effect at December 31, 1996 were \$23.58 per barrel of oil and \$3.54 per Mcf of gas and pro forma product prices in effect at December 31, 1996 were \$23.23 per barrel of oil and \$3.99 per Mcf of gas. There can be no assurance that the proved reserves will be developed within the periods indicated or that prices and costs will remain constant. There are numerous uncertainties inherent in estimating reserves and related information and different reservoir engineers often arrive at different estimates for the same properties. No estimates of reserves have been filed with or included in reports to another federal authority or agency since December 31, 1996. The following is a table of estimated cash flows at December 31, 1996, including the Cometra properties.

	Developed -----	Undeveloped ----- (in thousands)	Total -----
Future net cash flow from estimated production of proved reserves			
1997.....	\$ 133,587	\$ (12,490)	\$ 121,097
1998.....	235,187	17,183	252,370
1999.....	357,784	57,514	415,298
Remainder.....	412,146	589,857	1,002,003
	=====	=====	=====
Total.....	\$ 1,138,704	\$ 652,064	\$ 1,790,768
	=====	=====	=====
Present value			
Pre-tax.....	\$ 658,121	\$ 315,541	\$ 973,663
	=====	=====	=====
After-tax.....	N.A.	N.A.	\$ 665,035
	=====	=====	=====

#### SIGNIFICANT PROPERTIES

At December 31, 1996, on a pro forma basis, 98% of the Company's reserves were located in the Midcontinent, the Gulf Coast and Appalachian regions. At December 31, 1996, the Company's properties included, on a pro forma basis, working interests in 7,280 gross (5,586 net) productive oil and gas wells and royalty interests in 310 additional wells. The Company also held interests in 243,100 gross (166,700 net) undeveloped acres on a pro forma basis at December 31, 1996. The following table sets forth summary information with respect to the Company's estimated proved oil and gas reserves on a pro forma basis at December 31, 1996.

	Present Value		Oil & NGLs (Mbbbls)	Natural Gas (Mmcfe)	Natural Gas Equiv. (Mmcf)
	Amount (In thousands)	%			
Midcontinent Region					
Permian Basin.....	\$218,201	22%	12,468	54,833	129,642
Val Verde Basin.....	208,613	21	34	126,579	126,783
Anadarko Basin.....	125,143	13	1,964	71,065	82,851
San Juan Basin.....	43,845	5	3,082	16,836	35,326
Subtotal.....	595,802	61	17,548	269,313	374,602
Appalachian Region.....	201,215	21	1,189	181,325	188,456
Gulf Coast Region.....	160,353	16	4,179	46,403	71,477
Other.....	16,293	2	1,489	559	9,495
Total.....	\$973,663	100%	24,405	497,600	644,030

#### MIDCONTINENT REGION

The Company's Midcontinent properties are situated in the Permian Basin of west Texas, the Val Verde Basin of west Texas, the Anadarko Basin of western Oklahoma and the Texas panhandle and the San Juan Basin of New Mexico. Reserves in these basins represent 61% of total Present Value. Midcontinent proved reserves total 375 Bcfe, of which approximately 57% are developed. On an Mcfe basis, 72% of the reserves are natural gas. Combined net daily production from these properties currently averages 3,300 barrels of oil and 52 Mmcf of natural gas. At December 31, 1996, the Midcontinent properties had an inventory of 674 proven development projects.

Permian Basin. The Permian Basin properties contain 130 Bcfe of proved reserves, or 22% of total Present Value. Net daily production currently averages 2,500 barrels of oil and 9 Mmcf of gas. Producing wells total 842 (617 net), of which the Company operates 88% on a Present Value basis. Major producing properties include the Sterling area and the Big Lake area. The Sterling area properties produce gas from Canyon/Cisco sub-marine sand deposits at 4,000 to 8,000 feet and oil from Silurian Fussleman carbonates. The Sterling area properties are complemented by a 25,000 Mcf/d gas plant, which processes gas from the Company's operated properties, as well as gas produced by third parties. The Big Lake area properties produce primarily oil from approximately 2,500 feet in various sequences of the San Andres/Grayburg formations. At December 31, 1996, the Permian Basin properties contained 85 proven recompletions and 129 development drilling locations.

Val Verde Basin. The Val Verde Basin properties contain 127 Bcfe of proved reserves, or 21% of total Present Value. From 205 gross wells (163 net), the Company currently produces 27 Mmcf/d of natural gas. The Company operates 89% of the wells on a Present Value basis. Production is from 15 different deltaic Canyon/Cisco sandstones with complex stratigraphic traps at depths ranging from 2,600 to 6,000 feet. On a Present Value basis, the Oakridge and Francis Hill Fields contribute 91% of the Val Verde Basin reserves. At December 31, 1996, the Company had an inventory of 76 proven recompletions and 134 development drilling locations.

Anadarko Basin. The Anadarko Basin properties contain 83 Bcfe of proved reserves, or 13% of total Present Value. The 431 gross wells (345 net), of which 65% are operated by the Company on a Present Value basis. Net daily production averages 440 barrels of oil and 14 Mmcf of natural gas. Over 250 operated wells in the Okeene Field account for 55% of the reserves on a Present Value basis. The Anadarko Basin wells produce from a variety of sands and carbonates in both structural and stratigraphic traps in the Hunton, Red Fork and Morrow formations at depths ranging from 6,000 to 12,000 feet. At December 31, 1996, 117 proven recompletions and 86 development drilling locations had been identified with respect to the Anadarko Basin properties.

San Juan Basin. The San Juan Basin properties contain 35 Bcfe of proved reserves, or 5% of total Present Value. The properties consist of 122 gross wells (116 net) located in the southeastern portion of the basin, all of which are Company operated. On an Mcfe basis, 52% of the reserves are oil and natural gas liquids. Current daily production averages 350 barrels of oil and natural gas liquids and 2 Mmcf of gas. Producing depths range from 2,000 to 8,000 feet in the tight blanket sands of the Gallup and Pictured Cliffs zones, as well as the Dakota formation. These properties have an inventory of 18 proven recompletions and 29 development drilling locations.

#### GULF COAST REGION

The Gulf Coast region consists of onshore properties located in the East Texas Basin and in South Texas, as well as offshore properties located in the Gulf of Mexico. Reserves in these areas represent 16% of the Company's total Present Value. Gulf Coast properties contain 71 Bcfe of proved reserves, of which approximately 63% are developed. On an Mcfe basis, 65% of the reserves are natural gas. Current net daily production from these properties averages 1,800 barrels of oil and 21 Mmcf of natural gas. At December 31, 1996, the Gulf Coast properties were estimated to contain 126 proven development projects.

South Texas/Gulf of Mexico. The South Texas/Gulf of Mexico properties contain 54 Bcfe of proved reserves, or 13% of total Present Value. On an Mcfe basis, gas makes up 79% of the reserves. Current net daily production from the South Texas/Gulf of Mexico properties totals 1,200 barrels of oil and 21 Mmcf of gas. Onshore South Texas, these fields range in location from Brooks County in deep South Texas to Galveston County, near Houston. Significant fields include Hagist Ranch, Alta Mesa, Riverside, Keeran/Welder and Moses Bayou. These fields produce from the Wilcox, Frio, Yegua, Vicksburg and Miocene at depths ranging from 1,000 to 10,000 feet. In total, the onshore fields include 179 gross wells (153 net), of which 92% are Company operated. The offshore properties in the Gulf of Mexico include seven platforms offshore Texas and Louisiana in water depths ranging from 50 to 220 feet. All 15 gross wells (4 net) are operated by experienced third parties. The Company's working interest in these wells ranges from 11% to 33%. The offshore properties produce from the Miocene and Pleistocene age formations, at depths ranging from 8,000 to 14,000 feet. With multiple producing horizons, untested formations and complex faulting, the South Texas/Gulf of Mexico properties contain substantial development and exploration potential, including the continued use of 3-D seismic technology. At December 31, 1996, these properties are estimated to contain 15 proven recompletions and 24 development drilling locations.

East Texas Basin. The East Texas properties contain 18 Bcfe of proved reserves accounting for 3% of total Present Value. On an Mcfe basis, 79% of the reserves are oil. Gross wells total 126 (110 net), of which 74% are Company operated. Current net daily production averages 620 barrels of oil and 150 Mcf of gas. Production ranges from the shallow Carrizo section of the Wilcox formation at a depth of approximately 1,600 feet to the tight Cotton Valley Taylor blanket sands at approximately 12,000 feet. Approximately 79% of the Present Value of the East Texas properties is ascribed to 64 operated wells in the Laura LaVelle Field. At December 31, 1996, 64 proven recompletions and 23 development drilling locations had been identified in the East Texas properties.

#### APPALACHIAN REGION

The Appalachian properties contain 188 Bcfe of proved reserves, or 21% of total Present Value. The reserves are attributable to 5,326 gross wells (4,417 net wells) located in Pennsylvania, Ohio, West Virginia and New York. The Company operates 94% of these wells. The reserves, which on an Mcfe basis are 96% natural gas, produce principally from the Medina, Clinton and Rose Run formations at depths ranging from 2,500 to 7,000 feet. Net daily production currently totals 400 barrels of oil and 32 Mmcf of gas. After initial flush production, these properties are characterized by gradual decline rates. Gas production is transported through 1,900 miles of Company owned gas gathering systems and is sold primarily to utilities and industrial end-users.

## PRODUCTION

The following table sets forth production information for the preceding five years (in thousands, except average sales price and operating cost data).

	Year Ended December 31,					Pro Forma 1996
	1992	1993	1994	1995	1996	
Production						
Oil and NGL's (Bbl) ...	199	318	640	913	1,068	1,890
Gas (Mcf) .....	1,796	2,590	6,996	12,471	21,231	38,157
Mcf (a) .....	2,990	4,498	10,836	17,949	27,641	49,497
Revenues						
Oil .....	\$ 3,660	\$ 5,118	\$ 9,743	\$ 15,133	\$ 20,425	\$ 35,506
Gas .....	4,043	6,014	14,718	22,284	47,629	95,002
Total .....	\$ 7,703	\$ 11,132	\$ 24,461	\$ 37,417	\$ 68,054	\$130,508
Direct operating expenses	3,019	4,438	10,019	14,930	24,456	39,394
Gross margin .....	\$ 4,684	\$ 6,694	\$ 14,442	\$ 22,487	\$ 43,598	\$ 91,114
Average sales price						
Oil (Bbl) .....	\$ 18.40	\$ 16.07	\$ 15.23	\$ 16.57	\$ 19.12	\$ 18.79
Gas (Mcf) .....	\$ 2.25	\$ 2.32	\$ 2.10	\$ 1.79	\$ 2.24	\$ 2.49
Mcf (a) .....	\$ 2.58	\$ 2.47	\$ 2.26	\$ 2.08	\$ 2.46	\$ 2.64
Average operating expense per Mcfe .....	\$ 0.99	\$ 0.98	\$ 0.93	\$ 0.83	\$ 0.88	\$ 0.80

(a) Oil is converted to Mcfe at a rate of 6 Mcf per barrel, based upon relative energy content.

## PRODUCING WELLS

The following table sets forth certain information relating to productive wells at December 31, 1996, including the Cometra Properties. The Company owns royalty interests in an additional 310 wells. Wells are classified as oil or gas according to their predominant production stream.

	Gross Wells	Net Wells	Average Working Interest
Crude oil.....	1,510	816	54%
Natural gas.....	5,770	4,770	83%
Total.....	7,280	5,586	77%

## ACREAGE

The following table sets forth the developed and undeveloped acreage held at December 31, 1996, including the Cometra Properties.

	Gross	Net	Average Working Interest
Developed.....	659,619	461,999	70%
Undeveloped.....	243,088	166,725	69%
Total.....	902,707	628,724	70%



## DRILLING RESULTS

The following table summarizes drilling activities for the three years ended December 31, 1996. The drilling results below do not reflect the Cometra Acquisition (or any other acquisitions).

	Year Ended December 31,					
	1994		1995		1996	
	Gross	Net	Gross	Net	Gross	Net
Exploratory wells:						
Productive.....	3.0	0.1	5.0	0.4	7.0	3.4
Dry.....	6.0	1.5	2.0	0.2	4.0	1.1
Development wells:						
Productive.....	61.0	56.3	53.0	38.8	49.0	45.2
Dry.....	1.0	0.3	2.0	0.2	3.0	2.2
Total.....	71.0	58.2	62.0	39.6	63.0	51.9
	====	====	====	====	====	====

## GAS GATHERING AND PROCESSING

The Company's natural gas gathering and processing assets are primarily comprised of (i) its Sterling system, which consists of 265 miles of gas gathering pipelines and a gas processing plant in the Sterling area of the Permian Basin, and (ii) over 1,900 miles of gas gathering pipelines in Appalachia. The Sterling plant is a refrigerated turbo-expander cryogenic gas plant that was placed in service in early 1995. The plant, designed for approximately 25,000 Mcf/d, is currently operating at 87% of capacity. The Company estimates that the plant's capacity can be increased to 35,000 Mcf/d at a cost of approximately \$4.0 million.

The Appalachian gas gathering systems serve to transport a majority of the Company's Appalachian gas production as well as third party gas to major trunklines and directly to industrial end-users. This affords the Company considerable control and flexibility in marketing its Appalachian production. Third parties who transport their gas through the systems are charged a gathering fee ranging from \$0.20 to \$0.32 per Mcf.

## OIL AND GAS MARKETING

In order to more efficiently handle the sale of its natural gas, the Company began to market its own production in 1993. On a pro forma basis at year end, the Company was marketing 173 Mmcf/d for its own account as well as additional volumes for third party producers. The Company's gas production is sold primarily to utilities and directly to industrial users.

The Company has managed the impact of potential price declines by developing a balanced portfolio of fixed price and market sensitive contracts and commodity hedging. On a pro forma basis, approximately 47% of average gas production at December 31, 1996 was sold subject to fixed price sales contracts. These fixed price contracts are at prices ranging from \$2.15 to \$3.70 per Mcf. The fixed price contracts with terms of less than one year, between one and five years and greater than five years constitute approximately 31%, 65% and 4%, respectively, of the volume sold under fixed price contracts.

From time to time, the Company enters into oil and natural gas price hedges to reduce its exposure to commodity price fluctuations. At December 31, 1996, approximately 12% on an Mcfe basis of the Company's monthly production for the period January 1997 to April 1997 was hedged under such arrangements. No production after this period was hedged. In the future, the Company may hedge a larger percentage of its production.

Approximately 30% of the Company's pro forma December 1996 gas production on an Mcfe basis was attributable to Appalachia. Gas production in Appalachia has historically received a higher price, due to its proximity to the northeastern gas markets.

The Company's oil production is sold at the well head at posted field prices tied to the spot oil markets. Oil purchasers are selected on the basis of price and service.

As part of the Cometra Acquisition, the Company acquired an above market gas contract with a major Texas Gas Utility Company, which expires June 30, 2000. The contract represents 17% of the Company's pro forma December 1996 production on an Mcfe basis. The price paid pursuant to the contract converts to a price of \$3.70 per Mcf (\$3.30 per Mmbtu) at December 31, 1996. The gas contract provides for price escalation of \$0.05 per Mcf on July 1 of each year. No other purchaser of the Company's oil or gas during 1996 exceeded 10% of the Company's total revenues.

#### REAL PROPERTY

The Company owns a 24,000 square foot facility located on approximately seven acres near Hartville, Ohio. The facility houses certain operating and administrative personnel. The Company leases approximately 33,000 square feet in Fort Worth and Oklahoma City under standard office lease arrangements that expire at various times through March 2004. All facilities are adequate to meet the Company's existing needs and can be expanded with minimal expense.

The Company owns various rolling stock and other equipment which is used in its field operations. Such equipment is believed to be in good repair and, while such equipment is important to its operations, it can be readily replaced as necessary.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims will be resolved without a material adverse effect on the Company's financial position.

The Company recently received notice from two parties, each of whom claims that it is entitled to fees from the Company based upon a Yemen oil concession that they claim Red Eagle Resources Corporation received in August 1992, which was prior to the acquisition of Red Eagle by the Company. Based upon the Company's examination of the available documentation relevant to such claims, the Company believes that the claims are without merit because the oil concession was never obtained. The Company has requested further documentation from the two parties with respect to their claims but no such documentation has yet been provided. The claims are for approximately \$4.0 million in the aggregate (including the value of approximately 70,000 shares of Common Stock that would be required to be issued if the oil concession had been obtained). To date, no proceedings have been commenced with respect to either of these claims.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## PART II

## ITEM 5. MARKET FOR THE COMMON STOCK AND RELATED MATTERS

The Company's Common Stock is listed on NYSE under the symbol "LOM". Prior to listing on the NYSE on October 11, 1996, the Common Stock was listed on the Nasdaq National Market under the symbol "LOMK". During 1996, trading volume averaged 117,600 shares per day. On March 17, 1997, the closing price of the Common Stock was \$18.25. Through March 17, 1997, trading volume has averaged 217,200 shares per day. The following table sets forth the high and low sales prices as reported on the NYSE Composite Transaction Tape or the Nasdaq National Market, as applicable on a quarterly basis for the periods indicated.

	High -----	Low -----	Common Stock Dividends -----	Average Daily Volume ----- (shares)
1995 ----				
First Quarter.....	\$7.375	\$5.500	\$ -	57,800
Second Quarter.....	8.188	7.250	-	111,500
Third Quarter.....	9.250	7.250	-	80,700
Fourth Quarter.....	7.500	5.500	.01	92,000
1996 ----				
First Quarter.....	\$12.125	\$ 9.560	\$ .01	133,800
Second Quarter.....	15.500	11.625	.01	92,400
Third Quarter.....	14.875	12.750	.02	97,400
Fourth Quarter.....	17.375	13.125	.02	102,100

## DIVIDENDS

Dividends on the Common Stock were initiated in late 1995 and have been paid in each quarter since that time. The \$2.03 Convertible Preferred Stock is entitled to receive cumulative quarterly dividends at the annual rate of \$2.03 per share. If there is any arrearage in dividends on preferred stock, the Company may not pay dividends on the Common Stock. The Company has never been in arrears in the payment of preferred dividends.

The payment of dividends is subject to declaration by the Board of Directors and may depend on earnings, capital expenditures and market factors existing from time to time. The Amended Credit Facility and the Indenture for the 6% Convertible Subordinated Debenture Due 2007 and 8.75% Senior Subordinated Notes due 2007 contain restrictions on the Company's ability to pay dividends on capital stock. Under the most restrictive of these provisions, the Company could have paid \$5 million of dividends as of December 31, 1996.

## HOLDERS OF RECORD

At March 17, 1997, the number of holders of record of the Common Stock and \$2.03 Convertible Preferred Stock were approximately 4,300 and 2, respectively.

## ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial information covering the preceding five years.

	As of or for the Year Ended December 31,					Pro Forma
	1992	1993	1994	1995	1996	1996
	(In thousands, except per share data)					
<b>OPERATIONS</b>						
Revenues.....	\$ 13,895	\$ 19,075	\$ 34,794	\$ 52,115	\$ 91,238	\$172,443
Net income.....	686	1,391	2,619	4,390	12,615	18,644
Earnings per common share.....	.08	.18	.25	.31	.69	.80
<b>BALANCE SHEET</b>						
Working capital.....	\$ 167	\$ 1,350	\$ 1,002	\$ 4,563	\$ 12,896	\$ 12,896
Oil and gas properties, net.....	18,599	55,310	112,964	176,702	229,417	554,417
Total assets.....	28,328	76,333	141,768	214,788	282,547	671,597
Long-term debt (a).....	13,127	31,108	62,592	83,088	116,806	411,756
Stockholders' equity.....	9,504	32,263	43,248	99,367	117,529	211,629

(a) Long-term debt includes current portion.

The following table sets forth summary unaudited financial information on a quarterly basis for the past two years (in thousands, except per share data).

	1995			
	Mar. 31	June 30	Sept. 30	Dec. 31
Revenues.....	\$ 10,903	\$ 11,588	\$ 12,136	\$ 17,488
Net income.....	795	1,026	897	1,672
Earnings per share.....	.07	.08	.07	.10
Total assets.....	151,801	157,222	203,305	214,788
Long-term debt (a).....	66,835	71,635	113,238	83,088
Stockholders' equity.....	57,701	58,884	60,554	99,367
	1996			
	Mar. 31	June 30	Sept. 30	Dec. 31
Revenues.....	\$20,513	\$22,774	\$22,312	\$25,639
Net income.....	2,603	2,780	2,719	4,513
Earnings per share.....	0.14	0.15	0.14	0.26
Total assets.....	232,207	274,041	284,152	282,547
Long-term debt (a).....	95,116	119,380	121,905	116,806
Stockholders' equity.....	101,146	110,762	112,866	117,529

(a) Long-term debt includes current portion.

The total of the earnings per share for each quarter does not equal the earnings per share for the full year, either because the calculations are based on the weighted average shares outstanding during each of the individual periods, or due to rounding.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FACTORS EFFECTING FINANCIAL CONDITION AND LIQUIDITY

LIQUIDITY AND CAPITAL RESOURCES

General

Working capital at December 31, 1996 was \$12.9 million, representing an \$8.3 million increase over the corresponding amount at December 31, 1995. At December 31, 1996, the Company had \$8.6 million in cash and total assets of \$282.5 million. During 1996, long-term debt rose from \$83.0 million to \$116.8 million.

At December 31, 1996, capitalization totaled approximately \$234 million, of which approximately 50% was represented by stockholders' equity and 50% by long-term debt. Approximately \$61.4 million of the long-term debt at that date was comprised of borrowings under the Credit Agreement, \$55 million being comprised of 6% Convertible Subordinated Debentures and the remaining \$500,000 comprised of other indebtedness. The Credit Agreement currently provides for quarterly payments of interest with principal due in February 2002.

In December 1996, the Company sold \$55 million of 6% Convertible Subordinated Debentures in a private placement. Net proceeds to the Company of approximately \$53 million were used, together with internally generated funds, to reduce the amount outstanding under the Credit Agreement to \$61.4 million at December 31, 1996. The 6% Convertible Subordinated Debentures are redeemable by the Company after February 1, 2000 and are convertible at the option of the holder into Common Stock at any time prior to maturity or redemption at a conversion price of \$19.25 per share, subject to adjustment in certain circumstances.

Cash Flow

The Company has three principal operating sources of cash: (i) sales of oil and gas; (ii) revenues from field services and (iii) revenues from gas transportation and marketing. The Company's cash flow is highly dependent upon oil and gas prices. Decreases in the market price of oil or gas could result in reductions of both cash flow and the borrowing base under the Credit Agreement which would result in decreased funds available, including funds intended for planned capital expenditures.

The Company's net cash provided by operations for the years ended December 31, 1994, 1995 and 1996 was \$11.2 million, \$16.6 million and \$38.4 million, respectively. The increases in the Company's cash flow from operations can be attributed to its growth primarily through acquisitions and development.

The Company's net cash used in investing for the years ended December 31, 1994, 1995 and 1996 was \$29.5 million, \$76.1 million and \$69.7 million, respectively. Investing activities for these periods are comprised primarily of additions to oil and gas properties through acquisitions and development and, to a lesser extent, exploitation and additions of field service assets. These uses of cash have historically been partially offset through the Company's policy of divesting those properties that it deems to be marginal or outside of its core areas of operation. The Company's acquisition and development activities have been financed through a combination of operating cash flow, bank borrowings and capital raised through equity and debt offerings.

The Company's net cash provided by financing for the years ended December 31, 1994, 1995 and 1996 was \$21.2 million, \$57.7 million and \$36.8 million, respectively. Sources of financing used by the Company have been primarily borrowings under its Credit Agreement and capital raised through equity and debt offerings.

#### Capital Requirements

In 1996, \$12.5 million and \$2.0 million of expenses were incurred for development activities and exploration activities, respectively. Although these expenditures are principally discretionary, the Company is currently projecting that it will spend approximately \$160 million on development, exploitation and exploration activities, which includes approximately \$45 million on exploitation and exploration expenditures, for the three years ending 1999. For the next three years, development and exploration expenditures are currently expected to consume roughly 50% of internally generated cash flows. The remaining funds will be available for acquisitions and other capital expenditures. See "Business--Development Activities" and "--Exploration Activities."

#### Credit Agreement

In connection with the financing of the Cometra Acquisition, the Company and its subsidiaries expanded the existing bank credit facility. The Credit Agreement permits the Company to obtain revolving credit loans and to issue letters of credit for the account of the Company from time to time in an aggregate amount not to exceed \$400 million (of which not more than \$150 million may be represented by letters of credit). The Borrowing Base, which was initially \$400 million, was reduced to \$300 million upon the consummation of the Offerings. The Borrowing Base is subject to semi-annual determination and certain other redeterminations based upon a variety of factors, including the discounted present value of estimated future net cash flow from oil and gas production. The Company is required to make a mandatory prepayment of all amounts outstanding under the Credit Agreement in excess of \$300 million. At the Company's option, loans may be prepaid, and revolving credit commitments may be reduced, in whole or in part at any time in certain minimum amounts. Security obligations in place with the Credit Agreement were released upon the consummation of the Offerings on March 14, 1997.

At the Company's option, the applicable interest rate per annum is the LIBOR plus a margin ranging from 0.625% to 1.125%. As an alternative, the Company can elect an Alternate Base Rate (as defined) plus a margin ranging from 0% to 0.25%. The Alternate Base Rate is the higher of (a) the administrative agent bank's prime rate and (b) the federal funds effective rate plus 0.5%.

On March 17, 1997, approximately \$204 million was outstanding (including \$134 million of then outstanding letters of credit to secure the promissory note issued to Cometra as part of the purchase price in the Cometra Acquisition) under the Credit Agreement. The promissory note to Cometra matures on March 31, 1997.

#### Common Stock and Notes Offering

On March 14, 1997, the Company completed a 4,060,000 million share Common stock offering (the "Common Offering") and a \$125 million aggregate principal amount of its 8.75% Senior Subordinated Notes due 2007 (the "Notes Offering")(collectively the "Offerings"). The Notes are unconditionally guaranteed on an unsecured, senior subordinated basis, by each of the Company's Restricted Subsidiaries (as defined in the Indenture for the Notes), provided that such guarantees will terminate under certain circumstances. The Indenture for the Notes contains certain covenants, including, but not limited to, covenants with respect to the following matters: (i) limitation on restricted payments; (ii) limitation on the incurrence of indebtedness and issuance of Disqualified Stock (as defined in the Indenture for the Notes); (iii) limitation on liens; (iv) limitation on disposition of proceeds of asset sales; (v) limitation on transactions with affiliates; (vi) limitation on dividends and other payment restrictions affecting restricted subsidiaries; (vii) restrictions on mergers, consolidations and transfers of assets; and (viii) limitation on "layering" indebtedness.

## Hedging Activities

Periodically, the Company enters into futures, option and swap contracts to reduce the effects of fluctuations in crude oil and natural gas prices. At December 31, 1996, the Company had open contracts for oil and gas price swaps of 300,000 barrels of oil at average prices ranging from \$22.10 to \$22.76 per barrel of oil and 155,000 MMBtu of gas at \$2.04 per MMBtu. While these transactions have no carrying value, the Company's mark-to-market exposure under these contracts at December 31, 1996 was a net loss of \$1.1 million. As of February 28, 1997, the Company had open hedge contracts covering 140,000 barrels of oil with mark-to-market exposure of a \$290,000 net gain. These contracts expire monthly through April 1997. The gains or losses on the Company's hedging transactions is determined as the difference between the contract price and a reference price, generally closing prices on the NYMEX. The resulting transaction gains and losses are determined monthly and are included in the period the hedged production or inventory is sold. Net gains or losses relating to these derivatives for the years ended December 31, 1994, 1995 and 1996 approximated \$0, \$217,000 and \$(724,000), respectively.

## INFLATION AND CHANGES IN PRICES

The Company's revenues and the value of its oil and gas properties have been and will be affected by changes in oil and gas prices. The Company's ability to maintain current borrowing capacity and to obtain additional capital on attractive terms is also substantially dependent on oil and gas prices. Oil and gas prices are subject to significant seasonal and other fluctuations that are beyond the Company's ability to control or predict. During 1996, the Company received an average of \$19.12 per barrel of oil and \$2.24 per Mcf of gas. Although certain of the Company's costs and expenses are affected by the level of inflation, inflation did not have a significant effect in 1996. Should conditions in the industry improve, inflationary cost pressures may resume.

## RESULTS OF OPERATIONS

## Comparison of 1996 to 1995

The Company reported net income for the year ended December 31, 1996 of \$12.6 million, a 187% increase over 1995. The increase is the result of (i) higher production volumes, over 60% of which is attributable to acquisitions and the remainder is attributable to development activities; (ii) increased prices received from the sale of oil and gas products and (iii) gains from asset sales. During the year, oil and gas production volumes increased 54% to 27.6 Bcfe, an average of 76 Mmcf/d. The increased revenues recognized from production volumes were aided by an 18% increase in the average price received per Mcfe of production to \$2.46. The average oil price increased 15% to \$19.12 per barrel while average gas prices increased 25% to \$2.24 per Mcf. As a result of the Company's larger base of producing properties and production, oil and gas production expenses increased 64% to \$24.5 million in 1996 versus \$14.9 million in 1995. The average operating cost per Mcfe produced increased 6% from \$0.83 in 1995 to \$0.88 in 1996 due to unsuccessful recompletion costs and increases in personnel costs.

Gas transportation and marketing revenues increased 70% to \$5.6 million versus \$3.3 million in 1995 principally due to production growth. Gas transportation and marketing expenses increased 97% to \$1.7 million versus \$0.8 million in 1995. The increase in expenses was due to production growth, as well as the increase in gas transportation and marketing expense and higher administrative costs associated with the growth in gas marketing.

Field services revenues increased 41% in 1996 to \$14.2 million. The higher revenues were due primarily to a larger base of operated properties. Field services expenses increased 61% in 1996 to \$10.4 million versus \$6.5 million. The increase is attributed to the cost of operating a larger base of properties and lower overall margins on Oklahoma well servicing. In December 1996, the Company sold its brine disposal and well servicing activities in Oklahoma for \$2.7 million and recorded a gain of approximately \$1.2 million, which is included in interest and other income.

Exploration expense increased 185% to \$1.5 million due to the Company's increased involvement in seismic and exploratory drilling. The Company participated in 11 exploratory wells in 1996 versus 7 exploratory wells in 1995.

General and administrative expenses increased 45% from \$2.7 million in 1995 to \$3.9 million in 1996. As a percentage of revenues, general and administrative expenses were 4% in 1996 as compared to 5% in 1995. This decreasing trend reflects the spreading of administrative costs over a growing asset base.

Interest and other income rose 157% to \$3.4 million primarily due to \$1.4 million on gains from sale of marketable securities (which were not related to hedging activities), and \$1.2 million from the gain on the sale of the Oklahoma well servicing assets. Interest expense increased 34% to \$7.5 million as compared to \$5.6 million in 1995. This was primarily as a result of the higher average outstanding debt balance during the year due to the financing of capital expenditures. The average outstanding balances on the Credit Agreement were \$73.3 million and \$107.2 million for 1995 and 1996, respectively. The weighted average interest rate on these borrowings were 7.3% and 6.7% for the years ended December 31, 1995 and 1996, respectively.

Depletion, depreciation and amortization increased 50% compared to 1995 as a result of increased production volumes during the year. The Company-wide depletion rate was \$0.73 per Mcfe in 1995 and 1996.

## Comparison of 1995 to 1994

The Company reported net income for the year ended December 31, 1995 of \$4.4 million, a 68% increase over 1994. This increase is the result of higher production volumes attributable to acquisition and development activities.



During the year, oil and gas production volumes increased 66% to 17.9 Bcfe, an average of 49.2 Mmcfe/d. The increased revenues recognized from production volumes were partially offset by an 8% decrease in the average price received per Mcfe of production to \$2.08. The average oil price increased 9% to \$16.57 per barrel while average gas prices dropped 15% to \$1.79 per Mcf. As a result of the Company's larger base of producing properties and production, oil and gas production expenses increased 49% to \$14.9 million in 1995 versus \$10.0 million in 1994. However, the average operating cost per Mcfe produced decreased 11% from \$0.93 in 1994 to \$0.83 in 1995.

Gas transportation and marketing revenues increased 50% to \$3.3 million versus \$2.2 million in 1994. Coupled with this increase in gas transportation and marketing revenues was a 73% increase in associated expenses for the year. These increases were due primarily to the acquisition of several pipeline systems, as well as the expansion of the gas marketing efforts.

Field services revenues increased 32% in 1995 to \$10.1 million, despite the September 1994 sale of virtually all well servicing and brine disposal assets in Ohio. The decrease in activities due to this sale was more than offset by an increase in well servicing and brine disposal activities in Oklahoma and well operations on acquired properties. Field services expenses increased 12% in 1995 to \$6.5 million versus \$5.8 million. The increase is attributed to the Oklahoma well servicing and the cost of operating a larger base of properties. The increase in well operating costs was offset to a great extent by the disposal in September 1994 of the Company's lower margin well servicing and brine hauling and disposal businesses.

Exploration expense increased 43% to \$0.5 million due to the Company's increased involvement in exploration projects. These costs include delay rentals, seismic and exploratory drilling activities.

General and administrative expenses increased 10% from \$2.5 million in 1994 to \$2.7 million in 1995. As a percentage of revenues, general and administrative expenses were 5% in 1995 as compared to 7% in 1994. This improvement reflects the spreading of administrative costs over a growing asset base.

Interest and other income rose 180% primarily due to higher sales of non-strategic properties. Interest expense increased 99% to \$5.6 million as compared to \$2.8 million in 1994. This was primarily as a result of the higher average outstanding debt balance during the year due to the financing of capital expenditures. The average outstanding balances on the Credit Agreement were \$42.0 million and \$73.3 million for 1994 and 1995, respectively. The weighted average interest rate on these borrowings was 6.3% and 7.3% for the years ended December 31, 1994 and 1995, respectively.

Depletion, depreciation and amortization increased 47% compared to 1994 as a result of increased production volumes during the year. The increased depletion of oil and gas properties was partially offset by the reduction of depreciation of field services assets due to the 1994 sale of field service assets. The Company-wide depletion rate for 1995 was \$0.73 per Mcfe versus \$0.74 per Mcfe in 1994 due to the addition of properties at lower than historical Mcfe costs.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Index to Financial Statements on page 29 for a listing of the Company's financial statements and notes thereto and for supplementary schedules. Schedules I, III, IV, V, VI, VII, VIII, IX, X, XI, XII and XIII have been omitted as not required or not applicable or because the information required to be presented is included in the financial statements and related notes.

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements have been prepared by management in conformity with generally accepted accounting principles. Management is responsible for the fairness and reliability of the financial statements and other financial data included in this report. In the preparation of the financial statements, it is necessary to make informed estimates and judgments based on currently available information on the effects of certain events and transactions.

The Company maintains accounting and other controls which management believes provide reasonable assurance that financial records are reliable, assets are safeguarded, and that transactions are properly recorded. However, limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed benefits derived.

The Company's independent auditors, Arthur Andersen LLP, are engaged to audit the financial statements and to express an opinion thereon. Their audit is conducted in accordance with generally accepted auditing standards to enable them to report whether the financial statements present fairly, in all material respects, the financial position and results of operations in accordance with generally accepted accounting principles.

## ITEM 9. CHANGE IN ACCOUNTANTS AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The current executive officers and directors of the Company are listed below, together with a description of their experience and certain other information. Each of the directors was elected for a one-year term at the Company's 1997 annual meeting of stockholders. Executive officers are appointed by the Board of Directors.

NAME ----	AGE ---	HELD OFFICE SINCE -----	POSITION WITH COMPANY -----
Thomas J. Edelman	46	1988	Chairman and Chairman of the Board
John H. Pinkerton	42	1988	President, Chief Executive Officer and Director
Robert E. Aikman	65	1990	Director
Anthony V. Dub	47	1995	Director
Allen Finkelson	50	1994	Director
Ben A. Guill	46	1995	Director
C. Rand Michaels	59	1976	Vice Chairman and Director
Jeffery A. Bynum	42	1985	Vice President-Land
Steven L. Grose	48	1980	Vice President-Appalachia Region
Chad L. Stephens	41	1990	Vice President-Midcontinent Region
Thomas W. Stoelk	41	1994	Vice President-Finance
Danny M. Sowell	46	1996	Vice President-Gas Management
John R. Frank	41	1990	Controller
Geoffrey T. Doke	30	1996	Treasurer

Thomas J. Edelman holds the office of Chairman and is Chairman of the Board of Directors. Mr. Edelman joined the Company in 1988 and served as its Chief Executive Officer until 1992. From 1981 to February 1997, Mr. Edelman served as a director and President of Snyder Oil Corporation ("SOCO"), an independent, publicly traded oil and gas company. In 1996, Mr. Edelman was appointed Chairman, President and Chief Executive Officer of Patina Oil & Gas Corporation, a publicly traded affiliate of SOCO. Prior to 1981, Mr. Edelman was a Vice President of The First Boston Corporation. From 1975 through 1980, Mr. Edelman was with Lehman Brothers Kuhn Loeb Incorporated. Mr. Edelman received his Bachelor of Arts Degree from Princeton University and his Masters Degree in Finance from Harvard University's Graduate School of Business Administration. Mr. Edelman serves as a director of Petroleum Heat & Power Co., Inc., a Connecticut-based fuel oil distributor, Star Gas Corporation, a private company, which is the general partner of Star Gas Partners, L.P., a publicly-traded master limited partnership, which distributes propane gas, Paradise Music & Entertainment, Inc., a publicly-traded company, and Weatherford Enterra, Inc., a publicly-traded company.

John H. Pinkerton, President, Chief Executive Officer and a Director, joined the Company in 1988. He was appointed President in 1990 and Chief Executive Officer in 1992. Previously, Mr. Pinkerton was a Senior Vice President-Acquisitions of SOCO. Prior to joining SOCO in 1980, Mr. Pinkerton was with Arthur Andersen & Co. Mr. Pinkerton received his Bachelor of Arts Degree in Business Administration from Texas Christian University and his Master of Arts Degree in Business Administration from the University of Texas. Mr. Pinkerton is also director of North Coast Energy, Inc. ("North Coast"), an exploration and production company in which Lomak acquired an approximately 50% interest in 1996.

Robert E. Aikman, a Director, joined the Company in 1990. Mr. Aikman has more than 40 years experience in petroleum and natural gas exploration and production throughout the United States and Canada. From 1984 to 1994 he was Chairman of the Board of Energy Resources Corporation. From 1979 through 1984, he was the President and principal shareholder of Aikman Petroleum, Inc. From 1971 to 1977, he was President of Dorchester Exploration Inc. and from 1971 to 1980, he was a Director and a member of the Executive Committee of Dorchester Gas Corporation. Mr. Aikman is also Chairman of Provident Trade Company, President of EROG, Inc., and President of The Hawthorne Company, an entity which organizes joint ventures and provides advisory services for the acquisition of oil and gas properties, including the financial restructuring, reorganization and sale of companies. He was President of Enertec Corporation which was reorganized under Chapter 11 of the Bankruptcy Code in December 1994. In addition, Mr. Aikman is a director of the Panhandle Producers and Royalty Owners Association and a member of the Independent Petroleum Association of America, Texas Independent Producers and Royalty Owners Association and American Association of Petroleum Landmen. Mr. Aikman graduated from the University of Oklahoma in 1952.

Anthony V. Dub was elected to serve as a Director of the Company in 1995. Mr. Dub is Managing Director-Senior Advisor of Credit Suisse First Boston, an international investment banking firm with headquarters in New York City. Mr. Dub joined Credit Suisse First Boston in 1971 and was named a Managing Director in 1981. Mr. Dub received his Bachelor of Arts Degree from Princeton University in 1971.

Allen Finkelson was appointed a Director in 1994. Mr. Finkelson has been a partner at Cravath, Swaine & Moore since 1977, with the exception of the period from September 1983 through August 1985, when he was a managing director of Lehman Brothers Kuhn Loeb Incorporated. Mr. Finkelson was first employed by Cravath, Swaine & Moore as an associate in 1971. Mr. Finkelson received his Bachelor of Arts Degree from St. Lawrence University and his Doctor of Laws Degree from Columbia University School of Law.

Ben A. Guill was elected to serve as a Director of the Company in 1995. Mr. Guill is a Partner and Managing Director of Simmons & Company International, an investment banking firm located in Houston, Texas focused exclusively on the oil service and equipment industry. Mr. Guill has been with Simmons & Company since 1980. Prior to joining Simmons & Company, Mr. Guill was with Blyth Eastman Dillon & Company from 1978 to 1980. Mr. Guill received his Bachelor of Arts Degree from Princeton University and his Masters Degree in Finance from the Wharton Graduate School of Business at the University of Pennsylvania.

C. Rand Michaels, who holds the office of Vice Chairman and is a Director, served as President and Chief Executive Officer of the Company from 1976 through 1988 and Chairman of the Board from 1984 through 1988, when he became Vice Chairman. Mr. Michaels received his Bachelor of Science Degree from Auburn University and his Master of Business Administration Degree from the University of Denver. Mr. Michaels is also a director of American Business Computers Corporation of Akron, Ohio, a public company serving the beverage dispensing and fast food industries, and North Coast.

Jeffery A. Bynum, Vice President-Land and Secretary, joined the Company in 1985. Previously, Mr. Bynum was employed by Crystal Oil Company and Kinnebrew Energy Group of Shreveport, Louisiana. Mr. Bynum holds a Professional Certification with American Association of Petroleum Landmen and attended Louisiana State University in Baton Rouge, Louisiana and Centenary College in Shreveport, Louisiana.

Steven L. Grose, Vice President-Appalachia Region, joined the Company in 1980. Previously, Mr. Grose was employed by Halliburton Services, Inc. as a Field Engineer from 1971 until 1974. In 1974, he was promoted to District Engineer and in 1978, was named Assistant District Superintendent based in Pennsylvania. Mr. Grose is a member of the Society of Petroleum Engineers and a trustee of The Ohio Oil and Gas Association. Mr. Grose received his Bachelor of Science Degree in Petroleum Engineering from Marietta College. Mr. Grose is also a director of North Coast.

Chad L. Stephens, Vice President-Midcontinent Region, joined the Company in 1990. Previously, Mr. Stephens was a landman with Duer Wagner & Co., an independent oil and gas producer, since 1988. Prior thereto, Mr. Stephens was an independent oil operator in Midland, Texas for four years. From 1979 to 1984, Mr. Stephens was a landman for Cities Service Company and HNG Oil Company. Mr. Stephens received his Bachelor of Arts Degree in Finance and Land Management from the University of Texas.

Thomas W. Stoelk, Vice President-Finance and Chief Financial Officer, joined the Company in 1994. Mr. Stoelk is a Certified Public Accountant and was a Senior Manager with Ernst & Young LLP. Prior to rejoining Ernst & Young LLP in 1986 he was with Partners Petroleum, Inc. Mr. Stoelk received his Bachelor of Science Degree in Industrial Administration from Iowa State University.

Danny M. Sowell, Vice President-Gas Management, joined the Company in 1996. Previously, Mr. Sowell was Chief Executive Officer and President of Jay Gas Marketing, which Lomak acquired May 1, 1996. Prior to founding Jay Gas, Mr. Sowell was Director of Marketing for a subsidiary of Oklahoma Gas & Electric Company. Mr. Sowell received his Master and Bachelor of Science Degrees in Mathematics from Lamar University.

John R. Frank, Controller and Chief Accounting Officer, joined the Company in 1990. From 1989 until he joined Lomak in 1990, Mr. Frank was Vice President Finance of Appalachian Exploration, Inc. Prior thereto, he held the positions of Internal Auditor and Treasurer with Appalachian Exploration, Inc. beginning in 1977. Mr. Frank received his Bachelor of Arts Degree in Accounting and Management from Walsh College and attended graduate studies at the University of Akron.

Geoffrey T. Doke, Treasurer, joined the Company in 1991. He was appointed Treasurer in 1996. Previously, Mr. Doke served in the accounting department of Edisto Resources Corporation. Mr. Doke received his Bachelor of Business Administration Degree in Finance and International Business from Baylor University and his Master of Business Administration Degree from Case Western Reserve University.

The Lomak Board has established three committees to assist in the discharge of its responsibilities.

**AUDIT COMMITTEE.** The Audit Committee reviews the professional services provided by Lomak's independent public accountants and the independence of such accountants from management of Lomak. This Committee also reviews the scope of the audit coverage, the annual financial statements of Lomak and such other matters with respect to the accounting, auditing and financial reporting practices and procedures of Lomak as it may find appropriate or as have been brought to its attention. Messrs. Aikman, Dub and Guill members of the Audit Committee.

**COMPENSATION COMMITTEE.** The Compensation Committee reviews and approves executive salaries and administers bonus, incentive compensation and stock option plans of Lomak. This Committee advises and consults with management regarding pensions and other benefits and significant compensation policies and practices of Lomak. This Committee also considers nominations of candidates for corporate officer positions. The members of Compensation committee are Messrs. Aikman, Guill and Finkelson.

EXECUTIVE COMMITTEE. The Executive Committee reviews and authorizes actions required in the management of the business and affairs of Lomak, which would otherwise be determined by the Board, where it is not practicable to convene the full Board. One of the principal responsibilities of the Executive Committee will be to review and approve smaller acquisitions. The members of the Executive Committee are Messrs. Edelman, Finkelson and Pinkerton.

ITEM 11. COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Information with respect to executive compensation is incorporated herein by reference to the Proxy Statement for its 1997 annual meeting of stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the Company's Proxy Statement for its 1997 annual meeting of stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is incorporated herein by reference to the Company's Proxy Statement for its 1997 annual meeting of stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1. and 2. Financial Statements and Financial Statement Schedules. The items listed in the accompanying index to financial statements are filed as part of this Annual Report on Form 10-K.
- 3. Exhibits.  
The items listed on the accompanying index to exhibits are filed as part of this Annual Report on Form 10-K.
- (b) Reports on Form 8-K.  
  
The Company's Current Report on Form 8-K, dated April 19, 1996, as amended by Form 8-K/A, dated May 31, 1996.  
  
The Company's Current Report on Form 8-K, dated February 26, 1997, as amended by Form 8-K/A, dated March 14, 1997.
- (c) Exhibits required by Item 601 of Regulation S-K.  
Exhibits required to be filed by the Company pursuant to Item 601 of Regulation S-K are contained in Exhibits listed in response to Item 14 (a)3, and are incorporated herein by reference.
- (d) Financial Statement Schedules Required by Regulation S-X.  
The items listed in the accompanying index to financial statements are filed as part of this Annual Report on Form 10-K.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE COMPANY HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Dated: March 27, 1997

LOMAK PETROLEUM, INC.

By: /s/ John H. Pinkerton

-----  
John H. Pinkerton  
President

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE PERSONS ON BEHALF OF THE COMPANY AND IN THE CAPACITIES AND ON THE DATES INDICATED.

/s/ Thomas J. Edelman  
-----  
March 27, 1997

Thomas J. Edelman,  
Chairman and Chairman of the Board

/s/ John H. Pinkerton  
-----  
March 27, 1997

John H. Pinkerton,  
Chief Executive Officer, President and Director

/s/ Thomas W. Stoelk  
-----  
March 27, 1997

Thomas W. Stoelk,  
Chief Financial Officer and Vice President-Finance

/s/ John R. Frank  
-----  
March 27, 1997

John R. Frank,  
Chief Accounting Officer and Controller

/s/ Robert E. Aikman  
-----  
March 27, 1997

Robert E. Aikman, Director

/s/ Allen Finkelson  
-----  
March 27, 1997

Allen Finkelson, Director

/s/ Anthony V. Dub  
-----  
March 27, 1997

Anthony V. Dub, Director

/s/ Ben A. Guill  
-----  
March 27, 1997

Ben A. Guill, Director

/s/ C. Rand Michaels  
-----  
March 27, 1997

C. Rand Michaels,  
Vice Chairman and Director

## LOMAK PETROLEUM, INC.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

(ITEM 14[a], [d])

	Page Number -----
Reports of Independent Public Accountants	33
Consolidated balance sheets at December 31, 1995 and 1996	34
Consolidated statements of income for the years ended December 31, 1994, 1995 and 1996	35
Consolidated statements of stockholders' equity for the years ended December 31, 1994, 1995 and 1996	36
Consolidated statements of cash flows for the years ended December 31, 1994, 1995 and 1996	37
Notes to consolidated financial statements	38

## Exhibits

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or footnotes.



## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

THE BOARD OF DIRECTORS AND STOCKHOLDERS  
LOMAK PETROLEUM, INC.

We have audited the accompanying consolidated balance sheets of Lomak Petroleum, Inc. (a Delaware corporation) as of December 31, 1995 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lomak Petroleum, Inc. as of December 31, 1995 and 1996, and the results of its operations and its cash flows for the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Cleveland, Ohio,  
February 14, 1997

LOMAK PETROLEUM, INC.  
 CONSOLIDATED BALANCE SHEETS  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	December 31,	
	1995	1996
<b>ASSETS</b>		
Current assets		
Cash and equivalents.....	\$ 3,047	\$ 8,625
Accounts receivable.....	14,109	18,121
Marketable securities.....	953	7,658
Inventory and other.....	1,114	799
	-----	-----
	19,223	35,203
	-----	-----
Oil and gas properties, successful efforts method.....	210,073	282,519
Accumulated depletion.....	(33,371)	(53,102)
	-----	-----
	176,702	229,417
	-----	-----
Gas transportation and field service assets	23,167	21,139
Accumulated depreciation.....	(4,304)	(4,997)
	-----	-----
	18,863	16,142
	-----	-----
Other.....	-	1,785
	-----	-----
	\$ 214,788	\$ 282,547
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable.....	\$ 9,084	\$ 14,433
Accrued liabilities.....	3,761	4,603
Accrued payroll and benefit costs.....	1,762	3,245
Current portion of debt (Note 4).....	53	26
	-----	-----
	14,660	22,307
	-----	-----
Long-term debt (Note 4).....	83,035	116,780
Deferred taxes (Note 10).....	17,726	25,931
Commitments and contingencies (Note 6).....		
Stockholders' equity (Notes 7 and 8)		
Preferred stock, \$1 par, 4,000,000 shares authorized, 7-1/2% convertible preferred, 200,000 issued (liquidation preference \$5,000,000).....	200	-
\$2.03 convertible preferred, 1,150,000 issued (liquidation preference \$28,750,000).....	1,150	1,150
Common stock, \$.01 par, 35,000,000 shares authorized, 13,322,738 and 14,750,537 issued.....	133	148
Capital in excess of par value.....	101,773	110,248
Retained earnings (deficit).....	(4,013)	5,291
Unrealized gain on marketable securities.....	124	692
	-----	-----
	99,367	117,529
	-----	-----
	\$ 214,788	\$ 282,547
	=====	=====

SEE ACCOMPANYING NOTES.

LOMAK PETROLEUM, INC.  
 CONSOLIDATED STATEMENTS OF INCOME  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended December 31,		
	1994	1995	1996
<b>Revenues</b>			
Oil and gas sales .....	\$24,461	\$37,417	\$68,054
Field services .....	7,667	10,097	14,223
Gas transportation and marketing .....	2,195	3,284	5,575
Interest and other .....	471	1,317	3,386
	-----	-----	-----
	34,794	52,115	91,238
	-----	-----	-----
<b>Expenses</b>			
Direct operating .....	10,019	14,930	24,456
Field services .....	5,778	6,469	10,443
Gas transportation and marketing .....	490	849	1,674
Exploration .....	359	512	1,460
General and administrative .....	2,478	2,736	3,966
Interest .....	2,807	5,584	7,487
Depletion, depreciation and amortization .....	10,105	14,863	22,303
	-----	-----	-----
	32,036	45,943	71,789
	-----	-----	-----
Income before taxes .....	2,758	6,172	19,449
<b>Income taxes</b>			
Current .....	21	86	729
Deferred .....	118	1,696	6,105
	-----	-----	-----
	139	1,782	6,834
	-----	-----	-----
Net income .....	\$ 2,619	\$ 4,390	\$12,615
	=====	=====	=====
Earnings per common share .....	\$ 0.25	\$ 0.31	\$ 0.69
	=====	=====	=====
Weighted average shares outstanding .....	9,051	11,841	14,812
	=====	=====	=====

SEE ACCOMPANYING NOTES.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS)

	Preferred Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings (Deficit)
	Shares	Par Value	Shares	Par Value		
Balance, December 31, 1993....	200	\$ 200	8,309	\$ 83	\$ 41,768	\$ (9,788)
Preferred dividends.....	-	-	-	-	-	(375)
Common issued.....	-	-	1,504	15	9,220	-
Common repurchased.....	-	-	(59)	(1)	(493)	-
Net income.....	-	-	-	-	-	2,619
Balance, December 31, 1994....	200	200	9,754	97	50,495	(7,544)
Preferred dividends.....	-	-	-	-	-	(731)
Common dividends.....	-	-	-	-	-	(128)
Common issued.....	-	-	3,609	36	24,953	-
Common repurchased.....	-	-	(40)	-	(332)	-
\$2.03 preferred issued.....	1,150	1,150	-	-	26,657	-
Net income.....	-	-	-	-	-	4,390
Balance, December 31, 1995....	1,350	1,350	13,323	133	101,773	(4,013)
Preferred dividends.....	-	-	-	-	-	(2,454)
Common dividends.....	-	-	-	-	-	(857)
Common issued.....	-	-	887	9	8,687	-
Common repurchased.....	-	-	(36)	-	(406)	-
Conversion of 7 1/2 preferred..	(200)	(200)	577	6	194	-
Net income.....	-	-	-	-	-	12,615
Balance, December 31, 1996....	1,150	\$ 1,150	14,751	\$ 148	\$ 110,248	\$ 5,291

SEE ACCOMPANYING NOTES.

LOMAK PETROLEUM, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1994	1995	1996
<b>Cash flows from operations:</b>			
Net income.....	\$ 2,619	\$ 4,390	\$ 12,615
Adjustments to reconcile net income to net cash provided by operations:			
Depletion, depreciation and amortization.....	10,105	14,863	22,303
Deferred income taxes.....	118	1,335	6,105
Changes in working capital net of effects of businesses:			
Accounts receivable.....	3,106	(5,247)	(494)
Marketable securities.....	(534)	(296)	(5,264)
Inventory and other.....	(45)	278	137
Accounts payable.....	(2,126)	663	5,385
Accrued liabilities and payroll and benefit costs	(1,531)	1,778	781
Gain on sale of assets and other.....	(471)	(1,203)	(3,123)
<b>Net cash provided by operations.....</b>	<b>11,241</b>	<b>16,561</b>	<b>38,445</b>
<b>Cash flows from investing:</b>			
Acquisition of businesses, net of cash.....	(9,399)	-	(13,950)
Oil and gas properties.....	(22,251)	(69,992)	(59,137)
Additions to property and equipment.....	(813)	(9,102)	(1,250)
Proceeds on sale of assets.....	2,927	2,981	4,671
<b>Net cash used in investing.....</b>	<b>(29,536)</b>	<b>(76,113)</b>	<b>(69,666)</b>
<b>Cash flows from financing:</b>			
Proceeds from indebtedness.....	22,235	21,304	85,201
Repayments of indebtedness.....	(1,024)	(808)	(53,268)
Preferred stock dividends.....	(375)	(731)	(2,454)
Common stock dividends.....	-	(128)	(857)
Proceeds from Common stock issuance.....	830	10,590	8,315
Repurchase of common stock.....	(493)	(332)	(138)
Proceeds from Preferred stock issuance.....	-	27,807	-
<b>Net cash provided by financing.....</b>	<b>21,173</b>	<b>57,702</b>	<b>36,799</b>
<b>Change in cash.....</b>	<b>2,878</b>	<b>(1,850)</b>	<b>5,578</b>
Cash and equivalents at beginning of period.....	2,019	4,897	3,047
<b>Cash and equivalents at end of period.....</b>	<b>\$ 4,897</b>	<b>\$ 3,047</b>	<b>\$ 8,625</b>
<b>Supplemental disclosures of non-cash investing and financing activities:</b>			
Purchase of property and equipment financed with common stock.....	\$ 7,694	\$ 14,299	\$ -
Conversion of 10% Convertible Subordinated Notes.....	464	-	-
Common stock issued in connection with benefit plans.....	228	100	381

SEE ACCOMPANYING NOTES.

Lomak Petroleum, Inc.  
Notes to Consolidated Financial Statements

(1) ORGANIZATION AND NATURE OF BUSINESS

Lomak Petroleum, Inc. ("Lomak" or the "Company") is an independent oil company engaged in development, exploration and acquisition primarily in three core areas: Midcontinent, the Gulf Coast and Appalachia. Historically, the Company has increased its reserves and production through acquisitions, development and exploration of its properties. Over the past six years, 62 acquisitions have been consummated at a total cost of \$249 million and approximately \$39 million has been expended on development and exploration activities. As a result, proved reserves and production have each grown during this period at compound rates of 90% and 70% per annum, respectively. At December 31, 1996, proved reserves totaled 384 Bcfe, having a pre-tax present value at constant prices on that date of \$492 million and a reserve life of approximately 14 years.

Effective January 1997, the Company acquired oil and gas properties from American Cometra, Inc. for a purchase price of \$385 million, subject to adjustment. This transaction is more fully described in Note (15) Cometra Acquisition.

Lomak's objective is to maximize shareholder value through growth in its reserves, production, cashflow and earnings through a balanced program of development drilling and acquisitions, as well as, to a growing extent, its exploration effort. In order to effectively pursue its operating strategy, the Company has concentrated its activities in selected geographic areas. In each core area, the Company has established separate acquisition, engineering, geological, operating and other technical expertise. The Company believes that this geographic focus provides it with a competitive advantage in sourcing and evaluating new business opportunities within these areas, as well as providing economies of scale in developing and operating its properties.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements include the accounts of the Company, all majority owned subsidiaries and its pro rata share of the assets, liabilities, income and expenses of certain oil and gas partnerships and joint ventures. Highly liquid temporary investments with an initial maturity of ninety days or less are considered cash equivalents.

OIL AND GAS PROPERTIES

The Company follows the successful efforts method of accounting for oil and gas properties. Exploratory costs which result in the discovery of reserves and the cost of development wells are capitalized. Geological and geophysical costs, delay rentals and costs to drill unsuccessful exploratory wells are expensed. Depletion is provided on the unit-of-production method. Oil is converted to Mcfe at the rate of six Mcf per barrel. The depletion rates per Mcfe were \$.74, \$.73 and \$.73 in 1994, 1995 and 1996, respectively. Approximately \$4.3 million, \$12.2 million and \$22.8 million of oil and gas properties were not subject to amortization as of December 31, 1994, 1995 and 1996, respectively. These costs are assessed periodically to determine whether their value has been impaired, and if impairment is indicated, the excess costs are charged to expense.

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill. SFAS No. 121 requires a review for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company would estimate future cash flows (undiscounted and without interest charges) expected to result from the use of an asset and its eventual disposition. Impairment is recognized only if the carrying amount of an asset is greater than its expected future cash flows. The amount of the

impairment is based on the estimated fair value of the asset. The adoption of SFAS No. 121 has no impact on the Company.

#### GAS IMBALANCES

The Company uses the sales method to account for gas imbalances. Under the sales method, revenue is recognized based on cash received rather than the proportionate share of gas produced. Gas imbalances at year end 1995 and 1996 were not material.

#### GAS TRANSPORTATION AND FIELD SERVICE ASSETS

The Company owns and operates approximately 1,900 miles of gas gathering lines in proximity to its principal gas properties. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from four to fifteen years.

The Company receives fees for providing field related services. These fees are recognized as earned. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from one to six years, except for buildings which are being depreciated over ten to fifteen year periods.

During 1996 the majority of the Company's brine disposal and well servicing activities were based in Oklahoma. In December 1996, the Company sold its brine disposal and well servicing activities in Oklahoma for \$2.7 million and recorded a gain on sale of approximately \$1.2 million which is included in interest and other income. In 1994, the Company sold substantially all of its brine disposal and well servicing assets located in Appalachia for approximately \$1.8 million.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### NATURE OF BUSINESS

The Company operates in an environment with many financial and operating risks, including, but not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks of the search for, development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, and the highly competitive nature of the industry and worldwide economic conditions. The Company's ability to expand its reserve base and diversify its operations is also dependent upon obtaining the necessary capital through operating cash flow, borrowings or the issuance of additional equity.

#### MARKETABLE SECURITIES

In 1995, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under Statement No. 115, debt and marketable equity securities are required to be classified in one of three categories: trading, available-for-sale, or held to maturity. The Company's equity securities qualify under the provisions of Statement No. 115 as available-for-sale. Such securities are recorded at fair value, and unrealized holding gains and losses, net of the related tax effect, are reflected as a separate component of stockholders' equity. A decline in the market value of an available-for-sale security below cost that is deemed other than temporary is charged to earnings and results in the establishment of a new cost basis for the security. Realized gains and losses are determined on the specific identification method and are reflected in income.

## DEBT ISSUANCE COSTS

Expenses associated with the issuance of the 6% Convertible Subordinated Debentures Due 2007 are included in Other Assets on the accompanying balance sheet and are being amortized on the interest method over the term of the debentures.

## EARNINGS PER COMMON SHARE

Net income per share is computed by subtracting preferred dividends from net income and dividing by the weighted average number of common and common equivalent shares outstanding. The calculation of fully diluted earnings per share assumes conversion of convertible securities when the result would be dilutive. Outstanding options and warrants are included in the computation of net income per common share when their effect is dilutive.

## RECLASSIFICATIONS

Certain reclassifications have been made to prior period presentation to conform with current period classifications.

## (3) ACQUISITION AND DEVELOPMENT

All of the Company's acquisitions have been accounted for as purchases. The purchase prices were allocated to the assets acquired based on the fair value of such assets and liabilities at the respective acquisition dates. The acquisitions were funded by working capital, advances under a revolving credit facility and the issuance of equity.

During 1996, the Company acquired oil and gas properties, equipment and acreage from Bannon Energy, Incorporated for approximately \$37.0 million and acquired Eastern Petroleum Company for approximately \$13.7 million. The Bannon interests included 270 producing properties located in Texas, Oklahoma, New Mexico and Wyoming. Eastern Petroleum Company owned interests in oil and gas properties, equipment and acreage in Ohio. In addition, the Company acquired other interests totaling \$12.9 million during the year.

In 1995, the Company acquired oil gas properties, equipment and acreage from Transfuel, Inc. for \$21 million, which included cash and approximately \$800,000 of Common Stock, and from Parker & Parsley Petroleum Company for \$20.2 million. The Transfuel interests included developed and undeveloped properties in Ohio, Pennsylvania and New York. The Parker & Parsley interests included developed and undeveloped properties in Pennsylvania and Ohio.

In 1994, the Company acquired Red Eagle Resources Corporation for \$46.5 million. Included in this amount were 2.8 million shares of Common Stock valued at approximately \$16.9 million issued to the acquired company's shareholders. Red Eagle's assets included 370 producing wells, equipment and acreage located primarily in the Okeene Field of Oklahoma's Anadarko Basin. In addition, the Company purchased Grand Banks Energy Company for \$3.7 million and Gillring Oil Company for \$11.5 million. Grand Bank's assets included interests in 182 producing properties located in west Texas and Gillring's assets included \$5.2 million of working capital and interests in 106 producing properties located in south Texas.



## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following table presents unaudited pro forma operating results as if the transactions had occurred at the beginning of each period presented. The pro forma operating results include the following acquisitions, all of which were accounted for as purchase transactions; (i) the purchase by the Company of certain oil and gas properties from a subsidiary of Parker & Parsley Petroleum, Co., (ii) the purchase by the Company of certain oil and gas properties from Transfuel, Inc., (iii) the purchase by the Company of certain oil and gas properties from Bannon Energy Incorporated, (iv) the private placement of 1.15 million shares of Convertible Preferred Stock and the application of the net proceeds therefrom and (v) the private placement of 1.8 million shares of Common Stock and (vi) the private placement of \$55 million of 6% Convertible Subordinated Debentures Due 2007 and the application of the net proceeds therefrom.

	Year ended December 31,	
	1995	1996
	(in thousands except per share data)	
Revenues.....	\$ 69,664	\$ 92,823
Net income.....	6,808	12,481
Earnings per share.....	0.31	0.68
Total assets.....	252,442	282,547
Stockholders' equity.....	99,367	117,529

The pro forma operating results have been prepared for comparative purposes only. They do not purport to present actual operating results that would have been achieved had the acquisitions and financings been made at the beginning of each period presented or to necessarily be indicative of future results of operations.

## (4) INDEBTEDNESS

The Company had the following debt outstanding as of the dates shown. Interest rates at December 31, 1996 are shown parenthetically:

	December 31,	
	1995	1996
	(in thousands)	
Bank credit facility (6.7%).....	\$ 83,035	\$ 61,355
6% Convertible Subordinated Debentures.....	-	55,000
Other (5.9% - 7.0%).....	53	451
	83,088	116,806
Less amounts due within one year.....	53	26
	\$ 83,035	\$ 116,780

The Company maintains a \$250 million revolving bank credit facility. The facility provides for a borrowing base which is subject to semi-annual redeterminations. At December 31, 1996, the borrowing base on the credit facility was \$150 million. The facility bears interest at prime rate of LIBOR plus 0.75% to 1.25% depending upon the percentage of the borrowing base drawn. Interest is payable quarterly and the loan is payable in sixteen quarterly installments beginning February 1, 1999. A commitment fee of 3/8% of the undrawn balance is payable quarterly. It is the Company's policy to extend the term period of the credit facility annually.

As described in Note (15), the revolving bank credit facility was amended and expanded in connection with the financing of the Cometra Acquisition (the "Amended Credit Facility"). The Amended Credit Facility is secured by first priority security interests in (i) existing mortgaged oil and gas properties of the Company, including the Cometra Properties, (ii) all accounts receivable, inventory and intangibles of the Company and the subsidiaries guaranteeing the Amended Credit Facility, and (iii) all of the capital stock of the Company's direct and indirect subsidiaries. Substantially all of the assets of the Company will be pledged as collateral if, on May 15, 1997, the Borrowing Base and amounts outstanding under the Amended Credit Facility have not been reduced to \$325 million. Such security interests will be released upon the (i) reduction of the amounts outstanding under the Amended Credit Facility to \$325 million (or the then determined Borrowing Base) and (ii) issuance of \$65 million of Common Stock and/or the sale of Company assets in excess of the Borrowing Base value attributable to such assets as agreed by the lenders.

The 6% Convertible Subordinated Debentures Due 2007 (the "Debentures") are convertible at the option of the holder at any time prior to maturity into shares of the Company's Common Stock, at a conversion price of \$19.25 per share, subject to adjustment in certain events. Interest is payable semi-annually. The Debentures will mature in 2007 and are not redeemable prior to February 1, 2000. The Debentures are unsecured general obligations of the Company subordinated to all senior indebtedness, as defined.

The debt agreements contain various covenants relating to net worth, working capital maintenance and financial ratio requirements. The Company is in compliance with these various covenants as of December 31, 1996. Interest paid during the years ended December 31, 1994, 1995 and 1996 totaled \$2.8 million, \$4.9 million and \$7.5 million, respectively.

Maturities of indebtedness as of December 31, 1996 were as follows (in thousands):

1997.....	\$	26
1998.....		413
1999.....		15,354
2000.....		15,339
2001.....		15,339
Remainder.....		70,335
		-----
	\$	116,806
		=====

(5) FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES:

The Company's financial instruments include cash and equivalents, accounts receivable, accounts payable, debt obligations, commodity and interest rate futures, options, and swaps. The book value of cash and equivalents, accounts receivable and payable and short term debt are considered to be representative of fair value because of the short maturity of these instruments. The Company believes that the carrying value of its borrowings under its bank credit facility approximates their fair value as they bear interest at rates indexed to LIBOR. The Company's accounts receivable are concentrated in the oil and gas industry. The Company does not view such a concentration as an unusual credit risk. The Company had recorded an allowance for doubtful accounts of \$306,000 and \$450,000 at December 31, 1995 and 1996, respectively.

A portion of the Company's crude oil and natural gas sales are periodically hedged against price risks through the use of futures, option or swap contracts. The gains and losses on these instruments are included in the valuation of the production being hedged in the contract month and are included as an adjustment to oil and gas revenue. The Company also manages interest rate risk on its credit facility through the use of interest rate swap agreements. Gains and losses on swap agreements are included as an adjustment to interest expense.

The following table sets forth the book value and estimated fair values of the Company's financial instruments:

	December 31, 1995		December 31, 1996	
	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)			
Cash and equivalents.....	\$ 3,047	\$ 3,047	\$ 8,625	\$ 8,625
Marketable securities.....	829	953	6,966	7,658
Long-term debt.....	(83,088)	(83,088)	(116,806)	(116,806)
Commodity swaps.....	-	93	-	(1,051)
Interest rate swaps.....	-	375	-	81

At December 31, 1996, the Company had open contracts for oil and gas price swaps of 300,000 barrels and 155,000 Mcfs. The swap contracts are designed to set average prices ranging from \$22.10 to \$22.76 per barrel and \$2.04 per Mcf. While these transactions have no carrying value, their fair value, represented by the estimated amount that would be required to terminate the contracts, was a net cost of approximately \$1,051,000 at December 31, 1996. These contracts expire monthly through April 1997. The gains or losses on the Company's hedging transactions is determined as the difference between the contract price and the reference price, generally closing prices on the New York Mercantile Exchange. The resulting transaction gains and losses are determined monthly and are included in net income in the period the hedged production or inventory is sold. Net gains or (losses) relating to these derivatives for the years ended December 31, 1994, 1995 and 1996 approximated \$-0-, \$217,000 and \$(724,000) respectively.

Interest rate swap agreements, which are used by the Company in the management of interest rate exposure, is accounted for on the accrual basis. Income and expense resulting from these agreements are recorded in the same category as expense arising from the related liability. Amounts to be paid or received under interest rate swap agreements are recognized as an adjustment to expense in the periods in which they accrue. At December 31, 1996, the Company had \$60 million of borrowings subject to three interest rate swap agreements at rates of 5.25%, 5.49% and 5.64% through July 1997, October 1997 and October 1998, respectively. The interest rate swaps may be extended at the counterparties' option for two years. The agreements require that the Company pay the counterparty interest at the above fixed swap rates and requires the counterparty to pay the Company interest at the 30-day LIBOR rate. The closing 30-day LIBOR rate on December 31, 1996 was 5.53%. The fair value of the interest rate swap agreements at December 31, 1996, is based upon current quotes for equivalent agreements.

These hedging activities are conducted with major financial or commodities trading institutions which management believes entail acceptable levels of market and credit risks. At times such risks may be concentrated with certain counterparties or groups of counterparties. The credit worthiness of counterparties is subject to continuing review and full performance is anticipated.

## (6) COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims will be resolved without material adverse effect on the Company's financial position.

The Company recently received notice from two parties, each of whom claims that it is entitled to fees from the Company based upon a Yemen oil concession that they claim Red Eagle Resources Corporation received in August 1992, which was prior to the acquisition of Red Eagle by the Company. Based upon the Company's examination of the available documentation relevant to such claims, the Company believes that the claims are without merit because the claimed oil concession was never obtained in Yemen. The Company has requested further documentation from the two parties with respect to their claims but no such documentation has yet been provided. The claims are for approximately \$4.0 million in the aggregate (including the value of approximately 70,000 shares of Common Stock that would be required to be issued if the oil concession had been obtained). To date, no proceedings have been commenced with respect to either of these claims.

The Company leases certain office space and equipment under cancelable and non-cancelable leases, most of which expire within 10 years and may be renewed by the Company. Rent expense under such arrangements totaled \$202,000, \$335,000 and \$208,000 in 1994, 1995 and 1996 respectively. Future minimum rental commitments under non-cancelable leases are as follows (in thousands):

1997.....	\$	270
1998.....		270
1999.....		233
2000.....		195
2001.....		210
2002 and thereafter.....		270
	=====	
	\$	1,448
	=====	

## (7) EQUITY SECURITIES

In 1993, \$5,000,000 of 7-1/2% cumulative convertible exchangeable preferred stock (the "7-1/2% Preferred Stock") was privately placed. In 1996, the Company exercised its option and converted the 7-1/2% Preferred Stock into 576,945 shares of Common Stock.

In November 1995, the Company sold 1,150,000 shares of \$2.03 convertible exchangeable preferred stock (the "\$2.03 Preferred Stock") for \$28.8 million. The \$2.03 Preferred Stock is convertible into the Company's common stock at a conversion price of \$9.50 per share, subject to adjustment in certain events. The \$2.03 Preferred Stock is redeemable, at the option of the Company, at any time on or after November 1, 1998, at redemption prices beginning at 105%. At the option of the Company, the \$2.03 Preferred Stock is exchangeable for the Company's 8-1/8% convertible subordinated notes due 2005. The notes would be subject to the same redemption and conversion terms as the \$2.03 Preferred Stock.

In December 1995, the Company privately placed 1.2 million shares of its Common Stock for \$10.2 million to a state sponsored retirement plan. In April 1996, the Company privately placed 600,000 shares of its Common Stock to a limited number of institutional investors for approximately \$6.9 million. Warrants to acquire 40,000 shares of common stock were exercised in October 1996. Additionally, warrants to acquire 20,000 shares of Common Stock at a price of \$12.88 per share were outstanding at December 31, 1996 and will expire in May 1999.

## (8) STOCK OPTION AND PURCHASE PLAN

The Company maintains a Stock Option Plan which authorizes the grant of options of up to 2.0 million shares of Common Stock. However, no new options may be granted which would result in their being outstanding aggregate options exceeding 10% of the Company's common shares outstanding plus those shares issuable under convertible securities. Under the plan, incentive and non-qualified options may be issued to officers, key employees and consultants. The plan is administered by the Compensation Committee of the Board. All options issued under the plan vest 30% after one year, 60% after two years and 100% after three years. The following is a summary of stock option activity:

	Number of Options			Exercise Price Range Per Share
	1994	1995	1996	
Outstanding at beginning of year.....	428,983	680,483	977,149	\$3.38 - \$ 9.38
Granted.....	298,500	342,000	378,500	10.50 - 13.88
Canceled.....	(16,000)	(12,000)	(7,950)	7.00 - 10.50
Exercised.....	(31,000)	(33,334)	(115,250)	3.38 - 8.25
Outstanding at end of year.....	680,483	977,149	1,232,499	\$3.38 - \$13.88

In 1994, the stockholders approved the 1994 Outside Directors Stock Option Plan (the "Directors Plan"). Only Directors who are not employees of the Company are eligible under the Directors Plan. The Directors Plan covers a maximum of 200,000 shares. At December 31, 1996, 76,000 options were outstanding under the Directors Plan of which 16,800 were exercisable as of that date. The exercise price of the options ranges from \$7.75 to \$13.88 per share.

In 1994, the stockholders approved the 1994 Stock Purchase Plan (the "1994 Plan") which authorizes the sale of up to 500,000 shares of Common Stock to officers, directors, key employees and consultants. Under the Plan, the right to purchase shares at pricing ranging from 50% to 85% of market value may be granted. The Company had a 1989 Stock Purchase Plan (the "1989 Plan") which was identical to the 1994 Plan except that it covered 333,333 shares. Upon adoption of the 1994 Plan, the 1989 Plan was terminated. The plans are administered by the Compensation Committee of the Board. During the year ended December 31, 1996, the Company sold 100,000 unregistered shares of Common Stock to officers and outside directors for an aggregate amount of approximately \$966,000.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Corporation's two stock option plans been determined based on the fair value at the grant date for awards in 1995 and 1996 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	1995	1996
	(in thousands, except per share data)	
Net earnings-- as reported	\$4,390	\$12,615
Earnings per share-- as reported	\$ 0.31	\$ 0.69
Net earnings-- pro forma	\$4,081	\$11,996
Earnings per share--pro forma	\$ 0.28	\$ 0.64

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants: dividend yield of 1%; expected volatility of 38%; risk-free interest rate of 6%; and expected lives of 4 years.

(9) BENEFIT PLAN

The Company maintains a 401(K) Plan for the benefit of its employees. The Plan permits employees to make contributions on a pre-tax salary reduction basis. The Company makes discretionary contributions to the Plan. Company contributions for 1994, 1995 and 1996 were \$226,000, \$346,000 and \$548,000 respectively. The Company has no other employment benefit plans.

(10) INCOME TAXES

Federal income tax expense was \$139,000, \$1.8 million and \$6.8 million for the years 1994, 1995 and 1996, respectively. The current portion of the income tax provision represents alternative minimum tax currently payable. A reconciliation between the statutory federal income tax rate and the Company's effective federal income tax rate is as follows:

	1994	1995	1996
	-----	-----	-----
Statutory tax rate.....	34%	34%	34%
Realization of valuation allowance.....	(29)	(5)	-
Other.....	-	-	1
	-----	-----	-----
Effective tax rate.....	5%	29%	35%
	=====	=====	=====
Income taxes paid.....	\$ 47,500	\$ 60,000	\$590,000
	=====	=====	=====

The Company follows FASB Statement No. 109, "Accounting for Income Taxes". Under Statement 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

	December 31,	
	1995	1996
	-----	-----
Deferred tax liabilities:		
Depreciation.....	\$ 29,130	\$ 31,726
	=====	=====
Deferred tax assets:		
Net operating loss carryforwards.....	6,193	2,625
Percentage depletion carryforward.....	4,388	2,589
AMT credits and other.....	863	621
	-----	-----
Total deferred tax assets.....	11,444	5,835
Valuation allowance for deferred tax assets....	(40)	(40)
	-----	-----
Net deferred tax assets.....	\$ 11,404	\$ 5,795
	=====	=====
Net deferred tax liabilities.....	\$ 17,726	\$ 25,931
	=====	=====

Due to uncertainty as to the Company's ability to realize the tax benefit, a valuation allowance was established in 1994 for the full amount of the net deferred tax assets. In 1995, income taxes were reduced from the statutory rate of 34% by approximately \$0.3 million through realization of a portion of the valuation allowance, resulting in \$40,000 of the allowance remaining at each of December 31, 1995 and 1996.

The Company has entered into several business combinations accounted for as purchases. In connection with these transactions, deferred tax assets and liabilities of \$7.7 million and \$23.8 million respectively, were recorded. In 1996 the Company acquired Eastern Petroleum Company in a taxable business combination accounted for as a purchase. A net deferred tax liability of \$2.1 million was recorded in the transaction.

As a result of the Company's issuance of equity and convertible debt securities, it experienced a change in control during 1988 as defined by Section 382 of the Internal Revenue Code. The change in control placed limitations to the utilization of net operating loss carryovers. At December 31, 1996, the Company had available for federal income tax reporting purposes net operating loss carryovers of approximately \$7.5 million which are subject to annual limitations as to their utilization and otherwise expire between 1997 and 2010, if unused. The Company has alternative minimum tax net operating loss carryovers of \$6.6 million which are subject to annual limitations as to their utilization and otherwise expire from 1997 to 2009 if unused. The Company has statutory depletion carryover of approximately \$3.2 million and an alternative minimum tax credit carryover of approximately \$500,000. The statutory depletion carryover and alternative minimum tax credit carryover are not subject to limitation or expiration.

(11) MAJOR CUSTOMERS

The Company markets its oil and gas production on a competitive basis. The type of contract under which gas production is sold varies but can generally be grouped into three categories: (a) life-of-the-well; (b) long-term (1 year or longer); and (c) short-term contracts which may have a primary term of one year, but which are cancelable at either party's discretion in 30-120 days. Approximately 60% of the Company's gas production is currently sold under market sensitive contracts which do not contain floor price provisions. For the year ended December 31, 1996, no one customer accounted for more than 10% of the Company's total oil and gas revenues. Management believes that the loss of any one customer would not have a material adverse effect on the operations of the Company. Oil is sold on a basis such that the purchaser can be changed on 30 days notice. The price received is generally equal to a posted price set by the major purchasers in the area. The Company sells to oil purchasers on a basis of price and service.

## (12) OIL AND GAS ACTIVITIES

The following summarizes selected information with respect to oil and gas producing activities:

	Year Ended December 31,		
	1994	1995	1996
	(in thousands)		
Oil and gas properties:			
Subject to depletion.....	\$ 129,082	\$ 197,826	\$ 259,681
Not subject to depletion.....	4,291	12,247	22,838
Total.....	133,373	210,073	282,519
Accumulated depletion.....	(20,409)	(33,371)	(53,102)
Net oil and gas properties.....	\$ 112,964	\$ 176,702	\$ 229,417
Costs incurred:			
Acquisition.....	\$ 59,501	\$ 69,244	\$ 63,579
Development.....	9,518	9,968	12,536
Exploration.....	192	216	2,025
Total costs incurred.....	\$ 69,211	\$ 79,428	\$ 78,140

## (13) RELATED PARTY TRANSACTIONS

Mr. Edelman, Chairman of the Company, is also a shareholder of Snyder Oil Corporation ("SOCO"), and until his resignation in February 1997, was an executive officer of SOCO. At December 31, 1996, Mr. Edelman owned 5.7% of the Company's Common Stock. In 1995, the Company acquired SOCO's interest in certain wells located in Appalachia for \$4 million. The price was determined based on arms-length negotiations through third-party broker retained by SOCO. Subsequent to the transaction, the Company and SOCO no longer hold interests in any of the same properties.

During 1995, the Company incurred fees of \$145,000 to the Hawthorne Company in connection with acquisitions. Mr. Aikman, a director of the Company, is an executive officer and a principal owner of the Hawthorne Company. The fees were consistent with those paid by the Company to third parties for similar services.



## (14) UNAUDITED SUPPLEMENTAL RESERVE INFORMATION

The Company's proved oil and gas reserves are located in the United States. Proved reserves are those quantities of crude oil and natural gas which, upon analysis of geological and engineering data, can with reasonable certainty be recovered in the future from known oil and gas reservoirs. Proved developed reserves are those proved reserves which can be expected to be recovered from existing wells with existing equipment and operating methods. Proved undeveloped oil and gas reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage.

## QUANTITIES OF PROVED RESERVES

	Crude Oil ----- (Bbls)	Natural Gas ----- (Mcf) (in thousands)
Balance, December 31, 1993	4,539	74,563
Revisions.....	15	630
Extensions, discoveries and additions.....	15	6,605
Purchases.....	4,599	75,698
Sales.....	(79)	(1,130)
Production.....	(640)	(6,996)
	-----	-----
Balance, December 31, 1994	8,449	149,370
Revisions.....	255	(3,513)
Extensions, discoveries and additions.....	475	10,076
Purchases.....	2,618	90,575
Sales.....	(21)	(1,150)
Production.....	(913)	(12,471)
	-----	-----
Balance, December 31, 1995	10,863	232,887
Revisions.....	280	(7,545)
Extensions, discoveries and additions.....	952	16,696
Purchases.....	3,884	86,022
Sales.....	(236)	(11,235)
Production.....	(1,068)	(21,231)
	-----	-----
Proved developed reserves	14,675	295,594
	=====	=====
December 31, 1994.....	6,430	97,251
	=====	=====
December 31, 1995.....	8,880	174,958
	=====	=====
December 31, 1996.....	10,703	207,601
	=====	=====

The "Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves" (Standardized Measure) is a disclosure requirement under Statement of Financial Accounting Standards No. 69 "Disclosures about Oil and Gas Producing Activities". The Standardized Measure does not purport to present the fair market value of proved oil and gas reserves. This would require consideration of expected future economic and operating conditions, which are not taken into account in calculating the Standardized Measure.

Future cash inflows were estimated by applying year end prices to the estimated future production less estimated future production costs based on year end costs. Future net cash inflows were discounted using a 10% annual discount rate to arrive at the Standardized Measure.

## STANDARDIZED MEASURE

	As of December 31		
	1994	1995	1996
	(in thousands)		
Future cash inflows	\$ 457,048	\$ 729,566	\$ 1,393,338
Future costs:			
Production	(133,972)	(256,374)	(365,753)
Development	(52,102)	(60,554)	(86,192)
Future net cash flows	270,974	412,638	941,393
Income taxes	(59,950)	(102,108)	(271,023)
Total undiscounted future net cash flows	211,024	310,530	670,370
10% discount factor	(91,475)	(136,480)	(319,481)
Standardized measure	\$ 119,549	\$ 174,050	\$ 350,889

## CHANGES IN STANDARDIZED MEASURE

	For the year ended December 31		
	1994	1995	1996
	(in thousands)		
Standardized measure, beginning of year	\$ 53,751	\$ 119,549	\$ 174,050
Revisions:			
Prices	4,224	(4,100)	151,508
Quantities	2,240	2,267	(6,762)
Estimated future development cost	-	(5,238)	(2,971)
Accretion of discount	6,512	15,054	22,924
Income taxes	(19,624)	(24,200)	(86,095)
Net revisions	(6,648)	(16,217)	78,604
Purchases	84,836	87,741	125,871
Extensions, discoveries and additions	2,402	7,419	22,816
Production	(14,442)	(22,487)	(43,598)
Sales	(350)	(1,955)	(6,854)
Standardized measure, end of year	\$ 119,549	\$ 174,050	\$ 350,889

## (15) COMETRA ACQUISITION

Effective January 1, 1997, the Company acquired oil and gas properties located in West Texas, South Texas and the Gulf of Mexico (the "Cometra Properties") from American Cometra, Inc. ("Cometra") for a purchase price of \$385 million, subject to adjustment (the "Cometra Acquisition"). The Cometra Acquisition increases the Company's pro forma proved reserves at December 31, 1996 by 68% to 644 Bcfe and increases its Present Value by 98% to \$974 million. The Cometra Properties, located primarily in the Company's core operating areas, include 515 producing wells, and additional development and exploration potential on approximately 150,000 gross acres (90,000 net acres). In addition, the Cometra Properties include gas pipelines, a 25,000 Mcf/d gas processing plant and an above-market gas contract with a major Texas gas utility covering approximately 30% of the current production from the Cometra Properties.

The Company will finance the cash portion of the purchase price with \$221 million of borrowings through expansion of its bank credit facility (the "Amended Credit Facility") and the issuance to Cometra of a \$134 million non-interest bearing promissory note due March 31, 1997, which is secured by a bank letter of credit. The promissory note will be repaid at maturity through borrowings under the Amended Credit Facility. The Amended Credit Facility will enable the Company to obtain revolving credit loans and issue letters of credit from time to time in an aggregate amount not to exceed \$400 million initially. Availability under the Amended Credit Facility was reduced to \$300 million upon the consummation of the Offerings. The Amended Credit Facility provides for a Borrowing Base which is subject to semi-annual determinations and certain other redeterminations. Security obligations in place with the Credit Agreement were released upon the consummation of the Offerings on March 14, 1997.

The Amended Credit Facility bears interest at either the Alternate Base Rate (as defined) plus a margin ranging from 0% to 0.25% or the Eurodollar loan rate plus margin ranging from 0.625% to 1.125%. Interest is payable quarterly and the Amended Credit Facility matures in February 2002.

The Amended Credit Facility includes various covenants that require, among other things, that the Company (i) maintain a minimum consolidated tangible net worth of at least \$100 million plus 90% of the net proceeds from the Common Stock offering described below and 50% of the net proceeds from any subsequent equity offering; (ii) maintain a ratio of EBITDA to consolidated interest expense on total debt for each period of four consecutive fiscal quarters of at least 2.5 to 1.0; and (iii) not make restricted payments (defined as dividends, distributions or guarantees to third parties or the retirement, repurchase or prepayment prior to the scheduled maturity of its subordinated debt) in an aggregate amount in any one fiscal year in excess of \$5 million plus 50% of the net proceeds from equity offerings subsequent to the Common Stock offering described below and 50% of the Company's consolidated net income earned after January 1, 1997. In addition, the Amended Credit Facility will restrict the ability of the Company to dispose of assets, incur additional indebtedness, repay other indebtedness or amend other debt instruments, create liens on assets, make investments or acquisitions, engage in mergers or consolidations, make capital expenditures or engage in certain transactions with affiliates.

In January 1997, the Company filed a registration statement with the Securities and Exchange Commission as amended, the registration statement covered the sale of 4 million shares of Common Stock and \$125 million aggregate principal amount of ten year senior subordinated notes. On March 14, 1997, the Offerings were consummated and the Company received proceeds of approximately \$186 million, after deducting underwriting discounts and estimated expenses. The proceeds from the Offerings were used to repay indebtedness incurred under the Amended Credit Facility in connection with the Cometra Acquisition. The notes are guaranteed by all of the subsidiaries of the Company and each guarantor is a wholly owned subsidiary of the Company. The guarantees are full, unconditional and joint and several. Separate financial statements of each guarantor are not presented because they are included in the consolidated financial statements of the Company and management has concluded that they provide no additional benefits.

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following table presents unaudited pro forma operating results as if the Cometra Acquisition had occurred as of January 1, 1996. The pro forma operating results also include the following acquisitions, all of which were accounted for as purchase transactions: (i) the purchase by the Company of certain oil and gas properties from Bannon Energy Incorporated, (ii) the private placement of 600,000 shares of Common Stock and (iii) the private placement of \$55 million of 6% Convertible Subordinated Debentures Due 2007 and the application of the net proceeds therefrom and (iv) the conversion of the Company's 7 1/2% Convertible Exchangeable Preferred Stock into Common Stock. Additionally, the unaudited pro forma operating results give effect to the sale of 4 million shares of Common Stock and \$125 million aggregate principal amount of ten year senior subordinated notes.

	YEAR ENDED DECEMBER 31, 1996
	----- (IN THOUSANDS)
Revenues:	
Oil and gas sales.....	\$ 130,508
Field services.....	14,223
Gas transportation and marketing.....	24,326
Interest and other.....	3,386
	----- 172,443 -----
Expenses:	
Direct operating.....	39,394
Field services.....	10,443
Gas transportation and marketing.....	13,152
Exploration.....	1,460
General and administrative.....	3,966
Interest.....	30,957
Depletion, depreciation and amortization.....	44,389
	----- 143,761 -----
Earnings before income taxes.....	28,682
Income taxes.....	10,038
	-----
Net income.....	\$ 18,644 =====
Earnings per common share.....	\$ 0.80 =====

## BALANCE SHEET DATA (AT DECEMBER 31, 1996):

Cash and equivalents.....	\$ 8,625
Total assets.....	671,597
Long-term debt.....	411,756
Stockholders' equity.....	211,629

## LOMAK PETROLEUM, INC.

## INDEX TO EXHIBITS

(Item 14[a 3])

Exhibit No. -----	Description -----
3.1(a)	Certificate of Incorporation of Lomak dated March 24, 1980.(1)
3.1(b)	Certificate of Amendment of Certificate of Incorporation dated July 22, 1981.(1)
3.1(c)	Certificate of Amendment of Certificate of Incorporation dated September 8, 1982.(1)
3.1(d)	Certificate of Amendment of Certificate of Incorporation dated December 28, 1988.(1)
3.1(e)	Certificate of Amendment of Certificate of Incorporation dated August 31, 1989.(1)
3.2	Current By-Laws of Lomak.(1)
4	Specimen certificate of Lomak Petroleum, Inc. Common Stock.(1)
10.1(a)	Incentive and Non-Qualified Stock Option Plan dated March 13, 1989.(1)
10.1(b)	Advisory Agreement dated September 29, 1988 between Lomak and SOCO.(1)
10.1(c)	401(k) Plan Document and Trust Agreement effective January 1, 1989.(1)
10.1(d)	1989 Stock Purchase Plan.(1)
10.1(e)	Form of Directors Indemnification Agreement. (2)
10.1(f)	1994 Outside Directors Stock Option Plan. (3)
10.1(g)	1994 Stock Option Plan. (3)

- 10.1(h)\* \$400,000,000 Credit Agreement among Lomak Petroleum, Inc., as Borrower, and the several lenders from time to time parties hereto, including, Bank One, Texas, N.A., as Administrative Agent, The Chase Manhattan Bank, as Syndication Agent, and NationsBank of Texas, N.A, as Documentation Agent.
- 11.1\* Computation of earnings per common and common equivalent shares.
- 22\* Subsidiaries of the Registrant.
- 23.1\* Consent of Independent Public Accountants.
- 27\* Financial Data Schedule.

- 
- (1) Previously filed as Exhibit to Company's Registration Statement, Registration Statement No. 33-31558.
- (2) Incorporated by reference to the Company's Post-Effective Amendment No. 2 dated January 27, 1994.
- (3) Incorporated by reference to the Company's Post-Effective Amendment No. 4 dated May 3, 1994.

\* Filed herewith.

\$400,000,000

CREDIT AGREEMENT

AMONG

LOMAK PETROLEUM, INC  
AS BORROWER

THE SEVERAL LENDERS  
FROM TIME TO TIME PARTIES HERETO

BANK ONE, TEXAS, N.A.,  
AS ADMINISTRATIVE AGENT

THE CHASE MANHATTAN BANK,  
AS SYNDICATION AGENT

AND

NATIONSBANK OF TEXAS, N.A.,  
AS DOCUMENTATION AGENT

DATED AS OF FEBRUARY 14, 1997

CREDIT AGREEMENT-Page 1

## CREDIT AGREEMENT

-----

This Credit Agreement is made on February 14, 1997, among LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), BANK ONE, TEXAS, N.A., as Administrative Agent ("ADMINISTRATIVE AGENT"), THE CHASE MANHATTAN BANK, as Syndication Agent ("SYNDICATION AGENT"), and NATIONSBANK OF TEXAS, N.A., as Documentation Agent ("DOCUMENTATION AGENT"), and the banks, financial institutions, and other entities listed on attached SCHEDULE 1, as Lenders (individually a "LENDER" and collectively "LENDERS").

## RECITALS:

-----

A. Borrower, Lomak Operating Company, Lomak Production Company, Lomak Resources Company, Eastern Petroleum Company, Lomak Production I, L.P., and Lomak Resources, L.L.C., as borrowers (the "EXISTING BORROWERS"), Bank One, Texas, N.A., as Agent, and Bank One, Texas, N.A., NationsBank of Texas, N.A., Texas Commerce Bank National Association, and PNC Bank, National Association (the "EXISTING LENDERS"), as lenders, are parties to a Second Amended and Restated Revolving Credit and Term Loan Agreement dated as of December 20, 1995 (as amended through and including the date hereof, the "EXISTING CREDIT AGREEMENT"), pursuant to which the Existing Lenders made revolving loans (the "EXISTING LOANS") to the Existing Borrowers, payment of which is secured by liens, security interests, and other rights in oil and gas properties and other properties in Alabama, Louisiana, Michigan, Ohio, Oklahoma, Pennsylvania, Texas, and West Virginia.

B. The Lenders have agreed, subject to the satisfaction of each condition precedent set forth in SECTION 6.01 hereof, to enter into an Assignment and Assumption Agreement in the form of EXHIBIT A hereto (the "CLOSING ASSIGNMENT") effective as of the Closing Date pursuant to which (a) the Existing Lenders will sell and assign to those Lenders which are not Existing Lenders (the "NEW LENDERS"), certain undivided interests in the rights and obligations of the Existing Lenders under the Existing Credit Agreement, including, without limitation, certain interests in the Existing Loans and participation interests in letters of credit outstanding thereunder, if any (collectively, the "EXISTING RIGHTS AND OBLIGATIONS"), and (b) the New Lenders will purchase and assume such Existing Rights and Obligations from the Existing Lenders so that, after giving effect to such Closing Assignment, each Lender will hold an undivided percentage interest of the Existing Rights and Obligations equal to its Commitment Percentage (as herein defined).

C. Borrower has requested that, immediately after giving effect to the transactions contemplated by paragraph B, the Existing Credit Agreement be amended and restated in its entirety on the terms and conditions set forth herein.

D. Pursuant to this Agreement (a) Borrower will assume all obligations of the other Existing Borrowers with respect to the Existing Rights and Obligations, and as a result thereof, (i) Borrower will be the sole primary obligor for the Existing Rights and Obligations as renewed, extended, modified, and amended hereunder, and (ii) Borrower will be the sole borrower hereunder, and (b) the joint and several liability of each Existing Borrower (other than Borrower) under the Existing Credit Agreement with respect to the Existing Rights and Obligations shall not be released, but shall be carried forward and evidenced and governed by a Guaranty Agreement (as herein defined) to be executed by each Existing Borrower (other than Borrower) in favor of Lenders pursuant to which each Existing Borrower shall remain jointly and severally liable for the payment and performance of the Existing Rights and Obligations as renewed, extended, modified, and amended hereunder.

NOW, THEREFORE, in consideration of the premises, the representations, warranties, covenants and agreements contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree that upon satisfaction of each condition precedent set forth in SECTION 6.01 hereof, (a) each Lender shall enter into the Closing Assignment and



purchase and sell the interests in the Existing Rights and Obligations to be purchased or sold by it thereunder, and (b) the Existing Credit Agreement shall be amended and restated in its entirety on the terms and conditions set forth herein. It is the intention of the parties that upon satisfaction of the conditions precedent, this Agreement shall amend, restate, supersede, and replace the Existing Credit Agreement in its entirety; provided, that (a) the foregoing shall operate to renew, extend, amend, and modify the Existing Rights and Obligations, but shall not effect a novation thereof, and (b) all liens securing the Existing Rights and Obligations shall not be extinguished, but shall be carried forward and shall secure the Obligations as defined herein and as renewed, extended, amended, and modified hereby.

ARTICLE 1 - DEFINITIONS.

1.01. DEFINED TERMS. As used in this Agreement, the following terms have the respective meanings assigned them in this Article or in the sections or subsections referred to below:

"ABR LOAN" means a Loan bearing interest with reference to the Adjusted Base Rate.

"ADDITIONAL PROPERTIES" has the meaning given that term in SECTION 4.03.

"ADMINISTRATIVE AGENT" means Bank One, Texas, N.A., in its capacity as Administrative Agent for Lenders.

"ADJUSTED BASE RATE" means, for any day, a rate per annum (rounded upwards, if necessary to the next 1/16 of 1%) equal to the greater of (a) the Base Rate in effect on that day or (b) the Federal Funds Rate in effect on that day plus 1/2 of 1%; any change in the Adjusted Base Rate due to a change in the Base Rate or the Federal Funds Rate shall be effective as of the opening of business on the effective day of the change in the Base Rate or the Federal Funds Rate, respectively.

"ADVANCE" means, with respect to any Person, any loan, advance, or extension of credit to any other Person.

"AFFILIATE" means, as to any person, any other Person (other than a wholly owned Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, that Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors of that Person or (b) direct or cause the direction of the management and policies of that Person, whether by contract or otherwise.

"AGENTS" means Administrative Agent, Syndication Agent, and Documentation Agent.

"AGREEMENT" means this Credit Agreement, as amended, supplemented, or otherwise modified from time to time.

"APPLICABLE MARGIN" means, on any day, the basis points set out below, determined based upon the type of Loan and the Borrowing Base Usage on such day; PROVIDED, THAT, until the occurrence of the Trigger Event, each Applicable Margin in effect pursuant to the table below shall be increased by 50 basis points through March 31, 1997, and by 100 basis points thereafter:

BORROWING BASE USAGE

	less than 50%	50% less than 75%	over 75%
Eurodollar Loans	62.5	87.5	112.5
ABR Loans	0	0	25

"APPROVED NOTES OFFERING" means the proposed issuance by Borrower on or after the Closing Date of senior subordinated notes (a) in an aggregate principal amount not greater than \$150,000,000, (b) with a term of not less than ten years, (c) which require no amortization of principal prior to maturity, (d) are subordinated to the Obligations pursuant

to subordination provisions acceptable to Required Lenders, (e) do not provide for the accrual or payment of interest prior to default at a rate greater than 11%, (f) result in Net Cash Proceeds to Borrower upon issuance of not less than 96% of the stated principal amount thereof, and (g) are otherwise subject to terms and conditions that are similar in all material respects to those set forth in the Notes Prospectus with such changes to such terms and conditions or additional terms and conditions as Required Lenders shall approve in writing.

"AUTHORIZED OFFICER" means, as to any Person, its Chairman, President, or Chief Financial Officer duly authorized to act on behalf of that Person.

"BASE RATE" means the rate of interest per annum publicly announced from time to time by Administrative Agent as its "base rate" or "prime rate" of interest, which rate may not be the lowest, best, or most favorable rate of interest which Administrative Agent may charge on loans to its customers.

"BORROWER" means Lomak Petroleum, Inc., a Delaware corporation.

"BORROWER'S OIL AND GAS PROPERTIES" means all oil and gas properties, pipelines, gathering systems, gas processing plants, and other similar assets owned by Borrower and its Consolidated Subsidiaries, including related personal property and other fixed assets and all related easements, servitudes, and similar real property interests owned by Borrower and its Consolidated Subsidiaries.

"BORROWING" means any disbursement to Borrower under, or to satisfy the obligations of the Loan Parties under, any of the Loan Documents. Any Borrowing comprised of ABR Loans is an "ABR BORROWING", and any Borrowing comprised of Eurodollar Loans is a "EURODOLLAR BORROWING".

"BORROWING BASE" means, at the time of any Determination, the amount then in effect as determined in accordance with Article 4.

"BORROWING BASE DEFICIENCY" means, at any time, the amount by which the aggregate of all Outstanding Obligations exceeds the Borrowing Base then in effect. For purposes of determining the existence of and amount of any Borrowing Base Deficiency, Letter of Credit Outstandings will not be deemed to be outstanding hereunder to the extent they have been cash collateralized in the manner required by SECTION 3.09.

"BORROWING BASE USAGE" means at any time the quotient, expressed as a percentage, of (a) the aggregate Outstanding Obligations at such time, divided by (b) the Borrowing Base in effect at such time.

"BORROWING DATE" means any Business Day specified in a Notice of Borrowing or Request for Letter of Credit as a date on which Borrower requests a Borrowing hereunder or that an Issuing Lender issue a Letter of Credit hereunder.

"BUSINESS DAY" means any day except a Saturday, Sunday, or other day on which national banks in Fort Worth, Texas, are authorized or required by law to close and, if the applicable day relates to a Eurodollar Loan, a day on which dealings in dollar deposits are also carried on in the applicable interbank market and banks are open for business in such market.

"CAPITAL LEASE" means any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on a balance sheet of the lessee.

"CAPITAL STOCK" means any and all shares, interests, participations, or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

"CLOSING ASSIGNMENT" has the meaning given that term in the recitals hereto.

"CLOSING DATE" means the date that all conditions precedent set out in SECTION 6.01 below have been satisfied, in each case satisfactory to Agents.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations and published interpretations thereof.

"COLLATERAL" means the Mortgaged Properties and all other assets of the Loan Parties, now owned or hereafter acquired, upon which a Lien is purported to be created by any Security Document.

"COMETRA ACQUISITION" means the acquisitions by Lomak Production I, L.P., Lomak Offshore, L.P., and Lomak Pipeline Systems, L.P. of the Cometra Assets made pursuant to the Cometra Agreements.

"COMETRA AGREEMENTS" means, collectively, the Purchase and Sale Agreement dated December 31, 1996, between Cometra Energy, L.P. and Cometra Production Company, L.P., as seller, and Borrower, as buyer, and the Purchase and Sale Agreement dated December 31, 1996, between Rockland, L.P., as seller, and Borrower, as Buyer, as in effect on the date hereof.

"COMETRA ASSETS" means all assets to be acquired by Lomak Production I, L.P., Lomak Offshore, L.P., and Lomak Pipeline Systems, L.P. pursuant to the Cometra Agreements as in effect on the date hereof.

"COMETRA LETTER OF CREDIT" means the Letter of Credit issued on the Closing Date on Borrower's behalf to Cometra Production Company, L.P. and expiring on April 30, 1997.

"COMETRA MORTGAGED PROPERTIES" means the Cometra Assets which, subject to certain conditions, may be required to be mortgaged pursuant to SECTION 5.01(B) by Lomak Production I, L.P., Lomak Offshore, L.P., and Lomak Pipeline Systems, L.P., on the Closing Date to secure the Obligations, which shall be designated by Agents and shall represent no less than 90% of the Present Value of the Cometra Assets as set forth in the Cometra Reserve Report.

"COMETRA MORTGAGES" means the Mortgages, in form and substance satisfactory to Agents, executed and delivered by Lomak Production I, L.P., Lomak Offshore, L.P., and Lomak Pipeline Systems, L.P. with respect to the Cometra Mortgaged Properties as the same may be amended, supplemented, or otherwise modified from time to time.

"COMETRA RESERVE REPORT" means the Reserve Report prepared by Netherland, Sewell & Associates, Inc. dated as of December 31, 1996, and pertaining to the combined interest in the Cometra Assets of Cometra Energy, L.P. and Cometra Production Company, L.P.

"COMMITMENT" means, with respect to any Lender, its commitment to make Loans and participate in Letters of Credit hereunder in an aggregate amount outstanding at any time not in excess of the amount of its Commitment as set forth in SCHEDULE 1 hereto.

"COMMITMENT PERCENTAGE" means, with respect to any Lender at any time, the Commitment Percentage for that Lender set forth on SCHEDULE 1 hereto.

"COMMITMENT PERIOD" means the period from and including the date hereof to but not including the Termination Date or the earlier date on which the Total Commitment shall terminate as provided herein.

"COMMON STOCK OFFERING" means the proposed issuance by Borrower of 4,000,000 shares of Borrower's common stock (with up to an additional 600,000 shares, depending upon the extent to which the underwriters' over allotment option is exercised) pursuant to the Common Stock Prospectus.

"COMMON STOCK PROSPECTUS" means the Common Stock Prospectus as defined in Borrower's Form S-3 Registration Statement filed with the Securities and Exchange Commission on January 23, 1997, as amended from time to time.

"COMMONLY CONTROLLED ENTITY" means an entity, whether or not incorporated, which is under common control with Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes Borrower and which is treated as a single employer under SECTION 414 of the Code.

"CONSOLIDATED INTEREST EXPENSE" means with respect to Borrower and the Consolidated Subsidiaries on a consolidated basis for any period, the sum of (a) gross interest expense (including all cash and accrued interest expense) of Borrower and the Consolidated Subsidiaries for that period on a consolidated basis, including (i) the amortization of debt discounts, (ii) the amortization of all fees payable in connection with the occurrence of Debt to the extent included in interest expense, and (iii) the portion of any payments or accruals with respect to Capital Leases allocable to interest expense and (b) capitalized interest of Borrower and the Consolidated Subsidiaries on a consolidated basis.

"CONSOLIDATED NET INCOME" means for any period, net income of Borrower and the Consolidated Subsidiaries determined on a consolidated basis in accordance with GAAP.

"CONSOLIDATED SUBSIDIARY" or "CONSOLIDATED SUBSIDIARIES" means, for any person, at any time, any Subsidiary or other entity the accounts of which would be consolidated with those of that Person into its consolidated financial statements as of that time.

"CONSOLIDATED TANGIBLE NET WORTH" means, for any Person as of any date, the consolidated shareholder's equity of such Person and its Consolidated Subsidiaries which would be reflected on a consolidated balance sheet for such Person and its Consolidated Subsidiaries prepared as of such date in accordance with GAAP less the consolidated Intangible Assets of such Person as of such date. For purposes of this definition, "INTANGIBLE ASSETS" means the amount (to the extent reflected in determining such consolidated shareholder's equity) of all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, organization expenses, and other intangible items.

"DEBT" of any Person means at any date, without duplication, (a) all obligations of that Person for borrowed money or for the purchase price of property, (b) all obligations of that Person evidenced by bonds, debentures, notes, or other similar instruments, (c) all other indebtedness (including obligations under Capital Leases, other than usual and customary oil and gas leases) of that Person on which interest charges are customarily paid or accrued, (d) all Guarantees by that Person, (e) the unfunded or unreimbursed portion of all letters of credit issued for the account of that Person, (f) any indebtedness or other obligation secured by a Lien on the assets of such Person, whether or not assumed by such Person, and (g) all liability of that Person as a general partner of a partnership for obligations of that partnership of the nature described in (a) through (f) preceding.

"DEFAULT" means any condition or event which constitutes an Event of Default or which with the giving of notice, the lapse of time, or both, would, unless cured or waived, become an Event of Default.

"DETERMINATION" means any Periodic Determination or Special Determination.

"DETERMINATION DATE" means, for any Special Determination, the date that is 30 days after the date of the applicable Request for Determination, or with respect to Periodic Determinations, November 1 or May 1, as applicable.

"DISTRIBUTION" by any Person, means (a) with respect to any stock issued by that Person, any limited liability company interest of that Person, or any partnership interest of that Person, the retirement, redemption, purchase, re-purchase, or other acquisition for value of any stock, partnership, or limited

liability company interest, (b) the declaration or payment of any cash dividend or other distribution on or with respect to any stock, partnership, or limited liability company interest of that Person, and (c) any other payment by that Person with respect to its stock, partnership, or limited liability company interest.

"DOCUMENTATION AGENT" means NationsBank of Texas, N.A., in its capacity as Documentation Agent for Lenders.

"EBITDA" means, for any period, Consolidated Net Income for that period, PLUS, without duplication and to the extent deducted from revenues in determining Consolidated Net Income for that period, (a) the aggregate amount of Consolidated Interest Expense for that period, (b) the aggregate amount of letter of credit fees paid during that period, (c) the aggregate amount of income tax expense for that period, (d) all amounts attributable to depreciation, depletion and amortization for that period, and (e) all non-cash, extraordinary expenses during that period, and MINUS, without duplication and to the extent added to revenues in determining Consolidated Net Income for that period, all non-cash, extraordinary income during that period, in each case determined in accordance with GAAP.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereof.

"ENVIRONMENTAL LAWS" means any and all laws, rules, orders, regulations, statutes, ordinances, codes, decrees, or other legally enforceable requirement (including, without limitation, common law) of any foreign government, the United States, or any state, local, municipal or other governmental authority, regulating, relating to or imposing liability or standards of conduct concerning protection of the environment or of human health as it relates to the environment, as has been, is now, or may at any time hereafter be, in effect.

"EURODOLLAR BASE RATE" applicable to any Interest Period means the rate per annum determined by Administrative Agent (rounded upward, if necessary, to the next higher 1/64 of 1%) at which deposits in dollars are offered to Administrative Agent by first class banks in the eurodollar interbank market selected by Administrative Agent as of the first day of the Interest Period in an amount approximately equal to the principal amount of the Eurodollar Loan to which the Interest Period is to apply and for a period of time comparable to the Interest Period.

"EURODOLLAR LOAN" means a Loan bearing interest with reference to the Eurodollar Rate; each Eurodollar Loan having a different Interest Period shall be deemed to be a separate Eurodollar Loan.

"EURODOLLAR RATE" means, with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum equal to the quotient obtained (rounded upward, if necessary to the next higher 1/64 of 1%) by dividing (i) the applicable Eurodollar Base Rate by (ii) 1.00, minus the Eurodollar Reserve Percentage, adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage.

"EURODOLLAR RESERVE PERCENTAGE" means, for any day as applied to a Eurodollar Loan, that percentage (expressed as a decimal) which is in effect on that day, as prescribed by the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto for determining the maximum reserve requirement for a member bank of the Federal Reserve System, in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the Eurodollar Rate is determined or any category of extension of credit or other assets that include Eurodollar Loans).

"EVENT OF DEFAULT" means any of the events specified in SECTION 8.01.

"EXISTING CREDIT AGREEMENT" has the meaning given that term in the recitals hereto.

"EXISTING LOANS" has the meaning given that term in the recitals hereto.

"EXISTING MORTGAGE AMENDMENT" means one or more [Amendments to Mortgages], UCC-3 Amendments and other documents, instruments, and agreements in form and substance acceptable to Administrative Agent to be entered into by and among Borrower or the pertinent Subsidiaries and Bank One, Texas, N.A. in its capacity as Agent under the Existing Credit Agreement and Administrative Agent, pursuant to which the Existing Mortgages shall be modified, amended, renewed, and extended to (a) reflect the renewal, extension, amendment, and modification of the Existing Rights and Obligations pursuant to this Agreement, and (b) to secure the Obligations as defined herein.

"EXISTING MORTGAGES" means the mortgages, deeds of trust, security agreements, financing statements and assignments of production executed by Borrower and its Subsidiaries in favor of Bank One, Texas, N.A. as Agent under the Existing Credit Agreement to secure the Existing Rights and Obligations.

"EXISTING MORTGAGED PROPERTIES" means the oil and gas properties owned by Borrower and its Subsidiaries which are subject to the Liens created by the Existing Mortgages to secure the Existing Rights and Obligations.

"EXISTING RIGHTS AND OBLIGATIONS" has the meaning given that term in the recitals hereto.

"FEDERAL FUNDS RATE" means, as of any date, the rate per annum (rounded upwards, if necessary to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on that date, as published by the Federal Reserve Bank of New York on the Business Day next succeeding that date, provided, that (i) if the day for which that rate is to be determined is not a Business Day, the Federal Funds Rate for that day shall be the rate on such transactions on the next preceding Business Day, as so published on the next succeeding Business Day, and (ii) if no such rate is so published on the next succeeding Business Day, the Federal Funds Rate for that day shall be the average rate charged to Administrative Agent on that day on such transactions as determined by Administrative Agent.

"GAAP" means generally accepted accounting principles, applied on a consistent basis, as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants or in statements of the Financial Accounting Standards Board or their respective successors and which are applicable in the circumstances as of the date in question (accounting principles are applied on a "consistent basis" when the accounting principles observed in a current period are comparable in all material respects to those accounting principles applied in a preceding period).

"GOVERNMENTAL AUTHORITY" means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government.

"GUARANTEE" by any Person means any obligation, contingent or otherwise, of that Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of that Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions, by "comfort letter" or other similar undertaking of support or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect the obligee against loss in respect thereof (in whole or in part), provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"GUARANTY AGREEMENT" means the Guaranty Agreement executed and delivered by each of Borrower's Subsidiaries, substantially in the form of EXHIBIT C hereto, as amended, modified, or supplemented from time to time.

"INITIAL RESERVE REPORT" means, collectively, the 1996 Year End SEC Summary prepared by Borrower for each of its Mid-Continent Business Unit and its Appalachia Business Unit.

"INTEREST PERIOD" means, with respect to each Eurodollar Loan, the period commencing on the date that Loan is made and ending one, two, three, six, nine, or twelve months thereafter, subject to availability, as Borrower may elect, provided that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless that Business Day falls in another calendar month, in which case the Interest Period will end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of the Interest Period) will, subject to clause (iii) below, end on the last Business Day of a calendar month;

(iii) if any Interest Period includes a date on which any payment of principal of the Loan is required to be made hereunder, but does not end on that date, then (A) the principal amount of each Eurodollar Loan required to be repaid on that date shall have an Interest Period ending on that date and (B) the remainder of the Eurodollar Loan shall have an Interest Period determined as set forth above; and

(iv) No Interest Period shall extend past the Termination Date.

"INVESTMENT" means, with respect to any Person, any capital contribution to, investment in, or purchase of the stock securities of, or interests in, any other Person.

"ISSUING LENDER" means any Agent selected by Borrower, in its capacity as issuer of a Letter of Credit.

"LENDING OFFICE" means, with respect to any Lender, for each type of Loan, the Lending Office of that Lender (or of an affiliate of that Lender) designated for that type of Loan on the signature pages hereof or another office of that Lender (or of an affiliate of that Lender) as that Lender may from time to time specify to Borrower and Administrative Agent as the office at which its Loans of that type are to be made and maintained.

"LETTER OF CREDIT" means a letter of credit issued for the account of Borrower pursuant to SECTION 3.01(A).

"LETTER OF CREDIT APPLICATION" has the meaning given this term in SECTION 3.02.

"LETTER OF CREDIT OUTSTANDINGS" means, at any time, the sum of (a) the aggregate amount available for drawing under Letters of Credit then outstanding and (b) the aggregate amount of all drawings under Letters of Credit which have not been reimbursed.

"LETTER OF CREDIT PARTICIPATING INTEREST" means with respect to any Letter of Credit (a) in the case of the Issuing Lender with respect thereto, its interest in the Letter of Credit and any Letter of Credit Application relating thereto after giving effect to the granting of participating interests therein, if any, pursuant hereto and (b) in the case of each Lender, its undivided participating interest in the Letter of Credit and any Letter of Credit Application relating thereto.



"LIEN" means with respect to any asset, any mortgage, lien, pledge, charge, security interest, or encumbrance of any kind in respect of the asset. For the purposes of this Agreement, Borrower and its Subsidiaries shall be deemed to own subject to a Lien any asset which is acquired or held subject to the interest of a vendor or lessor under any conditional sale agreement, Capital Lease, or other title retention agreement relating to the asset.

"LOAN" means a loan made pursuant to SECTION 2.01, which can be either an ABR Loan or a Eurodollar Loan, and "LOANS" means ABR Loans and Eurodollar Loans and any combination thereof.

"LOAN DOCUMENTS" means this Agreement, the Notes, the Mortgages, the Letter of Credit Applications, the Security Documents, and all other certificates, documents or instruments delivered in connection with this Agreement, as they may be amended from time to time.

"LOAN PARTIES" means Borrower and each Subsidiary of Borrower which is now or hereafter becomes a party to a Loan Document.

"MAJORITY LENDERS" means at any time Lenders whose Commitment Percentages aggregate at least 66.67%.

"MATERIAL ADVERSE EFFECT" means any circumstance or event that has had or would be reasonably likely to have a material adverse effect on (a) the Cometra Acquisition, (b) the validity or enforceability of any of the Loan Documents or the rights or remedies of Administrative Agent, any other Agent, or Lenders hereunder, (c) the business, assets, property, or condition (financial or otherwise) of Borrower and its Subsidiaries taken as a whole, (d) the ability of Borrower or any Subsidiary of Borrower to perform any of its obligations or substantially all of its Obligations under the Loan Documents.

"MAXIMUM LAWFUL RATE" means, for each Lender, the maximum rate (or, if the context so permits or requires, an amount calculated at such rate) of interest which, at the time in question would not cause the interest charged on the portion of the Loans owed to that Lender at such time to exceed the maximum amount which that Lender would be allowed to contract for, charge, take, reserve, or receive under applicable law, taking into account to the extent required under applicable law, any and all relevant payments or charges under the Loan Documents. To the extent the laws of the State of Texas are applicable for purposes of determining the "Maximum Lawful Rate," such term shall mean the "indicated rate ceiling" from time to time in effect under Article 1.04, Title 79, Revised Civil Statutes of Texas, 1925, as amended, or, if permitted by applicable law and effective upon the giving of the notices required by such Article 1.04 (or effective upon any other date otherwise specified by applicable law), the "quarterly ceiling" or "annualized ceiling" from time to time in effect under such Article 1.04, whichever Administrative Agent (with the approval of Majority Lenders) shall elect to substitute for the "indicated rate ceiling," and VICE VERSA, each such substitution to have the effect provided in such Article 1.04, and Administrative Agent (with the approval of Required Lenders) shall be entitled to make such election from time to time and one or more times and, without notice to Borrower, to leave any such substitute rate in effect for subsequent periods in accordance with SUBSECTION (H)(1) of such Article 1.04.

"MORTGAGED PROPERTIES" means Borrower's Oil and Gas Properties that are now or hereafter become subject to Mortgages.

"MORTGAGES" means each mortgage, deed of trust, security agreement, financing statement, assignment, and each other document and instrument (including division and transfer orders), previously granted or hereafter granted to Administrative Agent, for the ratable benefit of each Lender, to secure repayment of the Obligations (including, without limitation, the Existing Mortgages), as amended, modified, or supplemented from time to time.

"MULTIEMPLOYER PLAN" means a Plan described in Section 4001(a)(3) of ERISA.

"NEW LENDERS" has the meaning given that term in the recitals hereto.

"NET CASH PROCEEDS" means (a) with respect to the sale, transfer, lease or other disposition of any asset by Borrower or any Subsidiary, an amount certified in reasonable detail by an Authorized Officer of Borrower to Lenders as the excess, if any, of (i) the sum of cash and cash equivalents received in connection with such sale, transfer, lease or other disposition over (ii) the sum of (A) amounts placed in escrow or held as a reserve, in accordance with GAAP, against any liabilities associated with the sale or disposition (except that, to the extent and as of the time any of the amounts is released from the reserve, the amounts shall constitute Net Cash Proceeds), and (B) the reasonable out-of-pocket expenses actually incurred by Borrower or its Subsidiary in connection with the sale, transfer, lease or other disposition, and (b) with respect to the sale or issuance of any Capital Stock by Borrower or any Subsidiary, an amount certified in reasonable detail by an Authorized Officer of Borrower to Lenders as the difference of (i) the sum of the cash and cash equivalents received in connection with the sale or issuance minus, without duplication, (ii) the underwriting discounts and commissions (if any) and other reasonable fees, out-of-pocket expenses, and other costs actually incurred by Borrower or the Subsidiary in connection with the sale or issuance and (c) with respect to the incurrence of Debt by Borrower or any Subsidiary, an amount certified in reasonable detail by an Authorized Officer of Borrower to Lenders as the excess of (i) the sum of the cash and cash equivalents received in connection with the incurrence of Debt over (ii) the reasonable fees, out-of-pocket expenses, and other costs actually incurred by Borrower or any Subsidiary in connection with the incurrence of Debt.

"NOTE" means, for each Lender, the promissory note evidencing Loans made by such Lender hereunder and any renewals, extensions, or modifications of it, and "NOTES" means all of such Notes.

"NOTES PROSPECTUS" means the Notes Prospectus as defined in Borrower's Form S-3 Registration Statement filed with the Securities and Exchange Commission on January 23, 1997, as amended from time to time through the date hereof.

"NOTICE OF BORROWING" has the meaning given that term in SECTION 2.02.

"OBLIGATIONS" means all present and future indebtedness, obligations and liabilities, and all renewals and extensions thereof, or any part thereof, of Borrower or any of its Subsidiaries to any Agent or Lender arising pursuant to the Loan Documents, any Oil and Gas Hedge Transaction permitted by SECTION 7.03(I), interest transactions permitted by SECTION 7.03(L), and all interest accrued thereon, and costs, expenses, and attorneys' fees incurred in the enforcement or collection thereof, regardless of whether the indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, liquidated, unliquidated, joint, several or joint and several.

"OIL AND GAS HEDGE TRANSACTIONS" means transactions providing for the hedging, forward sale, or swap of crude oil or natural gas by Borrower or its Subsidiaries.

"OUTSTANDING OBLIGATIONS" means, at any time, the sum of the aggregate principal amount of the Loans and the Letter of Credit Outstandings.

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA, or any entity succeeding to any or all of its functions under ERISA.

"PARTICIPATING LENDER" means with respect to any Letter of Credit, any Lender (other than the Issuing Lender with respect to such Letter of Credit) with respect to its Letter of Credit Participating Interest.

"PERIODIC DETERMINATION" means any Determination of the Borrowing Base pursuant to SECTION 4.02.

"PERMITTED ENCUMBRANCES" means with respect to any asset:

(a) Liens securing the Obligations in favor of Lenders;

(b) Minor defects in title which do not secure the payment of money and otherwise have no material adverse effect on the value or operation of oil and gas properties, and for the purposes of this Agreement, a minor defect in title shall include (i) those instances where record title to an oil and gas lease is in a predecessor in title to Borrower or any of its Subsidiaries, but where Borrower or any of its Subsidiaries, by reason of a farmout or other instrument is presently entitled to receive an assignment of its interest or other evidence of title and the appropriate Person is proceeding diligently to obtain the assignment, and (ii) easements, rights-of-way, servitudes, permits, surface leases and other similar rights in respect of surface operations, and easements for pipelines, streets, alleys, highways, telephone lines, power lines, railways, and other easements and rights-of-way, on, over or in respect of any of the properties of Borrower (or its Subsidiaries, as applicable) that are customarily granted in the oil and gas industry; so long as, with respect to any of the minor defects in title, the same are minor defects which are customary and usual in the oil and gas industry and which are customarily accepted by a reasonably prudent operator dealing with its properties;

(c) Inchoate statutory or operators' liens which are not delinquent securing obligations for labor, services, materials, and supplies furnished to oil and gas properties;

(d) Mechanic's, materialmen's, warehouseman's, journeyman's and carrier's liens, and other similar liens arising by operation of law or statute or incident to the exploration, development, operation, and maintenance of oil and gas properties, each of which arises in the ordinary course of business and is in respect of obligations that have not been outstanding more than 90 days or which are being contested in good faith by appropriate proceedings and for which adequate reserves have been maintained in accordance with GAAP;

(e) Production sales contracts, gas balancing agreements, and joint operating agreements entered into in the ordinary course of business and which do not involve any advance payments for production to be produced at a later date; provided, that the amount of all gas imbalances known to any Authorized Officer of Borrower shall have been disclosed or otherwise taken into account in the Reserve Reports delivered to Lenders hereunder;

(f) Liens for Taxes or other assessments not yet due or not yet delinquent, or, if delinquent, that are being contested in good faith in the normal course of business by appropriate action for which adequate reserves have been established;

(g) All rights to consent by, required notices to, filings with, or other actions by, Governmental Authorities in connection with the sale or conveyance of oil and gas leases or interests therein if Borrower (or its Subsidiaries, if applicable) is entitled to such consent, the same are customarily obtained subsequent to the sale or conveyance, and the appropriate Person is proceeding diligently to obtain the consent, notice or filing;

(h) The terms and provisions of any of the oil and gas leases pursuant to which Borrower (or its Subsidiaries, as applicable) derives its interests;

(i) Lease burdens payable to third parties which are deducted in the calculation of discounted present value in the Reserve Reports including, without limitation, any royalty, overriding royalty, net profits interest, production payment, carried interest, or reversionary working interest and which have been disclosed to Administrative Agent in writing; PROVIDED, HOWEVER, that Borrower shall not be required to disclose the lease burdens unless they are not customarily and usually found in the oil and gas industry or unless they obligate Borrower, or a Subsidiary, as applicable, in a fashion not customarily and usually found in the oil and gas industry;

(j) All applicable laws, rules, and orders of Governmental Authorities having jurisdiction of the affairs of Borrower or a Subsidiary; and

(k) Liens securing Debt incurred to finance the acquisition of the assets which are the subject of the Liens to the extent such Debt is permitted by SECTION 7.03(B)(2).

"PERMITTED INVESTMENTS" means, with respect to Borrower and its Subsidiaries:

(a) Investments by Borrower in its Subsidiaries or by its Subsidiaries in other Subsidiaries or in Borrower;

(b) Investments in (1) direct obligations of the United States or any agency thereof with maturities of one year or less from the date of acquisition; (2) commercial paper of a domestic issuer rated at least "A-1" by Standard & Poor's Corporation or "P-1" by Moody's Investor Service, Inc.; (3) certificates of deposit with maturities of one year or less from the date of acquisition issued by any commercial bank which is a member of the Federal Reserve System and has combined capital and surplus and undivided profits of not less than \$1,000,000,000; (4) Capital Stock, obligations, or securities received in settlement of debts (created in the ordinary course of business) owing to Borrower or any Subsidiary; and (5) Oil and Gas Hedge Transactions permitted by SECTION 7.03(I); and

(c) After the occurrence of the Trigger Event, Investments in Capital Stock of publicly traded companies, provided, THAT, the aggregate cost of all Investments which are outstanding pursuant to this clause (c) at any time shall not exceed an amount equal to 10% of the Borrowing Base in effect at such time.

"PERSON" means an individual, corporation, partnership, association, business trust, joint stock company, trust, unincorporated association, joint venture, or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"PLAN" means, at a particular time, any employee benefit pension plan which is subject to Title IV of ERISA and in respect of which Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at that time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PLEDGE AGREEMENT" means the Pledge Agreement executed and delivered by Borrower and its Subsidiaries, as appropriate, substantially in the form of EXHIBIT D hereto, as amended, modified, or supplemented from time to time, pursuant which such Person will pledge 100% of the Capital Stock of Borrower's Subsidiaries to secure the Obligations.

"PRESENT VALUE" means pre-tax value, discounted at 10%, of future net cash flows from estimated proved reserves, calculated holding prices and costs constant at amounts in effect on the date of the Reserve Report (unless such price or costs are subject to change pursuant to contractual provisions) and otherwise in accordance with the Securities and Exchange Commission's rules for inclusion of oil and gas reserve information in financial statements filed with the Commission.

"PROHIBITED TRANSACTION" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

"REPORTABLE EVENT" means any of the events set forth in Section 4043(b) of ERISA, other than those events as to which the thirty day notice period is waived under subsections .13, .14, .16, .18, .19, or .20 of PBGC Reg. ss.2615.

"REQUEST FOR DETERMINATION" means Borrower's or Required Lenders' request for a Special Determination of the Borrowing Base made pursuant to SECTIONS 4.03 or 4.04.

"REQUEST FOR LETTER OF CREDIT" has the meaning given that term in SECTION 3.02.

"REQUIRED LENDERS" means, at any time, Lenders whose Commitment Percentages aggregate at least 75%.

"RESERVE REPORT" means an engineering analysis of Borrower's Oil and Gas Properties (or properties proposed to be acquired by Borrower or one or more of its Subsidiaries) in form and substance acceptable to Required Lenders prepared by independent petroleum engineers acceptable to Required Lenders in accordance with customary and prudent practices in the petroleum engineering industry and Financial Accounting Standards Board Statement 69, which designates the owner of each asset that is the subject of the Reserve Report.

"RESTRICTED PAYMENT" means (a) any Distribution by Borrower or any Subsidiary of Borrower to any Person other than Borrower or another wholly-owned Subsidiary of Borrower, (b) the issuance of a Guarantee by Borrower or a Subsidiary with respect to any Debt or other obligation of Borrower or any Subsidiary, and (c) the retirement, redemption, or prepayment prior to the scheduled maturity by Borrower or any Subsidiary of Borrower of its Subordinated Debt.

"ROLLOVER NOTICE" has the meaning given that term in SECTION 2.07.

"SECURITY AGREEMENT" means the Security Agreement executed and delivered by Borrower and its Subsidiaries, substantially in the form of EXHIBIT E hereto, as amended, modified, or supplemented from time to time, pursuant to which Borrower and its Subsidiaries will pledge all their accounts receivable, inventory, equipment, and intangibles to secure the Obligations.

"SECURITY DOCUMENTS" means the collective reference to the Guaranty Agreement(s), the Pledge Agreement(s), the Security Agreement(s), the Mortgages, and all other security documents hereafter delivered to Administrative Agent granting a Lien on any asset or assets of any Person to secure the Obligations and liabilities of Borrower hereunder and under any of the other Loan Documents or to secure any guarantee of any the obligations and liabilities.

"SENIOR DEBT" means, at any time outstanding, all Debt of Borrower and its Subsidiaries except Subordinated Debt.

"SPECIAL ACCOUNTS" means a Person's revenue distribution accounts and other accounts at a Lender which are not solely for the benefit of that Person; PROVIDED, THAT accounts for the benefit of Borrower and one or more of its Subsidiaries or for one or more Subsidiaries shall not be a "Special Account" for purposes of this Agreement.

"SPECIAL DETERMINATION" means any determination of the Borrowing Base pursuant to SECTIONS 4.03 or 4.04.

"SUBORDINATED DEBT" means Debt incurred by Borrower, the repayment of which is subordinate (in a manner acceptable to Required Lenders, as evidenced by their written approval) to Borrower's repayment of the Obligations, including (a) notes created upon the exchange of Borrower's convertible exchangeable preferred stock outstanding as of the Closing Date, (b) Debt under Borrower's 6% convertible subordinated debentures due 2007, and (c) Debt incurred by Borrower in accordance with the Approved Notes Offering.

"SUBSIDIARY" means, for any Person, any corporation, partnership, limited liability company, or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions (including that of a general partner) are at the time directly or indirectly owned, collectively, by that Person and any Subsidiaries of that Person.

"SYNDICATION AGENT" means The Chase Manhattan Bank, in its capacity as Syndication Agent for Lenders.

"TAXES" means all taxes, assessments, filing or other fees, levies, imposts, duties, deductions, withholdings, stamp taxes, interest equalization taxes, capital transaction taxes, foreign exchange taxes or other charges, or other charges of any nature whatsoever, from time to time or at any time imposed by law or any federal, state or local governmental agency. "TAX" means any one of the foregoing.

"TERMINATION DATE" means February 14, 2002.

"TOTAL COMMITMENT" means the Commitments of Lenders in an initial aggregate amount of \$400,000,000, as that amount may be reduced from time to time pursuant to the terms of this Agreement.

"TOTAL DEBT" means, at any time outstanding, all Debt of Borrower and its Subsidiaries.

"TRIGGER EVENT" means the occurrence of all of the following: (a) the reduction in the Borrowing Base to \$325,000,000 or less, (b) the simultaneous repayment of the principal of outstanding Loans in an amount sufficient to eliminate any Borrowing Base Deficiency resulting from such reduction in the Borrowing Base, and (c) the receipt by Borrower or any of its Subsidiaries of \$75,000,000 representing either, or a combination of, (i) Net Cash Proceeds from the Common Stock Offering, and/or (ii) Net Cash Proceeds from the sale or other disposition of assets (excluding sales of Hydrocarbons produced in the ordinary course of business) in excess of the Borrowing Base value attributable to the assets sold as established by Required Lenders in their sole discretion.

"UNUSED AVAILABILITY" means, at any time during the Commitment Period, the remainder of (i) the Borrowing Base at that time, minus (ii) the Outstanding Obligations.

1.02. OTHER DEFINITIONAL PROVISIONS. Other terms are defined within this agreement. All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof", "herein", and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Article and Section references pertain to this Agreement. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. All petroleum terms used herein have the meanings given them from time to time and at the time in question by the Society of Professional Engineers of the American Institute of Mining Engineers. Terms used herein that are defined in the Uniform Commercial Code as adopted by the State of Texas, unless otherwise defined herein, shall have the meanings specified in the Uniform Commercial Code as adopted by the State of Texas.

#### ARTICLE 2 - AMOUNT AND TERMS OF COMMITMENTS.

2.01. COMMITMENTS. (a) Subject to the terms and conditions hereof, each Lender severally agrees to make revolving loans (the "LOANS") to Borrower from time to time during the Commitment Period in an aggregate principal amount not to exceed at any one time outstanding the amount of that Lender's Commitment reduced by an amount equal to that Lender's Participating Interests in Letters of Credit then outstanding; PROVIDED, THAT, no Lender will make Loans if, after giving effect thereto, the Outstanding Obligations would exceed the lesser of (i) the Total Commitment or (ii) the Borrowing Base then in effect. During the Commitment Period, Borrower may use the Commitments by borrowing, prepaying the Loans in whole or in part, and reborrowing all in accordance with the terms and conditions hereof.

(b) The Loans may be outstanding as ABR Loans or Eurodollar Loans or a combination thereof, as determined by Borrower and notified to Administrative Agent in accordance with SECTIONS 2.02 and 2.07; PROVIDED, THAT, no Loan shall be made as a Eurodollar Loan after the day that is one month before the Termination Date. Each type of Loan shall be made and maintained at each Lender's Lending Office for that type of Loan. The failure of any Lender to make any requested Loan to be made by it on the

Borrowing Date specified for that Loan shall not relieve the other Lenders of their obligation (if any) to make Loans on that date, but no Lender shall be responsible for the failure of the other Lenders to make Loans to be made by the other Lender. Each Borrowing shall (i) be in a minimum principal amount of \$1,000,000 or any larger integral multiple of \$100,000 (except that any ABR Loan may be in the amount of the unused portion of the Total Commitment) and (ii) be made from each Lender ratably in accordance with its respective Commitment Percentage. Notwithstanding any provision of this Agreement or the Loan Documents to the contrary, on the Closing Date and continuously until repayment in full of all Loans or the termination of this Agreement, whichever occurs first, there shall be and remain outstanding Loans of not less than \$1,000, the balance of which may not be prepaid.

2.02. PROCEDURE FOR BORROWING. (a) To request a Borrowing hereunder, Borrower shall hand deliver or telecopy to Administrative Agent a Notice of Borrowing in the form of EXHIBIT F hereto (a "NOTICE OF BORROWING") prior to 1:00 p.m. (Fort Worth, Texas time) at least one Business Day before the requested Borrowing Date of each ABR Borrowing, and at least three Business Days before the Borrowing Date of each Eurodollar Borrowing. Each Notice of Borrowing shall specify (1) the Borrowing Date; (2) the aggregate amount of the Borrowing requested; (3) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing, and (4) in the case of a Eurodollar Borrowing, the duration of the Interest Period applicable thereto. Administrative Agent shall promptly notify each Lender of Borrower's request, and not later than 12:00 noon (Fort Worth, Texas time), on the Borrowing Date, each Lender will make available to Administrative Agent at 500 Throckmorton Street, Fort Worth, Texas 76102, in immediately available funds, that Lender's Commitment Percentage of the aggregate amount of such Borrowing. After Administrative Agent's receipt of these funds, not later than 2:00 p.m. (Fort Worth, Texas time) on the Borrowing Date and upon fulfillment of the applicable conditions set forth in Article 6, Administrative Agent will make the proceeds of such Borrowing available to Borrower in immediately available funds by crediting the amount thereof to Borrower's account with Administrative Agent.

(b) All notices given by Borrower under this SECTION 2.02 shall be irrevocable and shall be given not later than 1:00 p.m. (Fort Worth, Texas time) on a day which is not less than the number of Business Days specified above for the notice.

2.03. NOTES. (a) All Loans made by each Lender shall be evidenced by, and repaid with interest in accordance with a single promissory note of Borrower (a "NOTE"), which shall be (i) in substantially the form of attached EXHIBIT B, duly completed; (ii) be dated the date hereof; (iii) be in a face amount equal to that Lender's Commitment; (iv) be payable to the order of that Lender for the account of its applicable Lending Office; and (v) bear interest in accordance with SECTION 2.04 hereof. Notwithstanding the principal amount of each Lender's Note as stated on the face thereof, the amount of principal actually owing on that Lender's Note at any given time shall be the aggregate of that Lender's Loans made to Borrower, less all payments of principal actually received by such Lender. The Loans shall mature on the Termination Date.

(b) Simultaneously with the execution of this Agreement, Administrative Agent shall deliver to each Lender the Note payable to that Lender referenced in SECTION 2.03(A). Each Lender may endorse (and prior to any transfer of its Note shall endorse) on the schedule attached to the Note held by that Lender appropriate notations to evidence the date and amount of each Loan made by it, the Interest Period applicable thereto, and the date and amount of each payment of principal of any Loan made by Borrower with respect thereto, PROVIDED, THAT, the failure by any Lender to so endorse its Note shall not affect the liability of Borrower for the repayment of all amounts outstanding under the Note together with interest thereon. Each Lender is hereby irrevocably authorized by Borrower to endorse its Note and to attach to and make a part of any Note a continuation of any such schedule as required.

2.04. INTEREST RATES AND PAYMENT DATES. Borrower shall pay interest to Administrative Agent for the account of each Lender on the outstanding and unpaid principal amount of that Lender's Loans made under this Agreement at a rate per annum as follows:

(a) For each ABR Loan, at a rate equal to the sum of the Adjusted Base Rate in effect from day to day plus the Applicable Margin, PROVIDED THAT in no event will the rate charged hereunder or under any Note exceed the Maximum Lawful Rate. Interest which accrues on each ABR Loan shall be payable in arrears on the first day of January, April, July, and October of each year.

(b) For each Eurodollar Loan, for the Interest Period applicable thereto, at a rate equal to the sum of the Eurodollar Rate plus the Applicable Margin, PROVIDED THAT in no event will the rate charged hereunder or under any Note exceed the Maximum Lawful Rate. Interest which accrues on each Eurodollar Loan shall be payable in arrears on the expiration of each applicable Interest Period and, in the case of any Eurodollar Loan with an Interest Period of longer than three months, at the expiration of each three-month period during such Interest Period.

(c) Administrative Agent shall determine each interest rate applicable to the Loans in accordance with the terms hereof. Administrative Agent shall promptly notify Borrower and Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

(d) Notwithstanding the foregoing, if at any time the rate of interest calculated with reference to the Adjusted Base Rate or the Eurodollar Rate hereunder (the "CONTRACT RATE") is limited to the Maximum Lawful Rate, any subsequent reductions in the contract rate shall not reduce the rate of interest on the affected Loan below the Maximum Lawful Rate until the total amount of interest accrued equals the amount of interest which would have accrued if the contract rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of a Note, the total amount of interest paid or accrued on such Note is less than the amount of interest which would have accrued if the contract rate had at all times been in effect with respect thereto, then at that time, to the extent permitted by law, Borrower shall pay to the holder of the Note an amount equal to the difference between (i) the lesser of the amount of interest which would have accrued if the contract rate had at all times been in effect and the amount of interest which would have accrued if the Maximum Lawful Rate had at all times been in effect, and (ii) the amount of interest actually paid on such Note.

(e) Any change in the interest rate on a Loan resulting from a change in the Adjusted Base Rate or the Eurodollar Reserve Percentage shall be effective as of the opening of business on the Business Day on which the change becomes effective. Interest on the unpaid principal of (i) each Eurodollar Loan shall be calculated on the basis of the actual days elapsed in a year consisting of 360 days (except to the extent that such calculation would result in a usurious rate, in which case a year consisting of 365 or 366 days, as the case may be, shall be used), and (ii) each ABR Loan shall be calculated on the basis of the actual days elapsed in a year consisting of 365 days or 366 days, as the case may be.

(f) Any overdue principal of and, to the extent permitted by law, overdue interest on any Loan (after giving effect to all grace periods) shall bear interest payable on demand, for each day until paid at a rate per annum equal to the lesser of (i) the sum of the Adjusted Base Rate plus (x) 5% until the occurrence of the Trigger Event and (y) 2% after the occurrence of the Trigger Event; and (ii) the Maximum Lawful Rate.

2.05. NON-RECEIPT OF FUNDS BY ADMINISTRATIVE AGENT. (a) Unless Administrative Agent receives written notice from a Lender prior to the Borrowing Date applicable to a Borrowing that such Lender will not make the amount that would constitute its Commitment Percentage of the Borrowing, available to Administrative Agent, Administrative Agent may assume that Lender will make the funds available to Administrative Agent on the Borrowing Date, and Administrative Agent may, but shall not be obligated to, in reliance upon that assumption, make available to Borrower on the Borrowing Date a corresponding amount. If such Lender has not made the funds available to Administrative Agent, by the required time on the applicable Borrowing Date, that Lender agrees to repay to Administrative Agent, immediately on demand, the corresponding amount together with interest thereon, for each day from the date the amount is made available to Borrower until the date the amount is repaid to Administrative Agent, at the Federal



Funds Rate for three Business Days and thereafter at the Adjusted Base Rate. If such Lender shall repay to Administrative Agent the corresponding amount, the amount so repaid shall constitute such Lender's Loan for purposes of this Agreement. If such Lender does not pay the corresponding amount immediately upon Administrative Agent's demand therefor, Administrative Agent shall promptly notify Borrower, and Borrower shall immediately pay the corresponding amount to Administrative Agent with interest thereon, for each day from the date the amount is made available to Borrower until the date the amount is repaid to Administrative Agent, at the rate of interest applicable at the time to the proposed Loan.

(b) Unless Administrative Agent receives notice from Borrower prior to the date on which any payment is due to Lenders hereunder that Borrower will not make the payment in full, Administrative Agent may assume that Borrower has made the payment in full to Administrative Agent on that date, and Administrative Agent in its sole discretion may, but is not be obligated to, in reliance upon this assumption, cause to be distributed to each Lender on that due date an amount equal to the amount then due that Lender. If and to the extent Borrower does not make the payment in full to Administrative Agent, each Lender shall repay to Administrative Agent immediately on demand the amount distributed to that Lender together with interest thereon, for each day from the date the amount is distributed to such Lender until the date the Lender repays the amount to Administrative Agent, at the Federal Funds Rate for three Business Days and thereafter at the Adjusted Base Rate.

2.06. USE OF PROCEEDS. Subject to the satisfaction of each condition precedent set forth in SECTION 6.01 hereof, all Loans and Letters of Credit outstanding under the Existing Credit Agreement shall be deemed to be outstanding hereunder and shall constitute Loans and Letter of Credit Outstandings hereunder. The proceeds of the Loans made on and after the Closing Date shall be used (a) to refinance the indebtedness outstanding under the Existing Credit Agreement, (b) to purchase the Cometra Assets, (c) for the payment of capital expenditures, drilling costs, and other expenses incurred by Borrower and its Subsidiaries in the further development and exploration of Borrower's Oil and Gas Properties, (d) to purchase additional oil and gas properties, (e) for working capital and general corporate purposes, but only to the extent that the use of proceeds for these purposes would be permitted under the terms of this Agreement, (f) to fund reimbursement obligations with respect to Letters of Credit, and (g) for Permitted Investments, but excluding Capital Stock of publicly traded companies. Borrower assumes all obligations of the other Existing Borrowers with respect to the Existing Rights and Obligations.

2.07. CONVERSIONS AND RENEWALS. Borrower may elect from time to time to convert all or a part of one type of Loan into another type of Loan or to renew all or part of a Loan by giving Administrative Agent written notice thereof by 12:00 noon (Fort Worth, Texas time) at least one Business Day before the conversion into an ABR Loan and at least three Business Days before the conversion into or renewal of a Eurodollar Loan, specifying: (a) the renewal or conversion date; (b) the amount of the Loan to be converted or renewed; and (c) in the case of conversions, the type of Loan to be converted into; and (d) in the case of renewals of or a conversion into Eurodollar Loans, the duration of the Interest Period applicable thereto; provided that (i) the minimum principal amount of all Eurodollar Loans outstanding and subject to the same Interest Period after a renewal or conversion shall be \$1,000,000 or any larger integral multiple of \$100,000; and (ii) Eurodollar Loans can be converted to ABR Loans only on the last day of the Interest Period applicable thereto. All notices given by Borrower under this SECTION 2.07 shall be irrevocable and shall be in the form of EXHIBIT G hereto (a "ROLLOVER NOTICE"). If Borrower fails to give Administrative Agent the notice as specified above for the renewal or conversion of a Eurodollar Loan prior to the end of the Interest Period with respect thereto, that Eurodollar Loan shall automatically be converted into an ABR Loan on the last day of the Interest Period for the Loan.

2.08. LIMITATION ON NUMBER OF EURODOLLAR LOANS. There may be no more than an aggregate of ten Interest Periods applicable to outstanding Eurodollar Loans in effect at any time, unless otherwise agreed by Lenders.

2.09. PREPAYMENTS. (a) Borrower may, without premium or penalty, upon one Business Days' prior written notice to Administrative Agent, prepay the Notes, in whole or in part, with accrued interest

to the date of the prepayment on the amount prepaid, provided that (i) each prepayment of less than the full outstanding principal balance of the Notes shall be in a minimum amount equal to \$1,000,000 or any larger integral multiple of \$100,000; and (ii) if Borrower prepays the principal of any Eurodollar Loan on any date other than the last day of the Interest Period applicable thereto, Borrower shall also pay to Lenders the amounts specified in SECTION 10.06. Upon receipt of any prepayments, Administrative Agent will promptly thereafter cause to be distributed the prepayment to each Lender for the account of its applicable Lending Office in the proportion that each Lender's Loan to which the prepayment applies bears to the total amount of all Lenders' Loans to which the prepayment applies.

(b) Borrower shall make a mandatory prepayment on the Loans (i) simultaneously with any reduction in the Borrowing Base pursuant to SECTION 4.05 hereof in an amount sufficient to eliminate any Borrowing Base Deficiency resulting from such prepayment, and (ii) at each other time required by SECTION 4.06 hereof as a result of any Borrowing Base Deficiency.

(c) Any voluntary prepayment of a Eurodollar Loan hereunder shall be (i) made together with interest accrued (through the date of the prepayment) on the principal amount prepaid and (ii) applied first to accrued interest and then to principal.

2.10. MANNER AND APPLICATION OF PAYMENTS. (a) All payments of principal of, and interest on, any Note shall be made by Borrower to Administrative Agent before 1:00 p.m. (Fort Worth, Texas time), in federal or other immediately available funds, at Administrative Agent's office at 500 Throckmorton Street, Fort Worth, Texas 76102, for the account of the applicable Lending Office of each Lender. Should the principal of, or any installment of the principal or interest on, any Note, or any commitment fee, become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day. Whenever any payment to be made under this Agreement or under any Note shall be stated to be due on a day other than a Business Day, the payment shall be made on the next succeeding Business Day, and the extension of time shall be included in the computation of the payment of interest and the commitment fee, as the case may be, except, in the case of a Eurodollar Loan, if the result of the extension would be to extend the payment into another calendar month, the payment shall be made on the immediately preceding Business Day. All payments made under the Loan Documents shall be credited, to the extent of the amount thereof, in the following manner: (i) first to fees, costs and expenses which Borrower has agreed to pay under the Loan Documents; (ii) second, against the amount of interest accrued and unpaid on the Notes as of the date of the payment; (iii) third, against all principal (if any) due and owing on the Notes as of the date of the payment; (iv) fourth, as a prepayment of outstanding ABR Loans under the Notes; (v) fifth, as a prepayment of outstanding Eurodollar Loans under the Notes; and (vi) sixth, as a prepayment of any remaining Obligation. Subject to the foregoing, Borrower shall select ABR Loans and Eurodollar Loans to be repaid in a manner designated to minimize the loss to each Lender, if any, resulting from the payments; PROVIDED, HOWEVER, that, if Borrower fails to select the ABR Loans and Eurodollar Loans to which the payments are to be applied, or if an Event of Default has occurred and is continuing at the time of the payment, then each Lender shall be entitled to apply the payment to ABR Loans and Eurodollar Loans in the manner it shall deem appropriate.

(b) On the Business Day of receipt by Administrative Agent, if Administrative Agent's receipt occurs before 1:00 p.m. (Fort Worth, Texas time), Administrative Agent will promptly thereafter cause to be distributed, on the same Business Day, (1) the payments of principal and interest in like funds to each Lender for the account of its applicable Lending Office pro rata according to the respective outstanding principal amounts of the Loans to which the payment applies then held by Lenders and (2) other fees payable to any Lender to be applied in accordance with the terms of this Agreement. All payments received by Administrative Agent after 1:00 p.m. (Fort Worth, Texas time) will be distributed promptly by Administrative Agent, and in no event later than 2:00 p.m. (Fort Worth, Texas time) of the next succeeding Business Day. Borrower authorizes each Lender, if and to the extent payment is not made when due under this Agreement or under any Note, to charge from time to time against any account of Borrower with that Lender other than a Special Account any amount as due.

2.11. VOLUNTARY REDUCTION OF COMMITMENT. Borrower may, by notice to Administrative Agent five Business Days prior to the effective date of any such reduction, reduce the Total Commitment (and thereby reduce the Commitment of each Bank ratably) in amounts not less than \$1,000,000 and in any amount which is an integral multiple of \$100,000. On the effective date of any such reduction, Borrower shall, to the extent required as a result of such reduction, make a principal prepayment on the Loans in an amount sufficient to cause the Outstanding Obligations to be equal to or less than the Total Commitment as thereby reduced. Notwithstanding the foregoing, Borrower shall not be permitted to voluntarily reduce the Total Commitment to an amount less than the Letter of Credit Outstandings.

ARTICLE 3 - LETTERS OF CREDIT.  
 - - - - -

3.01. LETTERS OF CREDIT. (a) Subject to the terms and conditions hereof, the Issuing Lender selected by Borrower, in reliance on the agreements of the other Lenders set forth in SECTION 3.04(A), agrees to issue letters of credit ("LETTERS OF CREDIT") for the account of Borrower on any Business Day during the Commitment Period in such form as may be approved from time to time by the Issuing Lender; PROVIDED that Issuing Lender shall not issue any Letter of Credit if, after giving effect to the issuance and after giving effect to any Borrowing requested to be made or Letters of Credit requested to be issued on that date, (i) the Letter of Credit Outstandings would exceed \$150,000,000 through the earlier of (A) April 30, 1997, or (B) any earlier cancellation, termination, or payment of the Cometra Letter of Credit, and \$100,000,000 thereafter or (ii) the Outstanding Obligations would exceed the lesser of (x) the Total Commitment or (y) the Borrowing Base then in effect. Each Letter of Credit shall (i) be issued to support obligations of Borrower or any of its Subsidiaries contingent or otherwise, which finance the working capital and business needs of Borrower and its Subsidiaries, and (ii) shall expire no later than the earlier of (x) one year after the date of issuance or (y) five Business Days prior to the Termination Date. Each Letter of Credit shall be denominated in dollars.

(b) Each Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits (1995 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time, and, to the extent not inconsistent therewith, the laws of the State of Texas.

(c) The Issuing Lender shall not at any time be obligated to issue any Letter of Credit hereunder if the issuance would conflict with, or cause the Issuing Lender or any Participating Lender to exceed any limits imposed by, any applicable law.

3.02. PROCEDURE FOR ISSUANCE OF LETTERS OF CREDIT. Borrower may from time to time request that the Issuing Lender issue a Letter of Credit by delivering to the Issuing Lender and Administrative Agent at their respective addresses for notices specified herein a Request for Letter of Credit in the form of EXHIBIT H hereto, together with a letter of credit application in the Issuing Lender's then customary form (a "LETTER OF CREDIT APPLICATION") completed to the satisfaction of the Issuing Lender, and the other certificates, documents, and other papers and information as may be customary and as the Issuing Lender may reasonably request. Upon receipt of any Letter of Credit Application, the Issuing Lender will process the Letter of Credit Application and the certificates, documents, and other papers and information delivered to it in connection therewith in accordance with its customary procedures and, upon receipt by the Issuing Lender of confirmation from Administrative Agent that issuance of the Letter of Credit will not contravene SECTION 3.01, the Issuing Lender shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Lender be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Letter of Credit Application therefor and all certificates, documents, and other papers and information relating thereto) by issuing the original of the Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Lender and Borrower. The Issuing Lender shall furnish a copy of the Letter of Credit to Borrower and Administrative Agent promptly following the issuance thereof, and, thereafter, Administrative Agent shall promptly furnish a copy thereof to Lenders.

3.03. FEES, COMMISSIONS, AND OTHER CHARGES. (a) Borrower shall pay to Administrative Agent, for the account of the Issuing Lender and the Participating Lenders, a letter of credit commission with respect to each Letter of Credit on the average daily aggregate amount available to be drawn under such Letter of Credit during the relevant period equal to the greater of (x) \$500 or (y) an amount calculated for the period from the date the Letter of Credit is issued to the date upon which the payment is due under this SECTION 3.03 (and, thereafter, from the date of prior payment under this SECTION 3.03 to the date upon which the payment is due under this section) at a rate per annum equal to the Applicable Margin in effect on the date such payment is due with respect to Eurodollar Loans MINUS .125%, based upon the actual number of days that such Letter of Credit is outstanding. Borrower also shall pay to Administrative Agent, for the account of the Issuing Lender, a letter of credit commission with respect to each Letter of Credit in an amount equal to .125% per annum of the stated amount of the Letter of Credit, based upon the actual number of days that such Letter of Credit is outstanding. The Letter of Credit commissions payable pursuant to the first sentence of this section shall be payable quarterly in arrears on the first day of each January, April, July, and October, commencing April 1, 1997, and on the Termination Date. The letter of credit commissions payable pursuant to the second sentence of this section shall be payable in arrears on the first day of each January, April, July, and October, commencing April 1, 1997, on the date such Letter of Credit is extended, and on the Termination Date.

(b) In addition to the foregoing fees and commissions, Borrower shall pay or reimburse the Issuing Lender for all normal and customary costs and expenses as are incurred or charged by the Issuing Lender in issuing, effecting payment under, amending, or otherwise administering any Letter of Credit.

(c) Administrative Agent shall, promptly following its receipt thereof, distribute to the Issuing Lender and the Participating Lenders all fees and commissions received by Administrative Agent for their respective accounts pursuant to this subsection.

3.04. LETTER OF CREDIT PARTICIPATION. (a) Effective on the date of issuance of each Letter of Credit (including, without limitation, each Existing Letter of Credit which is deemed issued on the Closing Date), the Issuing Lender irrevocably agrees to grant and hereby grants to each Participating Lender, and each Participating Lender irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Lender, on the terms and conditions hereinafter stated, for the Participating Lender's own account and risk, an undivided interest equal to the Participating Lender's Commitment Percentage in the Issuing Lender's obligations and rights under each Letter of Credit issued by the Issuing Lender and the amount of each draft paid by the Issuing Lender thereunder. Each Participating Lender unconditionally and irrevocably agrees with the Issuing Lender that, if a draft is paid under any Letter of Credit for which the Issuing Lender is not reimbursed in full by Borrower in accordance with the terms of this Agreement, the Participating Lender shall pay to Administrative Agent, for the account of the Issuing Lender, upon demand at Administrative Agent's address specified in SECTION 12.10, an amount equal to the Participating Lender's Commitment Percentage of the amount of the draft, or any part thereof, which is not so reimbursed. On the date that any assignee becomes a Lender party to this Agreement in accordance with SECTION 12.08, participating interests in any outstanding Letters of Credit held by the transferor Lender from which the assignee acquired its interest hereunder shall be proportionately reallocated between the assignee and the transferor Lender. Each Participating Lender hereby agrees that its obligation to participate in each Letter of Credit, and to pay or to reimburse the Issuing Lender for its participating share of the drafts drawn or amounts otherwise paid thereunder, is absolute, irrevocable, and unconditional and shall not be affected by any circumstances whatsoever (including, without limitation, the occurrence or continuance of any Default or Event of Default), and that each payment shall be made without offset, abatement, withholding, or other reduction whatsoever.

(b) If any amount required to be paid by any Participating Lender to the Issuing Lender pursuant to SECTION 3.04(A) in respect of any unreimbursed portion of any draft paid by the Issuing Lender under any Letter of Credit is paid to the Issuing Lender within three Business Days after the date the payment is due, the Participating Lender also shall pay to Administrative Agent, for the account of the

Issuing Lender, on demand, an amount equal to the product of (i) that amount, times (ii) the daily average Federal Funds Rate during the period from and including the date the draft is paid to the date on which the payment is immediately available to the Issuing Lender, times (iii) a fraction the numerator of which is the number of days that elapsed during that period and the denominator of which is 360. If any amount required to be paid by any Participating Lender pursuant to SECTION 3.04(A) is not in fact made available to Administrative Agent, for the account of the Issuing Lender, by the Participating Lender within three Business Days after the date the payment is due, the Issuing Lender shall be entitled to recover from the Participating Lender, on demand, the amount with interest thereon calculated from the due date at the Adjusted Base Rate A certificate of the Issuing Lender submitted to any Participating Lender with respect to any amounts owing under this section shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after the Issuing Lender has paid a draft under any Letter of Credit and has received from any Participating Lender its PRO RATA share of the payment in accordance with SECTION 3.04(A), the Issuing Lender receives any reimbursement on account of the unreimbursed portion, or any payment of interest on account thereof, the Issuing Lender will pay to Administrative Agent, for the account of the Participating Lender, its PRO RATA share thereof; PROVIDED, HOWEVER, that in the event that any the payment received by the Issuing Lender shall be required to be returned by the Issuing Lender, the Participating Lender shall return to Administrative Agent for the account of the Issuing Lender, the portion thereof previously distributed to it.

3.05. REIMBURSEMENT OBLIGATION OF BORROWER. If any draft is presented for payment under any Letter of Credit, the Issuing Lender shall notify Borrower and Administrative Agent of the date and the amount thereof. Borrower agrees to reimburse the Issuing Lender (whether with its own funds or with proceeds of Loans), within two Business Days after notice that the Issuing Lender paid a draft so presented under any Letter of Credit, for the amount of (i) the draft so paid and (ii) any taxes, fees, charges, or other costs or expenses incurred by the Issuing Lender in connection with the payment. Each payment shall be made to the Issuing Lender at its address for notices specified herein in lawful money of the United States of America and in immediately available funds. Interest shall be payable on any and all amounts remaining unpaid by Borrower under this subsection from the date of payment of the applicable draft until payment in full thereof, (x) for the period commencing on the date of payment of the applicable draft to the date which is three days after notice of payment of the draft, at the Adjusted Base Rate at that time and (y) thereafter, at the Adjusted Base Rate at that time plus 5% until the occurrence of the Trigger Event and after the Trigger Event at the Adjusted Base Rate at that time plus 2%.

3.06. OBLIGATIONS ABSOLUTE. (a) Borrower's obligations under this Article 3 shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim, or defense to payment which Borrower or any other Person may have or have had against the Issuing Lender or any other Lender or any beneficiary of a Letter of Credit. Borrower also agrees with the Issuing Lender that the Issuing Lender shall not be responsible for, and Borrower's obligations under SECTION 3.05 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon which on its face appears valid, even though the documents shall in fact prove to be invalid, fraudulent, or forged, or any dispute between or among Borrower and any beneficiary of any Letter of Credit or any other party to which the Letter of Credit may be transferred or any claims whatsoever of Borrower against any beneficiary of the Letter of Credit or any the transferee. The Issuing Lender shall not be liable for any error, omission, interruption, or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Lender's gross negligence or willful misconduct. Borrower agrees that any action taken or omitted by the Issuing Lender under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of Texas, including, without limitation, Article V thereof, shall be binding on Borrower and shall not result in any liability of the Issuing Lender to Borrower.

(b) Without limiting the generality of the foregoing, it is expressly agreed that the absolute and unconditional nature of Borrower's obligations under this Article 3 to reimburse the Issuing Lender for each drawing under a Letter of Credit will not be excused by the gross negligence or willful misconduct of the Issuing Lender. However, the foregoing shall not be construed to excuse the Issuing Lender from liability to Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by Borrower to the extent permitted by applicable law) suffered by Borrower that are caused by the Issuing Lender's gross negligence or willful misconduct in determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof.

3.07. LETTER OF CREDIT PAYMENTS. Without limitation of SECTION 3.06, the responsibility of the Issuing Lender to Borrower in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in the Letter of Credit, be limited to determining that the documents (including each draft) delivered under the Letter of Credit in connection with the presentment are in conformity with the Letter of Credit.

3.08. LETTER OF CREDIT APPLICATIONS. To the extent that any provision of any Letter of Credit Application, including any reimbursement provisions contained therein, related to any Letter of Credit is inconsistent with the provisions of this Article 3, the provisions of this Article 3 shall prevail.

3.09. CASH COLLATERALIZATION OF LETTERS OF CREDIT. Upon request of Administrative Agent after the occurrence and during the continuance of an Event of Default and at any time required to eliminate any Borrowing Base Deficiency pursuant to SECTION 4.06 hereof, Borrower shall deposit cash with Administrative Agent in an amount equal to the aggregate Letter of Credit Outstandings (or, in the event of a Borrowing Base Deficiency in the amount required pursuant to SECTION 4.06). Such amount so deposited shall be held by Administrative Agent for the ratable benefit of all Lenders as security for the Letter of Credit Outstandings and other Obligations, and Borrower will, in connection therewith, deliver such security agreements in form and substance satisfactory to Administrative Agent which it may, in its discretion require. As drafts or demands are presented under any Letter of Credit, Administrative Agent shall disburse such cash to the applicable Issuing Lender to the extent necessary to satisfy Borrower's reimbursement obligations in connection therewith. To the extent drafts or other demands for payment are not made prior to the expiration date for any Letter of Credit, Administrative Agent agrees, if no Event of Default has occurred and is continuing, to remit to Borrower cash in the amount deposited under this SECTION 3.09 for which the contingent obligations evidenced by such Letter of Credit have ceased. When all Letters of Credit have expired or been canceled, and all Letter of Credit Obligations and other Obligations have been paid in full and all Commitments have been terminated (or any Borrowing Base Deficiency has been eliminated to the extent such cash collateralization is required as a result of Borrowing Base Deficiency) Administrative Agent shall release any remaining cash deposited under this SECTION 3.09 to Borrower.

## ARTICLE 4 - BORROWING BASE

4.01. DETERMINATION OF BORROWING BASE. (a) The term "BORROWING BASE" means the designated loan value of Borrower's Oil and Gas Properties as determined by Agents in their sole discretion and approved by Required Lenders in their sole discretion, in each case in accordance with their respective then-current practices, customary procedures and standards for their respective petroleum industry customers, and utilizing (i) the pertinent economic parameters customarily used by each Lender with respect to credits of a similar size and nature, and (ii) the information that the Lenders have available to them at the time of each determination, including, without limitation, assets, liabilities, cash flow and other financial information regarding Borrower and its Subsidiaries, the Collateral and the business, properties, prospects, management, and ownership of the Borrower and its Subsidiaries. The Borrowing Base in effect under this Agreement shall be redetermined at the times set forth in SECTION 4.02, 4.03, and 4.04 and in accordance with the procedures set forth in SECTION 4.01(B). Until the Commitments of all Banks have terminated, all Letters of Credit have expired or been canceled, and all Obligations have been paid in full, amounts outstanding under this Agreement shall be subject to the then effective Borrowing Base.

(b) Not later than ten Business Days prior to each Determination Date applicable to any redetermination of the Borrowing Base, (i) Agents shall agree among themselves with respect to the Borrowing Base which Agents recommend be effective commencing on such Determination Date, and (ii) Administrative Agent shall notify each Lender of the amount of such recommended Borrowing Base. If Required Lenders fail to promptly approve such recommended Borrowing Base, Agents shall propose one or more alternative Borrowing Bases and shall consult with Lenders regarding the proposed Borrowing Base until such time as Required Lenders approve a Borrowing Base proposed by Agents. Promptly upon approval by Required Lenders of the Borrowing Base to become effective on a Determination Date, Administrative Agent shall provide written notice of the amount of such Borrowing Base to Borrower which shall become effective on the date specified in such notice (which shall be no sooner than the date such notice is sent). In the event Required Lenders fail to approve a Borrowing Base to be effective on any applicable Determination Date, the Borrowing Base in effect prior to such Determination Date shall remain in effect until such time as a new Borrowing Base is redetermined in accordance with this SECTION 4.01(B).

4.02. PERIODIC REDETERMINATION. The Borrowing Base shall be redetermined semi-annually on November 1 and May 1, commencing November 1, 1997, or on such date promptly following each such date as may be required to redetermine the Borrowing Base in accordance with the procedures set forth in SECTION 4.01(B).

4.03. SPECIAL REDETERMINATION REQUESTED BY BORROWER. In addition to Periodic Determinations required herein and Special Determinations requested by Required Lenders in accordance with SECTION 4.04, Borrower may request up to two Special Determinations of the Borrowing Base pursuant to this SECTION 4.03 in each calendar year; PROVIDED, THAT, one of such requests must be in connection with a request for an increase in the Borrowing Base to finance the acquisition by Borrower (or one of its Subsidiaries) of additional oil and gas properties ("ADDITIONAL PROPERTIES"). Together with any Request for Determination delivered by Borrower to Lenders under this SECTION 4.03, Borrower shall deliver to Lenders a Reserve Report prepared as of a date not more than 30 days prior to the date of such Request for Determination. At Borrower's option, such Reserve Report may only apply to (a) the Additional Properties which are the subject of such request, or (b) those existing properties which Borrower believes support an increase in the Borrowing Base as a result of the completion of a successful drilling and development program or other factors.

4.04. SPECIAL DETERMINATIONS REQUESTED BY REQUIRED LENDERS. In addition to Periodic Determinations required herein and Special Determinations requested by Borrower in accordance with SECTION 4.03, Required Lenders may request (a) a Special Determination in connection with any issuance by Borrower or any of its Subsidiaries of Subordinated Debt (other than in accordance with the Approved

Notes Offering) or preferred stock, and (b) from and after the earlier to occur of the Trigger Event or November 1, 1997, two Special Determinations in each calendar year in addition to each Special Determination allowed under SECTION 4.04(A); PROVIDED, THAT, one such Special Determination requested pursuant to this clause (b) shall be based on a determination by Required Lenders, in their sole discretion that either (i) there has been a material decrease in the Present Value of Borrower's Oil and Gas Properties, or (ii) an event has occurred which has had, or which is reasonably expected to have, a Material Adverse Effect. In the event Required Lenders request a Special Determination pursuant to this SECTION 4.04, they may, at their option, suspend the next Periodic Determination.

4.05. INITIAL BORROWING BASE. Subject to the rights of Borrower and Required Lenders to request an earlier Special Determination pursuant to SECTION 4.03 or 4.04 above, the Borrowing Base in effect under this Agreement (a) for the period from the Closing Date until August 13, 1997, shall be \$400,000,000, and (b) from and after August 13, 1997, until the Periodic Determination scheduled to occur on or around November 1, 1997, shall be \$325,000,000, unless the reduction to such amount is waived by all Lenders; PROVIDED, THAT, the Borrowing Base in effect under clause (a) of this SECTION 4.05 shall reduce simultaneously with the receipt by Borrower or any of its Subsidiaries on or before August 13, 1997, of Net Cash Proceeds resulting from the Approved Notes Offering, the Common Stock Offering, or any sale or disposition by Borrower or any of its Subsidiaries of any asset owned by them (other than the sale of Hydrocarbons produced in the ordinary course of business). Any reduction of the Borrowing Base pursuant to the foregoing proviso shall be effective simultaneously with the receipt of such Net Cash Proceeds and shall be in an amount equal to the lesser of (i) the amount of such Net Cash Proceeds, or (ii) the amount necessary to reduce the Borrowing Base to \$325,000,000. Notwithstanding the preceding sentence, if the aggregate principal amount of notes issued by Borrower in accordance with the Approved Notes Offering exceeds \$100,000,000, the Borrowing Base then in effect shall be reduced simultaneously by the excess of the aggregate principal amount of the notes over \$100,000,000.

4.06. OVER ADVANCE. (a) In the event any Borrowing Base Deficiency results from any redetermination of the Borrowing Base pursuant to SECTION 4.02, 4.03, or 4.04 hereof, Borrower shall be required to eliminate such deficiency by making mandatory prepayments on the outstanding principal balance of the Loans in an amount equal to the amount of such deficiency, one half of which shall be paid on or before the 90th day following the effective date of the redetermination resulting in such Borrowing Base Deficiency, and the remaining balance of which shall be paid in full on or before the 180th day following the effective date of such redetermination.

(b) In the event any Borrowing Base Deficiency results from any reduction in the Borrowing Base pursuant to SECTION 4.05, Borrower shall be required to eliminate such deficiency by making a mandatory prepayment on the outstanding principal balance of the Loans in an amount equal to the amount of such deficiency, which prepayment shall be due and payable simultaneously with such reduction in the Borrowing Base.

(c) In the event any Borrowing Base Deficiency cannot be eliminated pursuant to this SECTION 4.06 by prepayment of the Loans in full (as a result of Letter of Credit Outstandings) on or before each date on which a prepayment of the Loans is required by this SECTION 4.06, Borrower shall also deposit cash with Administrative Agent to be held by Administrative Agent pursuant to SECTION 3.09 in an amount sufficient to eliminate such Borrowing Base Deficiency (or the required portion of such Borrowing Base Deficiency in the case of the payment due 90 days after the determination that a Borrowing Base Deficiency exists pursuant to SECTION 4.06(A)).

ARTICLE 5 - COLLATERAL.

- - - - -

5.01. SECURITY. (a) Pursuant to SECTION 5.01(B), the Obligations shall be secured by first and prior Liens (subject only to Permitted Encumbrances) covering (i) the Existing Mortgaged Properties, (ii) the Cometra Mortgaged Properties, (iii) first and prior Liens on 100% of the issued and outstanding Capital Stock of Borrower's Subsidiaries, (iv) all accounts receivable, inventory, equipment, and



intangibles of Borrower and each of its Subsidiaries, and (v) the additional collateral referenced in SECTION 5.01(B).

(b) Borrower and its Subsidiaries will execute and deliver as of the Closing Date (i) the Cometra Mortgages, (ii) Existing Mortgage Amendments, (iii) Security Agreement(s), (iv) Pledge Agreement(s), and (v) any financing statements relating thereto (the "CLOSING COLLATERAL DOCUMENTS"); provided, however, neither Administrative Agent nor any Lender will, or will cause, the Closing Collateral Documents to be filed with any Governmental Authority (except for financing statements relating to Pledge Agreements and Security Agreements, which shall be filed with the Texas Secretary of State promptly after the Closing Date) unless and until the Outstanding Obligations have not been reduced to \$325,000,000 or less on or before May 15, 1997. If the Outstanding Obligations have not been reduced to \$325,000,000 or less on or before May 15, 1997, in addition to the Liens granted by the Closing Collateral Documents, the Borrower or its Subsidiaries, as appropriate, will grant to Administrative Agent, for the ratable benefit of each Lender, first and prior Liens (subject only to Permitted Encumbrances) on all Borrower's Oil and Gas Properties designated by Required Lenders which have a Present Value (as reflected on the most recent Reserve Report delivered to Lenders) of \$100,000 or more which are not the subject of existing mortgages creating such first and prior Liens. On each occasion on which Borrower and its Subsidiaries are required to grant Liens on any asset pursuant to this SECTION 5.01(B), upon submission to Borrower by Administrative Agent, Borrower and its Subsidiaries shall immediately execute and deliver to Administrative Agent, for the ratable benefit of each Lender, Security Documents in form and substance acceptable to Administrative Agent granting first and prior Liens (subject only to Permitted Encumbrances) on the designated properties.

(c) Except as provided in SECTION 5.01(B), Borrower acknowledges that all Mortgages now or hereafter executed by Borrower or its Subsidiaries will be recorded promptly and all other action necessary to perfect the liens and security interests evidenced by the Mortgages will be taken. Borrower represents and warrants to Lenders that all Mortgages (i) are or will be duly authorized, executed, and delivered by the Person executing them, (ii) constitute the valid, binding, and enforceable obligations of each Person that executed the Mortgages in accordance with their terms, and (iii) operate to create in favor of Administrative Agent, for the ratable benefit of each Lender, first priority liens in the interests covered thereby.

(d) Provided that no Default or Event of Default has occurred which is continuing, upon the occurrence of the Trigger Event, Lenders authorize Administrative Agent to release, and Administrative Agent hereby agrees that it will release, all Collateral, and execute for the benefit of Borrower and its Subsidiaries all documents reasonably requested by Borrower to evidence such release.

5.02. GUARANTIES. Payment and performance of the Obligations will be fully guaranteed by each of Borrower's Subsidiaries pursuant to a Guaranty Agreement executed by each Subsidiary, substantially in the form of attached EXHIBIT C.

5.03. LEGAL OPINIONS; CORPORATE MATTERS. Administrative Agent will be permitted, at Borrower's expense, to obtain opinions of counsel in each jurisdiction in which oil and gas properties of Borrower or its Subsidiaries are located, with respect to the validity, enforceability, and actions necessary to perfect the liens and security interests created by the Mortgages covering the oil and gas properties and as to the other matters as Administrative Agent shall deem necessary with respect to the Mortgages. Furthermore, simultaneously with the execution and delivery of any Mortgages required by SECTION 5.01, Borrower shall also deliver to Administrative Agent (i) such resolutions, certificates, and documents as Required Lenders shall request relating to the existence of Borrower and its Subsidiaries, the corporate, partnership, limited liability company, or other authority for the execution, delivery, and performance of the Mortgages and all other matters relevant thereto as Required Lenders may reasonably request, and (ii) at Required Lenders' request, an opinion of counsel satisfactory to them with respect to the matters referred to in clause (i) immediately preceding.

5.04. ADDITIONAL TITLE DATA. (a) Borrower shall, upon the request of Required Lenders, make available to Administrative Agent at Borrower's Fort Worth, Texas, Hartville, Ohio, and Oklahoma City, Oklahoma, offices, all title opinions, title information, and other information in its possession, control, or direction with respect to title to the Mortgaged Properties and relative priority of the Mortgages as are appropriate to determine the status thereof.

(b) At any time Borrower or its Subsidiaries are required to mortgage any oil and gas properties and related assets pursuant to SECTION 5.01, Borrower shall deliver to Administrative Agent title opinions or other title information acceptable to Administrative Agent covering Borrower's Oil and Gas Properties which are, or are to become, Mortgaged Properties and other information regarding title to such properties and the relative priority of the Liens in favor of Administrative Agent as Administrative Agent shall reasonably request, all in form and substance and from attorneys acceptable to Administrative Agent.

5.05. BENEFITS OF COLLATERAL. Administrative Agent shall hold the Collateral required to be pledged and deposited by the Loan Parties to Administrative Agent, along with all payments and proceeds arising therefrom, for the ratable benefit of Lenders as security for the payment of all Obligations. Upon payment in full of all Obligations and termination of all Commitments, Administrative Agent shall release, if not sooner released pursuant to SECTION 5.01(D), all of the Collateral remaining in its possession to Borrower and shall notify each Lender of the release. Except as otherwise expressly provided for in this Article 5, Administrative Agent, in its own name or in the name of Borrower, may enforce any of the Collateral or the security therefor by any mode provided under the Loan Documents or by the law of the state in which the Collateral or in which any real property subject to any of the Collateral is located, and may collect and receive proceeds receivable on account of ownership of the Collateral.

5.06. STATUS OF COLLATERAL IN EVENT OF DEFAULT. Notwithstanding the terms of any Mortgage or other security instrument securing repayment of the Obligations by which Borrower assigns to Administrative Agent for the ratable benefit of Lenders the proceeds from the sale of production accruing to the Mortgaged Properties, so long as no Default or Event of Default has occurred that is continuing, Borrower shall be permitted to continue to receive from the purchasers of production all proceeds from the sale of production, and Administrative Agent shall not request that such proceeds be paid to Administrative Agent. Upon the occurrence and continuation of any Event of Default, Administrative Agent, at the request of Required Lenders, may direct the Persons purchasing the production from Borrower's Oil and Gas Properties to pay the proceeds of sale directly to Administrative Agent.

ARTICLE 6 - CONDITIONS PRECEDENT.  
-----

6.01. CONDITIONS PRECEDENT TO CLOSING ASSIGNMENT, RESTATEMENT OF EXISTING CREDIT AGREEMENT, AND INITIAL EXTENSION OF CREDIT HEREUNDER. The agreement of each Lender to (i) enter into and perform its obligations under the Closing Assignment, (ii) restate the Existing Credit Agreement, and (iii) make the initial Loan requested to be made by it, and of the Issuing Lender to issue the initial Letter of Credit to be issued by it, is subject to the satisfaction, prior to or concurrently therewith of the following conditions precedent:

(a) CLOSING DELIVERIES. Administrative Agent shall have received the following documents, instruments, agreements, and other information, each of which shall be in form and substance and executed in such counterparts as shall be acceptable to Administrative Agent and Required Lenders and each of which shall, unless otherwise indicated, be dated the Closing Date:

(i) this Agreement;

(ii) a Note payable to the order of each Lender in the amount of such Lender's Commitment, duly executed by Borrower;

(iii) Mortgages duly executed by the appropriate Person covering the Cometra Mortgaged Properties, accompanied by such financing statements requested by Administrative Agent to perfect the Liens granted by such Mortgages;

(iv) Existing Mortgage Amendments duly executed by the appropriate Person;

(v) a Guaranty Agreement duly executed by each of Borrower's Subsidiaries;

(vi) a Security Agreement duly executed by Borrower and its Subsidiaries, accompanied by such financing statements executed by Borrower and its Subsidiaries as Administrative Agent shall request to perfect the Liens granted pursuant to the Security Agreement;

(vii) a Pledge Agreement duly executed by Borrower and its Subsidiaries, as appropriate, together with (A) certificates evidencing (1) 100% of the issued and outstanding Capital Stock of Borrower's Subsidiaries (all certificates delivered pursuant to this provision shall be duly endorsed or accompanied by duly executed blank stock powers), and (B) accompanied by such financing statements executed by Borrower as Administrative Agent shall request to perfect the Liens granted pursuant to the Pledge Agreement;

(viii) opinions of Vinson & Elkins L.L.P. and Rubin Baum Levin Constant & Friedman, special counsel for Borrower and its Subsidiaries, favorably opining as to the enforceability of each of the Loan Documents executed and delivered by Borrower and its Subsidiaries and to such other matters as Administrative Agent or Required Lenders may reasonably request;

(ix) certificates executed by an Authorized Officer of Borrower stating that (A) the representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true and correct in all respects, (B) no Default or Event of Default has occurred which is continuing, and (C) all conditions set forth in this SECTION 6.01 and in SECTION 6.02 have been satisfied;

(x) such resolutions, certificates and other documents relating to the existence of the Loan Parties, the corporate, partnership, or limited liability company authority for the execution, delivery and performance of this Agreement, the Notes, the other Loan Documents, and certain other matters relevant hereto, in form and substance satisfactory to Administrative Agent, which resolutions, certificates and documents include resolutions of the directors of each Loan Party authorizing the execution, delivery, and performance of the Loan Documents and certificates of incumbency for each Loan Party;

(xi) all documents required by Administrative Agent to evidence that, subject only to disbursement and application of initial Borrowing, the Cometra Acquisition shall have closed, which must occur on or before February 28, 1997;

(xii) Agents have completed a review of Borrower's environmental due diligence with respect to the Cometra Assets and of the policies and procedures of Borrower and its Subsidiaries with respect to compliance with Environmental Laws, and Agents are reasonably satisfied with the results of that review;

(xiii) title information with respect to the Cometra Assets sufficient to enable Agents or their counsel to review title to that part of the Cometra Assets deemed necessary by Agents, and Agents are reasonably satisfied with the results of that review;

(xiv) copies of registration statements, offering memorandums, or other information filed with the Securities and Exchange Commission sufficient to enable Agents to verify that the Common Stock Offering and the Approved Notes Offering have been initiated; and

(xv) an unaudited pro forma consolidated balance sheet of Borrower and its Consolidated Subsidiaries which projects the financial condition of Borrower and its Consolidated Subsidiaries as at the Closing Date after giving effect to the Common Stock Offering, the Approved Notes Offering, the initial extensions of credit under this Agreement, and the acquisition of the Cometra Assets and which enables Agents to verify that Borrower will have adequate liquidity on and after the Closing Date, in the sole judgment of Agents.

(b) NO MATERIAL ADVERSE CHANGE. No event has occurred that would have a Material Adverse Effect.

(c) NO LEGAL PROHIBITION. The transactions contemplated by this Agreement and the Cometra Agreements shall be permitted by applicable law and regulation and shall not subject Agents, any Lender, Borrower, or any Subsidiary to any material adverse change in their assets, liabilities, financial condition, or prospects.

(d) NO LITIGATION. No litigation, arbitration, or similar proceeding shall be pending which calls into question the validity or enforceability of this Agreement, the other Loan Documents, or the Cometra Agreements.

(e) OTHER MATTERS. All matters related to this Agreement, the other Loan Documents, Borrower, its Subsidiaries, and the Cometra Acquisition shall be acceptable to Administrative Agent and each Lender in their discretion, and Borrower shall have delivered to Administrative Agent and each Lender such evidence as they shall request to substantiate any matters related to this Agreement, the other Loan Documents, Borrower, its Subsidiaries, and the Cometra Agreements as Administrative Agent or any Lender shall request.

(f) CLOSING FEES. Borrower shall have paid (or made arrangements for payment from initial Loan proceeds) to Agents and Lenders any fees payable to those parties.

6.02. CONDITIONS TO EACH LOAN AND EACH LETTER OF CREDIT. The obligation of each Lender to loan its Commitment Percentage of each Borrowing and the obligation of the Issuing Lender to issue Letters of Credit on the date any Letter of Credit is to be issued is subject to the further satisfaction of the following conditions:

(a) timely receipt by Administrative Agent of a Notice of Borrowing or Request for Letter of Credit;

(b) immediately before and after giving effect to such Borrowing or issuance of the Letter of Credit, no Default or Event of Default shall have occurred and be continuing and neither the Loan nor the issuance of the Letter of Credit shall cause a Default or Event of Default;

(c) the representations and warranties of the Loan Parties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the applicable Borrowing or the date of the issuance of the Letter of Credit;

(d) the funding of the Borrowing or the issuance of the Letter of Credit and all other Borrowings to be made and/or Letters of Credit to be issued on the same day under this Agreement, shall not cause a Borrowing Base Deficiency;

(e) following the issuance of any Letter of Credit, the aggregate Letter of Credit Outstandings shall not exceed (i) \$150,000,000 through the earlier of (A) April 30, 1997, and (B) the date of cancellation or termination of the Cometra Letter of Credit, and (ii) \$100,000,000 thereafter.

Each Borrowing and the issuance of each Letter of Credit hereunder shall constitute a representation and warranty by Borrower that on the date of the Borrowing or issuance of the Letter of Credit that statements contained in subclauses (b), (c), (d), and (e) above are true.

ARTICLE 7 - REPRESENTATIONS, WARRANTIES, AND COVENANTS.  
-----

7.01. WARRANTIES. To induce Lenders to enter into this Agreement and to lend to Borrower and for each Lender's reliance in so doing, Borrower warrants to each Lender that each of the following statements is true and correct on the date hereof and will be true and correct on the Closing Date both before and after giving effect to the Cometra Acquisition, and will be true and correct on the date of each Borrowing and the date of issuance of each Letter of Credit:

(a) FINANCIAL CONDITION. (1) The consolidated balance sheet of Borrower and its Consolidated Subsidiaries at December 31, 1995, and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity for the fiscal year ended on that date, which have been furnished to each Lender, present fairly in all material respects the consolidated financial condition of Borrower and its Consolidated Subsidiaries as at that date, and the consolidated results of their operations and their consolidated cash flows for the fiscal year then ended.

(2) The consolidated balance sheet of Borrower and its Consolidated Subsidiaries at September 30, 1996, and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity for the three fiscal quarters ended on that date, which have been furnished to each Lender, present fairly in all material respects the consolidated financial condition of Borrower and its Consolidated Subsidiaries as at that date, and the consolidated results of their operations and their consolidated cash flows for the fiscal year then ended.

(3) The unaudited pro forma consolidated balance sheet of Borrower and its Consolidated Subsidiaries, as at September 30, 1996, certified by an Authorized Officer, copies of which have been furnished to each Lender, represents in all material respects the pro forma consolidated financial condition of each of Borrower and its Consolidated Subsidiaries as at that date after giving effect to the Common Stock Offering, the Approved Notes Offering, and the initial extensions of credit under this Agreement; PROVIDED, THAT, the financial information which constitute projections, copies of which have been furnished to each Lender prior to the Closing Date, were prepared in good faith on the basis of the assumptions stated therein, which assumptions were believed by Borrower to be reasonable in all material respects at the time made and which Borrower believes are reasonable in all material respects on the date hereof.

(4) The consolidated balance sheet and other financial statements, referred to in SECTIONS 7.01(A)(1) and (2), including the related schedules and notes thereto, were prepared in accordance with GAAP applied consistently throughout the period involved. Neither Borrower nor any of its Consolidated Subsidiaries had, at the date of the balance sheet, any material obligation, contingent liability, or liability for Taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is not reflected in the statement or in the notes thereto to the extent required by GAAP. During the period from January 1, 1997, to and including the date of this Agreement there has been no sale, transfer, or other disposition by Borrower or any of its Consolidated Subsidiaries of any material part of its business or property and no purchase or other acquisition of any business or property (including any capital stock of any other Person) material in relation to the consolidated financial condition of Borrower and its Consolidated Subsidiaries at December 31, 1996.

(b) NO CHANGE. Since December 31, 1995, there has been no development, circumstance, or event which has had or could reasonably be expected to have a Material Adverse Effect.

(c) CORPORATE EXISTENCE. Borrower and each of its Subsidiaries is duly organized and validly existing under the laws of its state of incorporation, organization, or formation, and is in good standing in that state and all other states in which it has material assets or operations.

(d) CORPORATE POWER. Borrower and each of its Subsidiaries has and will continue to have full power and authority to execute and deliver to Lenders this Agreement and the Loan Documents, and to perform all of its obligations under this Agreement and the Loan Documents; all of those actions have been duly authorized and are not and will not be in conflict with any provision of law or the terms of its articles of incorporation, articles of organization, joint venture agreement, partnership agreement, or any other agreement or undertaking to which it is a party or by which it is bound.

(e) INFORMATION. No written information, exhibit, schedule or report prepared by or on behalf of Borrower and furnished to any Agent or any Lender by or at the direction of Borrower or any of its Subsidiaries in connection with this Agreement or the transactions contemplated herein contained any material misstatement of fact or, when such statement is considered with all other written statements furnished to the Lenders in that connection, omitted to state a material fact or any fact necessary to make the statement contained therein not misleading; PROVIDED, THAT, the financial information which constitute projections, copies of which have been furnished to each Lender prior to the Closing Date, were prepared in good faith on the basis of the assumptions stated therein, which assumptions were believed by Borrower to be reasonable in all material respects at the time made and which Borrower believes are reasonable in all material respects on the date hereof.

(f) AUTHORIZATIONS. Borrower and each of its Subsidiaries has obtained all authorizations, licenses, permits, consents, approvals, and undertakings which are required under any applicable law in connection with the execution and delivery of and the performance of its Obligations under or in connection with this Agreement and the other Loan Documents.

(g) ENFORCEABLE OBLIGATIONS. This Agreement has been, and each other Loan Document to which any Loan Party is a party will be, duly executed and delivered on behalf of the Loan Party. This Agreement constitutes, and each other Loan Document to which any Loan Party is a party when executed and delivered will constitute, a legal, valid, and binding obligation of the Loan Party enforceable against the Loan Party in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent transfer or conveyance, reorganization, moratorium, and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law), and an implied covenant of good faith and fair dealing.

(h) NO LEGAL BAR. The execution, delivery, and performance of the Loan Documents, the granting of the Liens under the Security Documents, and the Borrowings hereunder and the use of the proceeds thereof will not violate any applicable requirement of law or material contractual Obligation of Borrower or any of its Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective material properties or revenues except pursuant to the Loan Documents.

(i) COMPLIANCE. Borrower and each of its Subsidiaries is in compliance with all statutes, ordinances, and regulations of each Governmental Authority having jurisdiction over its activities to the extent a failure to be in compliance could reasonably be expected to have a Material Adverse Effect.

(j) DEBTS OF OTHERS. Neither Borrower nor any of its Subsidiaries is a guarantor or surety or otherwise responsible in any material manner with respect to any Debt or undertaking of a Person other than a Subsidiary of Borrower.

(k) NO MATERIAL LITIGATION. No litigation is pending which affects the execution and delivery of this Agreement or any other Loan Document or the ability of any Loan Party to perform under them, and no litigation is pending which could have a Material Adverse Effect.

(l) SUBSIDIARIES. Borrower has no Subsidiaries other than those listed on attached SCHEDULE 3.

(m) ERISA. Borrower and each Subsidiary of Borrower is in compliance in all material respects with all applicable provisions of ERISA; neither a Reportable Event nor a Prohibited Transaction has occurred and is continuing with respect to any Plan; no notice of intent to terminate a Plan has been filed, nor has any Plan been terminated; no circumstances exist which constitute grounds entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings; neither Borrower nor any Commonly Controlled Entity has completely or partially withdrawn from a Multiemployer Plan; Borrower and each Commonly Controlled Entity have met their minimum funding requirements under ERISA with respect to all of their Plans and the present value of all vested benefits under each Plan does not exceed the fair market value of all Plan assets allocable to the benefits, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA; and neither Borrower nor any Commonly Controlled Entity has incurred any liability to the PBGC under ERISA.

(n) ENVIRONMENTAL MATTERS. To the extent any of the following would have a Material Adverse Effect on Borrower or its Subsidiaries:

(i) Neither Borrower nor any of its Subsidiaries has failed to duly comply with, or failed to cause their businesses, operations, assets, equipment, property, leaseholds, or other facilities to be in compliance with, the provisions of any applicable Environmental Law.

(ii) Neither Borrower nor any of its Subsidiaries has received notice of, nor knows of, or suspects facts which might constitute violations of any applicable Environmental Law with respect to its businesses, operations, assets, equipment, property, leaseholds, or other facilities.

(iii) Except in accordance with a valid governmental permit, license, certificate, or approval, there has been no emission, spill, release, or discharge into or upon (1) the air; (2) soils, or any improvements located thereon; (3) surface water or groundwater; or (4) the sewer, septic system or waste treatment, storage, or disposal system servicing the premises of any toxic or hazardous substances or wastes ("WASTE") at or from the premises ("RELEASE"); and accordingly the premises of Borrower and any Subsidiary are free of all waste.

(iv) There has been no complaint, order, directive, claim, citation, or notice by any Governmental Authority or any person or entity with respect to (1) air emissions; (2) release; (3) noise emissions; (4) solid or liquid waste disposal; (5) the use, generation, storage, transportation, or disposal of waste ("TREATMENT"); or (6) other environmental, health, or safety matters affecting Borrower or any Subsidiary of Borrower or its business, operations, assets, equipment, property, leaseholds, or other facilities.

(o) TITLES. Each of Borrower and its Subsidiaries has good and defensible title to all material assets purported to be owned by it subject only to Permitted Encumbrances, including, after giving effect to the Cometra Acquisition, all of the Cometra Assets. Without limiting the foregoing, after giving effect to the Cometra Acquisition, with the exception of oil and gas properties which are clearly identified as being owned by Persons other than the Loan Parties, the Loan Parties have good and defensible title to all material oil and gas properties which are the subject of the most recent Reserve Report provided to Lenders (or, until superseded, the oil and gas properties which are the subject of the Initial Reserve Report and the Cometra Reserve Report), and the Mortgages establish first and prior Liens on the properties and interests intended to be covered thereby subject only to Permitted Encumbrances.

(p) RESERVE REPORTS. The Initial Reserve Report and the Cometra Reserve Report accurately reflect, and all Reserve Reports hereafter delivered pursuant to this Agreement will reflect, in all material respects, the ownership interests of Borrower and its Subsidiaries (in the case of the Cometra Reserve Report, after giving effect to the Cometra Acquisition) in the oil and gas properties referred to therein (including all material before and after payout calculations).

(q) INTELLECTUAL PROPERTY. Each Loan Party owns, or is licensed to use, all trademarks, tradenames, copyrights, technology, know how, and processes necessary for the conduct of its business as currently conducted except for those the failure to own or license which could not reasonably be expected to have a Material Adverse Effect (the "INTELLECTUAL PROPERTY"). No claim has been asserted

and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor does any Loan Party know of any valid basis for any such claim, except claims that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect. The use of Intellectual Property by a Loan Party does not infringe on the rights of any Person, except for claims and infringements that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(r) NO BURDENSOME RESTRICTIONS. No applicable requirement of law or contractual obligation of any Loan Party could reasonably be expected to have a Material Adverse Effect.

(s) TAXES. Each Loan Party has filed all material tax returns which to the knowledge of the Loan Party are required to be filed by it and has paid or caused to be paid all material assessments, fees, and other governmental charges levied upon it or upon any of its property or income which are due and payable, except such taxes, assessments, fees, and other governmental charges, if any, as are being diligently contested in good faith and by appropriate proceedings and with respect to which there have been established adequate reserves on the books of the Loan Party in accordance with GAAP. No tax lien has been filed with respect to any material taxes or material assessments, fees, or other governmental charges.

(t) FEDERAL REGULATIONS. No part of the proceeds of any Loan will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation G or Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. If requested by any Lender or Administrative Agent, Borrower will furnish Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-1 or FR Form U-1 referred to in Regulation G or Regulation U, as the case may be.

(u) INVESTMENT COMPANY ACT; OTHER REGULATIONS. No Loan Party is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. No Loan Party is subject to regulation under any Federal or State statute or regulation (other than Regulation X of the Board of Governors of the Federal Reserve System) which limits its ability to incur Indebtedness under this Agreement or the other Loan Documents.

7.02. AFFIRMATIVE COVENANTS. Borrower hereby agrees that, so long as the Total Commitment remains in effect, any Loan, Note, or Letter of Credit remains outstanding and unpaid, or any amount is owing to any Lender or any Agent under this Agreement or any other Loan Document, Borrower shall, and except in the case of delivery of financial information, reports and policies, cause each of its Subsidiaries to:

(a) CORPORATE EXISTENCE. Maintain its existence in good standing with full legal capacity to perform all of its obligations under this Agreement and all documents called for by this Agreement and not permit its dissolution, liquidation, or other termination of existence or forfeiture of right to do business.

(b) MAINTENANCE OF BOOKS AND RECORDS. At all times keep business records in conformity with GAAP, those records to be kept at Borrower's administrative office, which at present is located at 125 State Route 43, Hartsville, Ohio 44632.

(c) FINANCIAL INFORMATION. Furnish to Lenders:

(1) Within 90 days after the end of Borrower's fiscal year (which ends on December 31), a copy of its annual audited consolidated financial statement including at least a balance sheet as of the close of the year, a statement of operations, a statement of changes in shareholders' equity, and a statement of cash flow, prepared in conformity with GAAP by Arthur Andersen L.L.P. or another independent firm of certified public accountants acceptable to Lenders, together with a certificate from an Authorized Officer of Borrower that no Default or Event of Default has occurred or exists;



(2) Within 45 days after the end of each of the first three calendar quarters, a copy of Borrower's unaudited consolidated quarterly report, prepared in conformity with GAAP, consisting of at least a balance sheet as of the close of that quarter, a statement of operations, a statement of changes in shareholders' equity, and a statement of cash flows for the period from the beginning of the fiscal year to the close of that quarter, certified to be accurate by an Authorized Officer of Borrower, and accompanied by a certificate of the signing officer that no Default or Event of Default has occurred or exists;

(3) Simultaneously with the delivery of the financial statements referred to in SECTIONS 7.02(C)(1) and (2), a compliance certificate in the form of EXHIBIT H hereto signed by an Authorized Officer of Borrower (i) certifying that it is in compliance with the provisions of SECTION 7.04, (ii) setting forth in reasonable detail the calculations required to establish that Borrower was in compliance with the provisions of SECTION 7.04 as of the end of each quarter, and (iii) certifying that no Default or Event of Default has occurred and is continuing and that all representations and warranties of Borrower are true and correct.

(4) No later than each April 1 and October 1 during the Commitment Period, a Reserve Report as of the preceding December 31 and June 30, respectively, covering all of the oil and gas properties of Borrower and its Subsidiaries that in the opinion of Required Lenders have material value;

(5) No later than April 1 and October 1, (i) complete revenue, expense, and production information for the aggregate of the oil and gas properties of Borrower and its Subsidiaries for the most recent twelve-month period preceding the Determination Date; (ii) detailed revenue, expense, and production information for the same time period, for each area of operation, for oil and gas wells of Borrower and its Subsidiaries; and (iii) an oil and gas operating statement prepared on a basis acceptable to Lenders reflecting at a minimum, for the pertinent period, net production volume, prices received, severance taxes, and capital and operating expenses, including a calculation of net operating income;

(6) Promptly upon filing thereof with the Securities and Exchange Commission, copies of the following securities information for Borrower: (i) all final registration statements and post effective amendments thereto; (ii) all annual, quarterly, and special reports filed; and (iii) any item submitted for a vote of Borrower's shareholders;

(7) No later than 10 days before the date that Borrower issues preferred stock or incurs Subordinated Debt (to the extent permitted hereunder), written notice setting out all details deemed material by Lenders concerning either event; and

(8) As Required Lenders may from time to time reasonably require by written notice to Borrower, other reasonable oil or gas well information, other financial information and other information concerning the business affairs of Borrower and its Subsidiaries in addition to those specifically required by this Agreement.

(d) RIGHT TO INSPECT. Permit any Person designated by any Lender to visit and inspect at reasonable places and times during normal business hours any of the properties, books, and records of Borrower and any Subsidiary as often as any Lender may reasonably request.

(e) PAYMENT OF OTHER OBLIGATIONS. Pay when due all Taxes, assessments, and other liabilities, except and so long as contested in good faith in a manner acceptable to Lenders and adequate reserves are being maintained.

(f) PERFORMANCE. Promptly and fully perform all of its obligations under this Agreement and all other Loan Documents (whether now existing or entered into hereafter).

(g) INSURANCE. Maintain casualty insurance on all material property and improvements and maintain liability insurance to such extent and against such hazards and liabilities as like properties are customarily insured within the oil and gas industry by Persons similarly situated to Borrower (each policy of insurance must be with responsible insurers and must name Administrative Agent as loss payee and as an additional insured party), and deliver to Administrative Agent certificates of insurance coverage as and when reasonably requested by Administrative Agent.

(h) DEPOSITORY ACCOUNTS. Maintain its primary depository accounts at one or more of Lenders (Borrower acknowledges that this requirement is a legitimate and reasonable measure to preserve and protect Lenders' first priority Liens in all property intended as Security for the Obligations under the Loan Documents).

(i) NOTICE OF DEFAULT AND LITIGATION. Give Lenders prompt notice in writing of the occurrence or existence of a Default, an Event of Default, any litigation or proceeding or other event affecting Borrower or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect.

(j) FURTHER ASSURANCES. Borrower will and will cause each Subsidiary to cure promptly any defects in the creation and issuance of the Notes and the execution and delivery of the Security Documents and this Agreement. Borrower at its expense will and will cause each Subsidiary to promptly execute and deliver to Administrative Agent upon request all such other documents, agreements, and instruments to comply with or accomplish the covenants and agreements of Borrower or any Subsidiary, as the case may be, in the Security Documents and this Agreement, or to further evidence and more fully describe the collateral intended as security for the Obligations, or to correct any omissions in the Security Documents, or to state more fully the security obligations set out herein or in any of the Security Documents, or to perfect, protect, or preserve any Liens created pursuant to any of the Security Documents, or to make any recordings, to file any notices or obtain any consents, all as may be necessary or appropriate in connection therewith.

(k) MAINTENANCE AND OPERATION OF PROPERTY. To the extent that the failure to comply could have a Material Adverse Effect on the financial condition or operations of Borrower or its Subsidiaries and consistent with the standards of a reasonably prudent operator:

(1) Maintain, develop, and operate Borrower's Oil and Gas Properties in a good and workmanlike manner, and observe and comply with all of the terms and provisions, express or implied, of all oil and gas leases relating to the properties so long as the oil and gas leases are capable of producing hydrocarbons and accompanying elements in paying quantities;

(2) Comply in all material respects with all contracts and agreements applicable to or relating to Borrower's Oil and Gas Properties or the production and sale of hydrocarbons and accompanying elements therefrom;

(3) At all times, maintain, preserve, and keep all operating equipment used with respect to Borrower's Oil and Gas Properties in proper repair, working order and condition, and make all necessary or appropriate repairs, renewals, replacements, additions and improvements thereto so that the efficiency of the operating equipment shall at all times be properly preserved and maintained, provided that no item of operating equipment need be so repaired, renewed, replaced, added to or improved, if Borrower or its Subsidiary shall in good faith determine that the action is not necessary or desirable for its continued efficient and profitable operation of business.

(4) With respect to Borrower's Oil and Gas Properties which are operated by operators other than Borrower or a Subsidiary, seek to enforce the operators' contractual obligations to maintain, develop, and operate the oil and gas properties subject to the applicable operating agreements.

(1) ERISA. As soon as possible, and in any event within 30 days after Borrower knows or has reason to know that any circumstances exist that constitute grounds entitling the PBGC to institute proceedings to terminate a Plan subject to ERISA with respect to Borrower or any Commonly Controlled Entity, and promptly but in any event within two Business Days of receipt by Borrower or any Commonly Controlled Entity of notice that the PBGC intends to terminate a Plan or appoint a trustee to administer the same, and promptly but in any event within five Business Days of the receipt of notice concerning the imposition of withdrawal liability with respect to Borrower or any Commonly Controlled Entity, Borrower shall deliver to each Lender a certificate of the chief financial officer of Borrower setting forth all relevant details and the action which Borrower proposes to take with respect thereto.

(m) ENVIRONMENTAL MATTERS. To the extent necessary to avoid a Material Adverse Effect, be and remain, and cause each Subsidiary to be and remain, in compliance with the provisions of all Environmental Laws; notify Administrative Agent immediately of any notice of a hazardous discharge or material environmental complaint received from any Governmental Authority or any other party; notify Administrative Agent immediately of any release from or affecting its properties; immediately contain and remove the same, in compliance with all applicable laws; promptly pay any fine or penalty assessed in connection therewith; permit Administrative Agent to inspect the premises, to conduct tests thereon, and to inspect all books, correspondence, and records pertaining thereto; and at Administrative Agent's request, and at Borrower's expense, provide a report of a qualified environmental engineer, satisfactory in scope, form, and content to Administrative Agent, and all other and further assurances reasonably satisfactory to Administrative Agent that the condition has been corrected.

(n) ENVIRONMENTAL INDEMNITY. NOTWITHSTANDING ANY OTHER LIMITATION OF LIABILITY IN THIS OR ANY OTHER AGREEMENT OR INSTRUMENT BETWEEN BORROWER OR A SUBSIDIARY AND LENDERS OR AGENTS, BORROWER PROMISES THAT IT WILL INDEMNIFY, DEFEND, SAVE, AND HOLD HARMLESS EACH LENDER AND EACH AGENT AND AGENT'S AND EACH LENDER'S AFFILIATES, OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES, AGENTS, ATTORNEYS, PARTNERS, AND THEIR RESPECTIVE HEIRS, SUCCESSORS, AND ASSIGNS (COLLECTIVELY, THE "INDEMNIFIED PARTIES") AGAINST AND FROM, AND TO REIMBURSE INDEMNIFIED PARTIES WITH RESPECT TO, ANY AND ALL DAMAGES, CLAIMS, LIABILITIES, LOSSES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY'S FEES AND EXPENSES, COURT COSTS, ADMINISTRATIVE COSTS, AND COSTS OF APPEALS), INCURRED BY OR ASSERTED AGAINST INDEMNIFIED PARTIES BY REASON OR ARISING OUT OF THE TREATMENT OR RELEASE OF ANY WASTE IN, ON, OR AFFECTING OIL AND GAS PROPERTIES OF BORROWER OR ITS SUBSIDIARIES, WHETHER OR NOT CAUSED BY BORROWER OR ANY OF ITS SUBSIDIARIES, OR THE VIOLATION OF ANY ENVIRONMENTAL LAWS, EXCEPT TO THE EXTENT CAUSED BY THE GROSS NEGLIGENCE OR WILFUL MISCONDUCT OF ANY INDEMNIFIED PARTY. NOTWITHSTANDING ANYTHING IN THE LOAN DOCUMENTS TO THE CONTRARY, THE UNDERTAKINGS OF BORROWER IN THIS PARAGRAPH SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THIS AGREEMENT REGARDLESS OF THE MEANS OF EXPIRATION OR TERMINATION ; PROVIDED, HOWEVER, NO INDEMNITY SHALL BE AFFORDED UNDER THIS SECTION 7.02(N) IN RESPECT OF ANY PROPERTY FOR ANY OCCURRENCE ARISING FROM THE ACTS OR OMISSIONS OF ADMINISTRATIVE AGENT OR ANY LENDER DURING THE PERIOD AFTER WHICH SUCH PERSON, ITS SUCCESSORS OR ASSIGNS, SHALL HAVE OBTAINED POSSESSION OF SUCH PROPERTY (WHETHER BY FORECLOSURE OR DEED IN LIEU OF FORECLOSURE, AS MORTGAGEE-IN-POSSESSION OR OTHERWISE). SPECIFICALLY, THE INDEMNIFICATION IN THIS PARAGRAPH SHALL RUN FROM THE NOTICE COMMUNICATED TO ADMINISTRATIVE AGENT OF ANY TREATMENT OR RELEASE OF WASTE OR OTHER ENVIRONMENTAL CONDITION COVERED BY THIS AGREEMENT.

(o) OTHER INDEMNITY. BORROWER AGREES TO INDEMNIFY THE INDEMNIFIED PARTIES AND HOLD THEM HARMLESS FROM AND AGAINST ANY AND ALL LIABILITIES, LOSSES, DAMAGES, COSTS AND EXPENSES OF ANY KIND (INCLUDING, WITHOUT LIMITATION, THE REASONABLE FEES AND DISBURSEMENTS OF COUNSEL FOR EACH INDEMNIFIED PARTY IN CONNECTION WITH ANY INVESTIGATIVE, ADMINISTRATIVE OR JUDICIAL PROCEEDING, WHETHER OR NOT THE INDEMNIFIED PARTIES SHALL BE DESIGNATED A PARTY THERETO) WHICH MAY BE INCURRED BY ANY INDEMNIFIED PARTY, RELATING TO OR ARISING OUT OF THIS AGREEMENT OR ANY ACTUAL OR PROPOSED USE OF PROCEEDS OF LOANS HEREUNDER, INCLUDING AN INDEMNIFIED PARTY'S NEGLIGENCE; PROVIDED THAT INDEMNIFIED PARTIES SHALL NOT BE INDEMNIFIED HEREUNDER FOR THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

7.03. NEGATIVE COVENANTS. Borrower hereby agrees that, so long as the Total Commitments remain in effect, any Loan, Note, or any Letter of Credit remains outstanding and unpaid, or any amount

is owing to any Lender or any Agent hereunder or under any other Loan Document, Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly:

(a) OTHER LIENS. Create incur, assume, or permit to exist any Lien with respect to any of its assets, whether now owned or hereafter acquired, EXCEPT FOR (i) Permitted Encumbrances; (ii) Liens securing Capital Leases allowed under Section 7.03(b)(1)(vi), but only on the property under lease; (iii) Liens on cash or securities of Borrower or any Subsidiary securing the Debt described in Section 7.03(b)(1)(vii); and (iv) Liens set forth on SCHEDULE 4 hereto.

(b) OTHER DEBT. Create, incur, assume or suffer to exist, or permit any Subsidiary to create, incur, assume or suffer to exist, any Debt except:

(1) (i) Debt under this Agreement; (ii) Subordinated Debt incurred by Borrower as a result of the conversion of preferred stock issued in Borrower's November 1995, preferred stock offering (PROVIDED, THAT, no preferred stock may be converted until after the occurrence of the Trigger Event); (iii) Subordinated Debt in existence on the Closing Date and Subordinated Debt subsequently incurred by Borrower, the terms and amount of which are acceptable to Required Lenders; (iv) Debt under any Oil and Gas Hedge Transaction permitted by SECTION 7.03(J) below; (v) Debt incurred in accordance with the Approved Notes Offering; (vi) Debt under Capital Leases not to exceed \$10,000,000; (vii) Debt associated with bonds or surety obligations required in the ordinary course of business by any Governmental Authority in connection with the operation of Borrower's Oil and Gas Properties; (viii) Debt with respect to the promissory note executed by Borrower on the Closing Date, payable to Cometra Production Company, Inc., in the original principal amount of \$133,994,137.64; (ix) Debt of Borrower and its Subsidiaries existing on the Closing Date which is reflected in the financial statements described in SECTION 7.01(A) or otherwise disclosed to Administrative Agent in writing, and any renewals or extensions (but not increases) thereof; and (x) accounts payable (for the deferred purchase price of property or services) from time to time incurred in the ordinary course of business which, if greater than 90 days past the invoice or billing date, are being contested in good faith by appropriate proceedings if reserves adequate under GAAP shall have been established therefor; and

(2) After the Trigger Event occurs, Debt in addition to that permitted in SECTION 7.03(B)(1) not to exceed \$20,000,000 in the aggregate.

(c) MERGERS AND SALES OF ASSETS. Borrower will not and will not permit any Subsidiary of Borrower to (a) merge or consolidate with, whether in one transaction or in a series of transactions, any Person or Persons or (b) sell, assign, lease, or otherwise dispose of, whether in one transaction or in a series of transactions, any properties (a "Property Disposition") other than (x) sales of hydrocarbons produced from Borrower's Oil & Gas Properties in the ordinary course of business and (y) other Property Dispositions; provided, that (i) unless Borrower has provided Lenders prior notice of a Property Disposition as provided in clause (ii) below, (A) such Property Disposition may only be for cash consideration, and (B) the Borrowing Base shall reduce simultaneously with the completion of such Property Disposition by an amount equal to the Net Cash Proceeds from such Property Disposition, and (ii) Borrower may, at its option in connection with any Property Disposition in which the cash consideration consists solely of cash, and Borrower shall, in connection with any Property Disposition in which the consideration consists in whole or in part of property other than cash, provide Lenders not less than 15 days advance written notice of such Property Disposition, describing the properties to be disposed of and the consideration to be received, and Lenders shall have the right to reduce the Borrowing Base then in effect by an amount equal to the Borrowing Base value attributable to the properties to be disposed of; any reduction in the Borrowing Base pursuant to this clause (ii) shall (A) be determined by Required Lenders in their sole discretion but in a manner consistent with redeterminations of the Borrowing Base generally as provided in Article IV, (B) shall be effective simultaneously with the subject Property Disposition, and (C) shall not be in lieu of any Special Determination available to Lenders under Article IV; notwithstanding the foregoing, no reduction of the Borrowing Base shall be required in connection with a Property Disposition under this clause (b) of this SECTION 7.03(C) except with respect to the aggregate consideration received by Borrower and its Subsidiaries for all Property Dispositions completed since the most recent Periodic Determination (including the consideration to be received pursuant to the subject Property Disposition) that exceeds 5% of the Borrowing Base in effect immediately after such Periodic Determination. Notwithstanding anything to the contrary contained in clause (a) of this SECTION

7.03(C), Borrower or any Subsidiary of Borrower may merge or consolidate with any other Person and any Subsidiary of Borrower may transfer properties to any other Subsidiary of Borrower or to Borrower so long as, in each case, (i) immediately thereafter and giving effect thereto, no event will occur and be continuing which constitutes an Event of Default, (ii) in the case of any such merger or consolidation to which Borrower is a party, Borrower is the surviving Person, (iii) in the case of any such merger or consolidation to which any Subsidiary of Borrower is party (but not Borrower), a Subsidiary is the surviving Person, and (iv) the surviving Person ratifies each applicable Loan Document and; PROVIDED, FURTHER, that any Subsidiary of Borrower may merge or consolidate with any other Subsidiary of Borrower so long as, in each case (i) immediately thereafter and giving effect thereto, no event will occur and be continuing which constitutes an Event of Default and (ii) the surviving Person, if necessary, ratifies each applicable Loan Document.

(d) CHANGES IN BUSINESS. Engage in any business which differs substantially from its present business.

(e) PLAN CONTRIBUTIONS. Make contributions to any Plan in any one year which, in the aggregate, exceed \$4,000,000.

(f) ADVANCES AND INVESTMENTS. Make, or permit any Subsidiary to make, Advances to any Person (excluding Advances by Borrower to a Subsidiary or by a Subsidiary to another Subsidiary) or make Investments in any Person; PROVIDED, THAT, Borrower and its Subsidiaries may (i) make Advances to or Investments in any wholly owned Subsidiary of Borrower, (ii) make Advances in addition to those described in clause (i) preceding which do not exceed \$5,000,000 in the aggregate in any calendar year and \$15,000,000 in the aggregate during the Commitment Period, and (iii) make Permitted Investments.

(g) RESTRICTED PAYMENTS. Make any Restricted Payment; provided, that, so long as no Default or Event of Default exists and no Default or Event of Default will result from the Restricted Payment, Restricted Payments may be made in an aggregate amount (measured cumulatively from January 1, 1997) not to exceed the sum of (i) \$5,000,000, plus (ii) 50% of the Net Cash Proceeds to Borrower from all common equity offerings completed by Borrower after January 1, 1997, excluding the Net Cash Proceeds from the Common Stock Offering, plus (ii) 50% of Borrower's Consolidated Net Income earned after January 1, 1997.

(h) INTEREST PAYMENTS. Make payments of interest or principal on Subordinated Debt, if there is an Event of Default under this Agreement or if a payment of interest or principal on the Subordinated Debt will cause a breach of any of the covenants set out in SECTION 7.04.

(i) OIL AND GAS HEDGE TRANSACTIONS. Enter into Oil and Gas Hedge Transactions with the exception that Borrower and its Subsidiaries may enter into Oil and Gas Hedge Transactions as long as the volume of hydrocarbons with respect to which a settlement payment is calculated under such Oil and Gas Hedge Transactions does not exceed 80% of Borrower's and its Subsidiaries' anticipated production from proved, developed producing reserves during the period from the immediately preceding settlement date (or the commencement of the term of such Oil and Gas Hedge Transactions if there is no prior settlement date) to such settlement date.

(j) TRANSACTIONS WITH AFFILIATES. Engage in any material transaction with an Affiliate unless the transaction is generally as favorable to Borrower or any Subsidiary as could be obtained in an arm's length transaction with an unaffiliated Person in accordance with prevailing industry customs and practices.

(k) PLANS. Permit any Subsidiary to create, adopt, or become bound by any Plan.

(l) INTEREST TRANSACTIONS. Enter into or permit any Subsidiary to enter into any interest rate, currency or other swap, option, collar or other derivative transaction pursuant to which Borrower or a Subsidiary speculates on the movement of interest rates, financial markets, currency markets or other items; provided, that nothing contained herein shall prohibit Borrower from (a) entering into interest rate swaps or other interest rate hedge transactions pursuant to which Borrower hedges interest rate risk with respect to the interest reasonably anticipated to be incurred pursuant to this

Agreement, (b) entering into hedge transactions permitted by this Agreement, or (c) making Permitted Investments.

(m) OPTIONAL PAYMENTS AND MODIFICATIONS. Make any optional payment on or defeasance or purchase of (or otherwise set apart assets for a sinking or other analogous fund or trust for the purchase of) any Debt, or amend, modify, waive, supplement or terminate, or permit the amendment, modification, supplement, waiver or termination of any document related to Subordinated Debt.

(n) LIMITATION ON SALES AND LEASEBACKS. Enter into any arrangement with any Person providing for the leasing by Borrower or any Subsidiary of any real or personal property which has been or is to be sold or transferred by Borrower or the Subsidiary to the Person or to any other Person to whom funds have been or are to be advanced by the Person on the security of the property or rental obligations of Borrower or any Subsidiary.

(o) LIMITATION ON NEGATIVE PLEDGE CLAUSES. Enter into with any Person any agreement, other than the Loan Documents, which prohibits or limits the ability of Borrower or any Subsidiary to create, incur, assume, or suffer to exist any Lien upon any of its property, assets, or revenues, whether now owned or hereafter acquired, other than restrictions imposed in connection with Capital leases or purchase money obligations for property leased or acquired in the ordinary course of business on the property so leased or acquired, customary restrictions contained in stock purchase agreements, asset sale agreements limiting the transfer of assets pending the closing of the sale, and customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practice.

7.04. FINANCIAL COVENANTS. So long as this Agreement remains in force, Borrower and its Consolidated Subsidiaries shall maintain, on a consolidated basis, the following (all calculated in accordance with GAAP):

(a) CONSOLIDATED TANGIBLE NET WORTH. A minimum Consolidated Tangible Net Worth as of any date which is not less than the sum of (i) \$100,000,000, plus (ii) 90% of the Net Cash Proceeds from the Common Stock Offering, plus (iii) 50% of the net proceeds to Borrower from the issuance of equity securities on or after January 1, 1997, excluding the Net Cash Proceeds from the Common Stock Offering;

(b) SENIOR DEBT INTEREST COVERAGE RATIO. A ratio of EBITDA to Consolidated Interest Expense on Senior Debt for each period of four consecutive fiscal quarters of at least 3.0 to 1.00;

(c) TOTAL DEBT INTEREST COVERAGE RATIO. A ratio of EBITDA to Consolidated Interest Expense on Total Debt for each period of four consecutive fiscal quarters of at least 2.5 to 1.0;

(d) SENIOR DEBT LEVERAGE RATIO. A ratio of Senior Debt as of the last day of any fiscal quarter to EBITDA for the period of four fiscal quarters then ended not in excess of 3.0 to 1.0;

(e) TOTAL DEBT LEVERAGE RATIO. A ratio of Total Debt as of the last day of any fiscal quarter to EBITDA for the period of four fiscal quarters then ended not in excess of 5.0 to 1.0; and

(f) CURRENT RATIO. A ratio of current assets to current liabilities on any date of at least 1.0 to 1.0 (for purposes of this calculation, current assets will include an amount equal to the Unused Availability).

During the first 12 months after the Closing Date, EBITDA and Consolidated Interest Expense for purposes of paragraphs (b), (c), (d), and (e) will be calculated on an annualized basis based upon Borrower's operations after the Closing Date.

#### ARTICLE 8 - DEFAULT.

8.01. EVENTS OF DEFAULT. As used in this Agreement, the term "EVENT OF DEFAULT" means the occurrence of any of the following events or existence of any of the following conditions:

(a) Failure of Borrower to pay when due any principal of any Note or any reimbursement obligation with respect to any Letters of Credit when due; or

(b) Failure of Borrower to pay any accrued interest due and owing on any Note or any fees or any other amount payable hereunder when due and the failure shall continue for a period of five days; or

(c) Failure of Borrower to observe or perform any covenant or agreement contained in SECTION 7.02(c), SECTION 7.03, or SECTION 7.04 of this Agreement; or

(d) Any default by Borrower or a Subsidiary in the performance of any other covenant, agreement, obligation, or undertaking contained in this Agreement or any other Loan Document, any document called for by this Agreement or any other Loan Document, or any other agreement with any Agent or Lenders (whether now existing or made hereafter), which is not expressly covered by another subsection of this SECTION 8.01, and which has not been cured to Majority Lenders' satisfaction within the earlier to occur of (i) 30 days after written notice from Administrative Agent to Borrower of the default or (ii) 30 days after the date Borrower should have notified Lenders of the default pursuant to the terms of this Agreement; or

(e) Any warranty, representation, or statement contained in this Agreement or made or furnished to Lenders or on behalf of Borrower in connection with this Agreement or the Loans proves to have been false in any material respect when made or furnished; or

(f) (i) The default by Borrower or any Subsidiary in the performance of any obligation owed to someone other than Lenders with respect to any Debt in excess of \$5,000,000, or (ii) the commencement of any foreclosure proceedings against Borrower or any Subsidiary, if the default has not been cured or the foreclosure proceeding stopped, to Majority Lenders' satisfaction, within the earlier to occur of (A) 30 days after written notice from Administrative Agent to Borrower of the default or (B) 30 days after the date Borrower should have notified Lenders of the default pursuant to the terms of this Agreement; or

(g) Borrower's or any Guarantor's voluntary bankruptcy filing, its liquidation or termination of existence, its merger or consolidation with another, where Borrower is not the surviving entity, its insolvency, its forfeiture of right to do business, its appointment of a custodian, trustee, or receiver for any part of its property, or its assignment for the benefit of creditors; or

(h) The commencement by a third party of any proceeding under any bankruptcy or insolvency law against Borrower or any Guarantor if the proceeding has not been dismissed within 60 days after its commencement; or

(i) Borrower's failure to remedy a Borrowing Base Deficiency as required by SECTION 4.06; or

(j) Any of the following events shall occur or exist with respect to Borrower and any Commonly Controlled Entity under ERISA: any Reportable Event shall occur; complete or partial withdrawal from any Multiemployer Plan shall take place; any Prohibited Transaction shall occur; a notice of intent to terminate a Plan shall be filed, or a Plan shall be terminated; or circumstances shall exist which constitute grounds entitling the PBGC to institute proceedings to terminate a Plan, or the PBGC shall institute such proceedings; and in each case above, such event or condition, together with all other events or conditions, if any, could subject Borrower to any tax, penalty, or other liability which in the aggregate may exceed \$2,000,000; or

(k) If any Lender or any Agent receives its first notice of a material hazardous discharge or a material environmental complaint from a source other than Borrower (such Lender to immediately notify Administrative Agent and Borrower thereof) and Administrative Agent does not receive notice (which may be given in oral form, provided same is followed with all due dispatch by written notice given to Administrative Agent by certified mail, return receipt requested) of the hazardous

discharge or environmental complaint from Borrower within 72 hours of the time such Lender or Agent first receives the notice from a source other than Borrower; or if any federal, state, or local agency asserts or creates a lien upon any or all of the assets, equipment, property, leaseholds or other facilities of any Loan Party by reason of the occurrence of a hazardous discharge or an environmental complaint; or if any federal, state, or local agency asserts a claim against any Loan Party and/or its assets, equipment, property, leaseholds, or other facilities for damages or cleanup costs relating to a hazardous discharge or an environmental complaint; provided, however, that the claim shall not constitute a default if, within five Business Days of the occurrence giving rise to the claim (a) Borrower can provide to the satisfaction of each Agent that Borrower has commenced and is diligently pursuing either: (i) a cure or correction of the event which constitutes the basis for the claim, and continues diligently to pursue the cure or correction to completion or (ii) proceedings for an injunction, a restraining order or other appropriate emergency relief preventing the agency or agencies from asserting such claim, which relief is granted within ten Business Days of the occurrence giving rise to the claim and the injunction, order, or emergency relief is not thereafter resolved or reversed on appeal; and (b) in either of the foregoing events, Borrower or a Subsidiary has posted a bond, letter of credit, or other security satisfactory in form, substance, and amount to each Agent and the agency or entity asserting the claim to secure the proper and complete cure or correction of the event which constitutes the basis for the claim; or

(l) One or more judgments or orders for the payment of money aggregating in excess of \$1,000,000 shall be rendered against Borrower or any Subsidiary of Borrower and such judgment or order (i) shall continue unsatisfied and unstayed (unless bonded with a supersedeas bond at least equal to such judgment or order) for a period of 30 days or (ii) is not fully paid and satisfied at least ten days prior to the date on which any of its assets may be lawfully sold to satisfy such judgment or order; or

(m) This Agreement or any other Loan Document shall cease to be in full force and effect or shall be declared null and void or the validity or enforceability thereof shall be contested or challenged by Borrower or any Subsidiary of Borrower, or any Borrower or any Subsidiary of Borrower shall deny that it has any further liability or obligation under any of the Loan Documents, or any Lien created by the Loan Documents shall for any reason (other than the release thereof in accordance with the Loan Documents) cease to be a valid, first priority, perfected Lien upon any of the property purported to be covered thereby; or

(n) Any Person or group (as defined in Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) shall become the direct or indirect beneficial owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of more than 35% of the total voting power of all classes of Capital Stock then outstanding of Borrower entitled (without regard to the occurrence of any contingency) to vote in elections of directors of Borrower.

8.02. REMEDIES. (a) Upon the occurrence of an Event of Default, and at any time thereafter, Administrative Agent shall at the request of, or may, with the consent of, Majority Lenders, by notice to Borrower, (1) declare the Commitments to be terminated, whereupon the same shall immediately terminate; (2) declare the outstanding Notes, all interest thereon, and all other amounts payable under this Agreement, and the other Loan Documents to be immediately due and payable, whereupon the Notes, all interest, and all other amounts shall become and be immediately due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration, or further notice of any kind, all of which are hereby expressly waived by Borrower, and (3) exercise all of their rights and remedies under the Loan Documents; PROVIDED THAT in the case of the Events of Default specified in SECTION 8.01(G) or (H), without any notice to Borrower or any other act by Administrative Agent or Lenders, the Commitments shall thereupon terminate and the Notes (together with accrued interest thereon) shall become immediately due and payable.

(b) Upon the occurrence and during the continuance of any Event of Default, each Lender is hereby authorized at any time and from time to time, without notice to Borrower (any notice being expressly waived by Borrower), to set off and apply any and all deposits (general or special, time or demand, provisional or final), excluding those held in Special Accounts, at any time held and other indebtedness at any time owing by that Lender to or for the credit or the account of Borrower against any and all of the Obligations of Borrower now or hereafter existing under this Agreement or any Note held by



that Lender or any other Loan Document, irrespective of whether or not Administrative Agent or that Lender shall have made any demand under this Agreement or the Note or such other Loan Document and although the obligations may be unmaturred. Each Lender agrees promptly to notify Borrower (with a copy of Administrative Agent) after any set off and application, provided that the failure to give the notice shall not affect the validity of the set off and application. The rights of each Lender under this SECTION 8.02(B) are in addition to the other rights and remedies (including, without limitation, other rights of set off) which each Lender may have.

(c) Each Lender agrees that if it shall, by exercising any right of setoff or counterclaim or otherwise, receive payment after the occurrence and during the continuance of an Event of Default of a proportion of the aggregate amount of principal and interest due with respect to any Loan which is greater than the proportion received by any other Lender in respect of such Loan, Lender receiving such proportionately greater payment shall purchase such participations in the interests in such Loan held by the other Lenders, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to each Loan held by Lenders shall be shared by Lenders ratably in accordance with their respective Commitment Percentages; PROVIDED, THAT, nothing in this SECTION 8.03(C) shall impair the right of any Lender to exercise any right of setoff or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of Borrower other than its indebtedness under the Loans. Borrower agrees, to the fullest extent it may effectively do so under applicable law, that Lenders may exercise rights of setoff or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of Borrower in the amount of such participation.

ARTICLE 9 - AGENCY PROVISIONS.

9.01. APPOINTMENT. Each Lender hereby irrevocably designates and appoints each of Administrative Agent, Syndication Agent, and Documentation Agent as its Agent under this Agreement and the other Loan Documents, and each Lender irrevocably authorizes Agents, in those capacities, to take all action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise all powers and perform all duties as are expressly delegated to Agents by the terms of this Agreement and the other Loan Documents, together with all other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement, Agents shall not have any duties or responsibilities except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agents.

9.02. DELEGATION OF DUTIES. Each Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to the duties. Agents shall not be responsible for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

9.03. EXCULPATORY PROVISIONS. No Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except for its or that Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any Lender for any recitals, statements, representations or warranties made by any Loan Party or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by Agents under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of any Loan Party to perform its obligations hereunder or thereunder. Agents shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party.

9.04. RELIANCE BY AGENTS. Agents shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype

message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Loan Parties), independent accountants and other experts selected by each Agent. The Agents may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with Administrative Agent. Agents shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive the advice or concurrence of Required Lenders or Majority Lenders, as applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any action. Agents shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of Required Lenders, and the request and any action taken or failure to act pursuant thereto shall be binding upon all Lenders and all future holders of the Loans.

9.05. NOTICE OF DEFAULT. No Agent shall be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless such Agent has received notice from a Lender or Borrower referring to this Agreement, describing the Default or Event of Default and stating that the notice is a "notice of default". In the event that any Agent receives such a notice, such Agent shall give notice thereof to each other Agent and each other Lender. Administrative Agent shall take action with respect to the Default or Event of Default as shall be reasonably directed by Majority Lenders; provided that unless and until Administrative Agent shall have received these directions, Administrative Agent may (but shall not be obligated to) take action, or refrain from taking action, with respect to the Default or Event of Default as it shall deem advisable in the best interests of Lenders.

9.06. NON-RELIANCE ON AGENTS AND OTHER LENDERS. Each Lender expressly acknowledges that neither Agents nor any of their officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by Agents hereafter taken, including any review of the affairs of any Loan Party, shall be deemed to constitute any representation or warranty by Agents to any Lender. Each Lender represents to Agents that it has, independently and without reliance upon Agents or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of each Loan Party and made its own decision to make its extensions of credit hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon Agents or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of each Loan Party. Except for notices, reports, and other documents expressly required to be furnished to Lenders by Administrative Agent hereunder, no Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of any Loan Party which may come into the possession of Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

9.07. INDEMNIFICATION. Lenders agree to indemnify each Agent in its capacity as such (to the extent not reimbursed by Borrower and without limiting the obligation of Borrower to do so), ratably according to their respective Commitment Percentages in effect on the date on which indemnification is sought, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Obligations) be imposed on, incurred by or asserted against any Agent in any way relating to or arising out of, the Total Commitment, this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by each Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of the liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements resulting solely from an Agent's gross negligence or willful misconduct. The agreements in this subsection shall survive the payment of the Obligations and all other amounts payable hereunder.

9.08. EACH AGENT IN ITS INDIVIDUAL CAPACITY. Each Agent and its Affiliates may make loans to, accept deposits from, and generally engage in any kind of business with any Loan Party as though such Agent were not an Agent hereunder and under the other Loan Documents. With respect to the extensions of credit made by it, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

9.09. SUCCESSOR AGENT. Each Agent may resign as Agent upon written notice to Lenders and the appointment of a Successor Agent as set out in the following sentence. If an Agent shall resign as Agent under this Agreement and the other Loan Documents, then Required Lenders shall appoint from among Lenders a successor agent for Lenders, which successor agent, with the consent of Borrower (the consent not to be unreasonably withheld or delayed), shall succeed to the rights, powers and duties of such Agent hereunder. Effective upon the appointment and approval, the term "Agent" shall mean the successor agent (serving in the capacity of the predecessor Agent), and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of the former Agent or any of the parties to this Agreement or any holders of the Loans. After any retiring Agent's resignation as Agent, the provisions of this Article 9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement and the other Loan Documents.

9.10. ISSUING LENDER. The provisions of this Article 9 applicable to an Agent shall apply to the Issuing Lender in the performance of its duties under the Loan Documents, allowing for the appropriate changes that must be made.

ARTICLE 10 - PROTECTION OF YIELD; CHANGE IN LAWS.  
-----

10.01. RISK-BASED CAPITAL. In the event any Lender determines that (a) compliance with any judicial, administrative, or other governmental interpretation of any law or regulation adopted or made after the date hereof, or (b) compliance by such Lender or any corporation controlling such Lender with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) adopted or made after the date hereof has the effect of requiring an increase in the amount of capital required or expected to be maintained by such Lender or any corporation controlling the Lender, and such Lender determines that the increase is based upon its obligations hereunder, Borrower shall pay to Administrative Agent, for the account of the applicable Lender, the additional amount as shall be certified by that Lender to be the amount allocable to such Lender's obligations to Borrower hereunder. Such Lender will promptly notify Borrower (with a copy to Administrative Agent) of any event occurring after the date of this Agreement that will entitle that Lender to compensation pursuant to this SECTION 10.01 as promptly as practicable, and in any event within 90 days after it obtains knowledge thereof and determines to request the compensation.

Borrower's obligations under this Section 10.01 shall be subject to delivery to Borrower by any Lender claiming compensation under this Section 10.01 of a certificate setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder and certifying that it is generally charging such costs to other similarity situated borrowers under similar credit facilities.

Determinations by a Lender for purposes of this SECTION 10.01 of the effect of any increase in the amount of capital required to be maintained by such Lender and of the amount allocable to that Lender's obligations to Borrower hereunder shall be conclusive, absent manifest error.

10.02. BASIS FOR DETERMINING INTEREST RATE APPLICABLE TO EURODOLLAR LOANS INADEQUATE. If on or prior to the first day of any Interest Period:

(a) Administrative Agent is advised that deposits in dollars (in the applicable amounts) are not being offered to Lenders in the interbank eurocurrency market for the Interest Period, or

(b) Administrative Agent determines that the Eurodollar Rate as determined by it will not adequately and fairly reflect the cost to Lenders of funding a Eurodollar Loan for the Interest Period; or

(c) Adequate means do not exist in the interbank eurocurrency market to determine the Eurodollar Rate; the obligation of Lenders to make Eurodollar Loans shall be suspended until Administrative Agent notifies Borrower that the circumstances giving rise to the suspension no longer exist. Unless Borrower notifies Administrative Agent at least two Business Days before the date of any Eurodollar Loan previously requested that it elects not to borrow on that date, the Loan shall instead be made as a ABR Loan.

10.03. ILLEGALITY OF EURODOLLAR LOANS. (a) If, after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central Bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request or directive (whether or not having the force of law) of any the authority, central Bank, or comparable agency shall make it unlawful or impossible for that Lender (or its Lending Office) to make, maintain or fund its Eurodollar Loans, the obligation of such Lender to make Eurodollar Loans shall be suspended. If any Lender determines that it may not lawfully continue to maintain and fund any of its outstanding Eurodollar Loans to maturity, Borrower shall immediately convert the principal amount of each Eurodollar Loan to an ABR Loan of an equal principal amount from such Lender.

(b) No Lender shall be required to make a Loan hereunder if the making of the Loan would be in violation of any law applicable to such Lender.

10.04. INCREASED COST OF EURODOLLAR LOANS. If after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration hereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender with any request or directive (whether or not having the force of law) of any that authority, central bank, or comparable agency:

(a) shall subject such Lender to any tax, duty or other charge with respect to its Eurodollar Loans or its obligation to make Eurodollar Loans or shall change the basis of taxation of payments to a Lender of the principal of or interest on its Eurodollar Loans or any other amounts due under this Agreement in respect of its Eurodollar Loans or its obligation to make Eurodollar Loans (except for changes in the rate of tax on the overall net income of a Lender imposed by the jurisdiction in which such Lender's Lending Office is located); or

(b) shall impose, modify or deem applicable any reserve, special deposit or similar requirement [including, without limitation, any requirement imposed by the Board of Governors of the Federal Reserve System (but excluding with respect to any Eurodollar Loan any requirement included in an applicable Eurodollar Reserve Percentage)] against assets of, deposits with or for the account of or credit extended by such Lender or shall impose on such Lender or the eurodollar interbank market any other condition affecting the Eurodollar Loans, any Note or such Lender's obligation to make Eurodollar Loans;

and the result of any of the foregoing is to increase the cost to such Lender of making or maintaining any Eurodollar Loan, or to reduce the amount of any sum received or receivable by that Lender under this Agreement or under the Note with respect thereto, by an amount deemed by the Lender to be material, then, within 10 days after demand by Administrative Agent, Borrower shall pay to that Lender the additional amount or amounts as will compensate that Lender for the increased cost or reduction. Each Lender will promptly notify Borrower and Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this SECTION 10.04 and will designate a different Lending Office if the designation will avoid the need for, or reduce the amount of, such compensation and will not, in the reasonable judgment of that Lender, be otherwise disadvantageous to the Lender. Borrower's obligations under this SECTION 10.04 shall be subject to delivery to Borrower of a certificate by any Lender claiming compensation under this SECTION 10.04, setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder and certifying that it is generally charging such costs to other similarly situated borrowers under similar credit

facilities shall be delivered to Borrower and shall be conclusive in the absence of manifest error. In determining the amount, each Lender must use reasonable averaging and attribution methods.

10.05. ALTERNATIVE LOANS SUBSTITUTED FOR AFFECTED EURODOLLAR LOANS. If (a) the obligation of any Lender to make Eurodollar Loans has been suspended pursuant to SECTION 10.03 or (B) such Lender has demanded compensation under SECTION 10.04, and Borrower shall, by at least five Business Days prior notice to such Lender, have elected that the provisions of this SECTION 10.05 shall apply, then, unless and until such Lender notifies Borrower that the circumstances giving rise to the suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as Eurodollar Loans shall be made instead as ABR Loans, and

(ii) after each of its Eurodollar Loans has been repaid, all payments of principal which would otherwise be applied to repay the Eurodollar Loans shall be applied to repay its ABR Loans.

10.06. FUNDING LOSS INDEMNIFICATION. Upon notice to Borrower from a Lender (with a copy to Administrative Agent), Borrower shall pay to Administrative Agent, within five days after notice from a Lender, for the ratable benefit of each Lender, the amount or amounts sufficient to compensate them for any actual loss, cost, or expense (excluding loss of anticipated profits) incurred as a result of:

(a) Any payment of a Eurodollar Loan on a date other than the last day of the Interest Period for the Loan including, but not limited to, acceleration of the Loans by Administrative Agent pursuant to this Agreement, or

(b) Any failure by Borrower to borrow or convert, as the case may be, a Eurodollar Loan on the date for borrowing or conversion, as the case may be, specified in the relevant notice under SECTION 2.02 or 2.07, as the case may be.

Each Lender shall determine the amount of compensation and will provide Borrower with the basis for its determination. Each Lender's determination shall be conclusive, absent manifest error.

10.07. TAXES. All amounts payable by Borrower under the Loan Documents (whether principal, interest, fees, expenses, or otherwise) to or for the account of each Lender shall be paid in full, free of any deductions or withholdings for or on account of any Taxes. If Borrower is prohibited by law from paying the amount free of any deductions and withholdings, then (at the same time and in the same manner that the original amount is otherwise due under the Loan Documents), Borrower shall pay to or for the account of such Lender such additional amount as may be necessary in order that the actual amount received by such Lender after deduction and/or withholding (and after payment of any additional Taxes due as a consequence of the payment of the additional amount, and so on) will equal the amount such Lender would have received if the deduction or withholding were not made.

10.08. DISCRETION OF LENDERS AS TO MANNER OF FUNDING. Notwithstanding any provisions of this Agreement to the contrary, each Lender shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if such Lender had actually funded and maintained each Eurodollar Loan during the Interest Period for the Eurodollar Loan through the purchase of deposits having a maturity corresponding to the last day of the Interest Period and bearing an interest rate equal to the Eurodollar Rate for the Interest Period.

10.09. LIMITATION ON ADDITIONAL AMOUNTS. Notwithstanding anything to the contrary contained in SECTION 10.01, 10.04, and 10.07, neither Borrower nor any Subsidiary of Borrower shall be required to pay to any Lender any increased costs, Taxes, loss, expense, or liability, reduction in amounts received or receivable or reduction in return on capital incurred more than 180 days prior to the date that such Lender notifies Borrower of such Lender's intention to claim any such compensation; provided that if the circumstances giving rise to such claim have a retroactive effect, then such 180 day period shall be extended to include the period of such retroactive effect.

10.10. REPLACEMENT LENDERS. (a) If any Lender has notified Borrower and Administrative Agent of its incurring additional costs under SECTIONS 10.01 or 10.04, or has required Borrower to make payments for Taxes under SECTION 10.07, then Borrower may, unless such Lender has notified Borrower and Administrative Agent that the circumstances giving rise to such notice no longer apply, terminate, in whole but not in part, the Commitment of any Lender (other than Administrative Agent) (the "TERMINATED LENDER") at any time upon five Business Days prior written notice to the Terminated Lender and Administrative Agent (such notice referred to herein as a "NOTICE OF TERMINATION").

(b) In order to effect the termination of the Commitment of the Terminated Lender, Borrower shall: (i) obtain an agreement with one or more Lenders to increase their Commitment or Commitments and/or (ii) request any one or more other banking institutions to become parties to this Agreement in place and instead of such Terminated Lender and agree to accept a Commitment or Commitments; PROVIDED, HOWEVER, that such one or more other banking institutions are reasonably acceptable to all Agents and become parties by executing an assignment reasonably acceptable to all Agents (an "ASSIGNMENT"; and Lenders or other banking institutions agree to accept in whole or in part the Commitment of the Terminated Lender being referred to herein as the "REPLACEMENT LENDERS"), such that the aggregate increased and/or accepted Commitments of the Replacement Lenders under clauses (i) and (ii) above equal the Commitment of the Terminated Lender.

(c) The Notice of Termination shall include the name of the Terminated Lender, the date the termination will occur (the "TERMINATION DATE"), and the Replacement Lender or Replacement Lenders to which the Terminated Lender will assign its Commitment and, if there will be more than one Replacement Lender, the portion of the Terminated Lender's Commitment to be assigned to each Replacement Lender.

(d) On the Termination Date, (i) the Terminated Lender shall by execution and delivery of an Assignment assign its Commitment to the Replacement Lender or Replacement Lenders (pro rata, if there is more than one Replacement Lender, in proportion to the portion of the Terminated Lender's Commitment to be assigned to each Replacement Lender) indicated in the Notice of Termination and shall assign to the Replacement Lender or Replacement Lenders each of its Loan (if any) then outstanding and participation interests in Letters of Credit (if any) then outstanding pro rata as aforesaid), (ii) the Terminated Lender shall endorse its Note, payable without recourse, representation or warranty to the order of the Replacement Lender or Replacement Lenders (pro rata as aforesaid), (iii) the Replacement Lender or Replacement Lenders shall purchase the Note held by the Terminated Lender (pro rata as aforesaid) at a price equal to the unpaid principal amount thereof plus interest and facility and other fees accrued and unpaid to the Termination Date, and (iv) the Replacement Lender or Replacement Lenders will thereupon (pro rata as aforesaid) succeed to and be substituted in all respects for the Terminated Lender with like effect as if becoming a Lender pursuant to the terms of SECTION 12.08(B), and the Terminated Lender will have the rights and benefits of an assignor under SECTION 12.08(B). To the extent not in conflict, the terms of SECTION 12.08(B) shall supplement the provisions of this SECTION 10.10(D). For each assignment made under this SECTION 10.10, the Replacement Lender shall pay to Administrative Agent any processing fee provided for in SECTION 12.08(B). Borrower shall pay any breakage costs as provided by SECTION 10.06, which occur as a result of the operation of this SECTION 10.10.

## ARTICLE 11 - FEES.

11.01 COMMITMENT FEES. On the first day of each January, April, July, and October commencing on April 1, 1997, and ending on the Termination Date or any earlier termination of the Commitments, Borrower shall pay to Administrative Agent for the ratable benefit of each Lender, a commitment fee payable with respect to the daily Unused Availability for the calendar quarter (or portion thereof) ending on the day prior to the date such payment is due equal to (i) .25% per annum of the average daily Unused Availability for such calendar quarter or portion thereof if the daily average Borrowing Base Usage during such calendar quarter (or portion thereof) is less than 50% for the calendar quarter ending on the date immediately preceding the date such commitment fee is payable, (ii) .30% per annum of the average daily Unused Availability for such calendar quarter or portion thereof if the average daily Borrowing Base Usage during such calendar quarter (or portion thereof) is equal to or greater than 50% but less than 75% for the calendar quarter ending on the day immediately preceding the date such commitment fee is payable, and (iii) .375% per annum of the average daily Unused Availability for such calendar quarter or portion thereof if the average daily Borrowing Base Usage during such calendar quarter (or portion thereof) is equal to or greater than 75% for the calendar quarter ending on the day immediately preceding the date such commitment fee is payable; PROVIDED THAT, until the Trigger Event has occurred, each of the referenced rates shall be increased by 0.05% prior to March 31, 1997, and by 0.10% thereafter. The commitment fees payable pursuant to this SECTION 11.01 shall be calculated on the basis of the actual number of days elapsed assuming a calendar year of 360 days.

11.02. AGENCY FEES. Borrower shall pay to each Agent and its Affiliates those fees and other amounts as Borrower shall be required to pay to each Agent and its Affiliates from time to time pursuant to any separate agreement between Borrower and that Agent or any of its Affiliates setting forth the compensation to be paid to such Agent and its Affiliates in consideration for acting as Agent hereunder and for providing other services in connection with the credit facilitations provided pursuant hereto. These fees and other amounts shall be retained by the applicable Agent and its Affiliates, and no Lender (other than the applicable Agents) shall have any interest therein.

11.03. LETTER OF CREDIT FEES. Borrower shall pay to Administrative Agent, for the ratable benefit of each Lender, and to the Issuing Lender, as appropriate, the fees provided for in SECTION 3.03 with respect to all Letters of Credit issued.

11.04. OTHER FEES. Borrower shall pay to Administrative Agent, for the ratable benefit of each Lender, those fees and other amounts as Borrower shall be required to pay to each Lender from time to time pursuant to any separate agreement between Borrower and Administrative Agent, for the ratable benefit of each Lender, setting forth the compensation to be paid to Lenders in consideration for participating in the credit facilitations provided pursuant hereto.

## ARTICLE 12 - GENERAL PROVISIONS.

12.01. EXPENSES. Borrower shall pay (i) all reasonable out-of-pocket expenses of Syndication Agent associated with the syndication of the Loans, (ii) all reasonable out-of-pocket expenses of Syndication Agent, including reasonable fees, disbursements and other charges of counsel for Syndication Agent, in connection with the preparation of this Agreement and the other Loan Documents and, if appropriate, the recordation of the Loan Documents, (iii) all reasonable out-of-pocket expenses of Administrative Agent, including reasonable fees, disbursements, and other charges of counsel for Administrative Agent, in connection with the preparation of any waiver or consent under this Agreement or any amendment hereof or any default or alleged default hereunder, (iv) all reasonable out-of-pocket expenses of preparing, obtaining, and furnishing to any Agent or any Lender any statements, opinions, certificates, schedules, documents, insurance policies, and all other items required to be furnished to any Agent or any Lender pursuant to this Agreement or any request made pursuant to this Agreement or any other Loan Document, and (v) if an Event of Default occurs, all out-of-pocket expenses incurred by Administrative Agent or any Lender, including the fees, disbursements and other charges of counsel in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom, fees of auditors and consultants incurred in connection therewith and investigation expenses incurred by Administrative Agent or any Lender in connection therewith.

12.02. NON-WAIVER. No act, delay, omission, or course of dealing will be a waiver of any of a Lender's rights or remedies under this Agreement or otherwise, and no waiver, change, or modification in whole or in part of this Agreement, any Note, or any other agreement will be effective unless in a writing signed by Borrower and Lenders. All rights and remedies of Lenders are cumulative and may be exercised singly or concurrently. A waiver by Lenders of any right or remedy on any occasion will not be a bar to the exercise of any right or remedy on any subsequent occasion.

12.03 . AMENDMENT AND WAIVERS. Any provision of this Agreement, the Notes or the other Loan Documents may be amended or waived if, but only if such amendment or waiver is in writing and is signed by Borrower and Majority Lenders (and, if the rights or duties of Administrative Agent are affected thereby, by Administrative Agent); PROVIDED THAT no amendment or waiver shall, unless signed by all Lenders, (a) modify the voting percentages of Lenders, or (b) release a guarantor or any part of the Collateral (other than as contemplated hereby); and further provided that no amendment or waiver shall, unless signed by each Lender directly affected thereby, (i) increase the Commitment of such Lender or subject any Lender to any additional obligation, (ii) forgive any of the principal of or reduce the rate of interest on any Loan or any fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan or any fees hereunder, or (iv) change a Lender's Commitment Percentage except as otherwise provided for in this Agreement or of the aggregate unpaid principal amount of the Notes, or the definitions of Majority Lenders and Required Lenders or the number or percentage of Lenders required to take any action under this SECTION 12.03 or any other provision of this Agreement.

12.04. SURVIVAL. All representations, warranties, and covenants made by Borrower herein or in any certificate or other instrument delivered by it or in its behalf under the Loan Documents shall be considered to have been relied upon by Lenders and shall survive the delivery to Lenders of the Loan Documents or the extension of the Loans (or any part thereof), regardless of any investigation made by or on behalf of Lenders.

12.05. LIMITATION ON INTEREST. Regardless of any provision contained in the Loan Documents, Lenders shall never be entitled to contract for, charge, receive, collect, or apply, as interest on the Loans, any amount in excess of the Maximum Lawful Rate, and in the event Lenders ever contract for, charge, receive, collect or apply as interest any excess, the amount which would be deemed excessive interest shall be deemed a partial prepayment of principal and treated hereunder as such; and if the Loans are paid in full, any remaining excess shall promptly be paid to Borrower. In determining whether or not the interest paid or payable under any specific contingency exceeds the Maximum Lawful Rate, Borrower and Lenders shall, to the extent permitted under applicable law, (a) characterize any nonprincipal payment as an expense, fee or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof and (c) amortize, prorate, allocate and spread, in equal parts, the total amount of the interest throughout the entire contemplated term of the Notes, so that the interest rate is the Maximum Lawful Rate throughout the entire term of the Notes; provided, however, that if the unpaid principal balance thereof is paid and performed in full prior to the end of the full contemplated term thereof, and if the interest contracted for, charged or received for the actual period of existence thereof exceeds the Maximum Lawful Rate, Lenders shall refund to Borrower or any Subsidiary, as appropriate, the amount of the excess and, in that event, Lenders shall, to the fullest extent permitted under applicable law, not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of the Maximum Lawful Rate.

12.06. INVALID PROVISIONS. If any provision of the Loan Documents is held to be illegal, invalid, or unenforceable under present or future laws effective during the term thereof, the provision shall be fully severable, the Loan Documents shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never comprised a part thereof, and the remaining provisions thereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance therefrom. Furthermore, in lieu of the illegal, invalid, or unenforceable provision there shall be added automatically as a part of the Loan Documents a provision as similar in terms to the illegal, invalid, or unenforceable provision as may be possible and be legal, valid and enforceable.

12.07. WAIVER OF CONSUMER CREDIT LAW. Pursuant to Article 15.10(b) of Chapter 15, Subtitle 79, Revised Civil Statutes of Texas, 1925, as amended, Borrower agrees that Chapter 15 shall not govern or in any manner apply to the Loans.



12.08. SUCCESSORS AND ASSIGNS. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that Borrower may not assign or otherwise transfer any of its rights under this Agreement.

(b) Each Lender may transfer or assign all or any part of its interest in Loans and its interest herein to any of its Affiliates regardless of the term of the transfer or assignment. Each Lender may transfer or assign all or any part of its interest in Loans to any commercial bank which is a member of the Federal Reserve System and has combined capital and surplus and undivided profits of not less than \$100,000,000. Notwithstanding the foregoing, no Lender shall transfer or assign all or any part of its Loans under this Agreement to any Person other than an Affiliate of such Lender without the prior written approval of Borrower and Agents, the approval to not be unreasonably withheld; PROVIDED, THAT, Borrower's consent will not be required if a Default or Event of Default has occurred and is continuing. As to each assignment of Loans permitted by this Agreement, Borrower releases the assigning Lender from its obligations under this Agreement as to the portion of the Loans assigned.

(c) Any Lender may (subject to the provisions of this section, in accordance with applicable law, in the ordinary course of its business, and at any time) sell to one or more Persons participating interests in its portion of the Obligations. The seller Lender remains a "Lender" under the Loan, the participant does not become a "Lender" under the Loan Documents, and the selling Lender's obligations under the Loan Documents remain unchanged. The selling Lender remains solely responsible for the performance of its obligations and remains the holder of its share of the outstanding Loan for all purposes under the Loan Documents. Borrower and each Agent shall continue to deal solely and directly with the selling Lender in connection with that Lender's rights and obligations under the Loan Documents, and each Lender must retain the sole right and responsibility to enforce due obligations of Borrower. Participants have no rights under the Loan Documents except certain voting rights as provided below. No Lender may sell any participating interest under which the participant has any rights to approve any amendment, modification, or waiver of any Loan Document except as to matters requiring the approval of all Lenders as set forth in SECTION 12.03.

(d) Each Lender shall have the right to disclose any information in its possession regarding Borrower or any Subsidiary, or regarding the Collateral, to any transferee, participant, potential transferee, or potential participant of any of the Loans or any part thereof; provided that such Persons agree to be bound by the provisions of SECTION 12.16.

(e) Nothing herein shall prohibit a Lender from pledging or assigning any Note to any Federal Reserve Bank in accordance with applicable law.

12.09. FOREIGN LENDERS, PARTICIPANTS, AND ASSIGNEES. Each Lender, participant (by accepting a participation interest under this Agreement), and assignee (by executing an assignment and assumption agreement in a form acceptable to Agents) that is not organized under the laws of the United States of America or one of its states (a) represents to Administrative Agent and Borrower that (i) no Taxes assessed by any Governmental Authority in the United States are required to be withheld by Administrative Agent or Borrower with respect to any payments to be made to it in respect of the Obligations and (ii) it has furnished to Administrative Agent and Borrower two duly completed copies of either U. S. Internal Revenue Service Form 4224, Form 1006, Form W-8, or other form acceptable to Administrative Agent that entitles it to exemption from U.S. federal withholding Tax on all interest payments under the Loan Documents, and (b) covenants to (i) provide Administrative Agent and Borrower a new Form 4224, Form 1001, Form W-8, or other form acceptable to Administrative Agent upon the expiration or obsolescence of any previously delivered form according to applicable laws and regulations, duly executed and completed by it, and (ii) comply from time to time with all applicable laws and regulations with regard to the withholding Tax exemption. If any of the foregoing is not true or the applicable forms are not provided, then Borrower and Administrative Agent (without duplication) may deduct and withhold from interest payments under the Loan Documents any United States federal income Tax at the maximum rate under the Code without reimbursement pursuant to SECTION 10.07.

12.10. NOTICES. All notices, requests, or other communications required or permitted to be given by this Agreement or any other Loan Documents must be in writing (including by facsimile transmission)

and unless otherwise expressly provided herein, shall be deemed to have been duly given or made (a) in the case of delivery by hand or by courier service, when delivered, (b) in the case of delivery by mail, three Business Days after being deposited in the mails, postage prepaid, or (c) in the case of delivery by facsimile transmission, when sent and receipt has been confirmed, addressed as follows in the case of Borrower and Agents, and as set forth in SCHEDULE 2 in the case of the other parties hereto, or to such other address as may be hereafter notified by the representative parties hereto:

Borrower: Lomak Petroleum, Inc.  
500 Throckmorton Street, Suite 2104  
Fort Worth, Texas 76102  
Attention: John H. Pinkerton  
Telephone No.: (817) 870-2601  
Fax No.: (817) 870-2316

and

Lomak Petroleum, Inc.  
125 State Route 43  
Hartsville, Ohio 44632  
Attention: Thomas W. Stoelk  
Telephone No.: (330) 877-6747  
Fax No.: (330) 877-6129

Administrative Agent: Bank One, Texas, N.A.  
500 Throckmorton Street  
Fort Worth, Texas 76102  
Attention: Brad Bartek  
Telephone No.: (817) 884-5707  
Fax No.: (817) 884-5622

Syndication Agent: The Chase Manhattan Bank  
2200 Ross Avenue  
Dallas, Texas 75266-6197  
Attn: Timothy E. Perry  
Telephone No.: (214) 965-2536  
Fax No.: (214) 965-2389

Documentation Agent: NationsBank of Texas, N.A.  
901 Main Street, 64th Floor  
Dallas, Texas 75202  
Attn: J. Scott Fowler  
Telephone No.: (214) 508-3747  
Fax No.: (214) 508-1285

Notwithstanding the foregoing, any notice, request, or demand to or upon Administrative Agent or Lenders pursuant to SECTIONS 2.02, 2.07, or 2.09 shall not be effective until received.

12.11. REPORTS AND CERTIFICATES. All reports and certificates of Borrower required by this Agreement must be in form and substance satisfactory to Administrative Agent and made under oath before a notary public by an authorized corporate officer or representative of Borrower.

12.12. GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA AND SHALL BE PERFORMED IN TARRANT COUNTY, TEXAS.

12.13. COMPLETE AGREEMENT. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG LENDERS, AGENTS, AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR

SUBSEQUENT ORAL AGREEMENTS OF LENDERS, AGENTS, OR BORROWER. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDERS, AGENTS, AND BORROWER.

12.14. WAIVER OF JURY TRIAL. BORROWER , AGENTS, AND LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS AND FOR ANY COUNTERCLAIM THEREIN.

12.15. COUNTERPARTS; EFFECTIVENESS. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when Administrative Agent shall have received counterparts hereof signed by all of the parties hereto or, in the case of any Lender as to which an executed counterpart shall not have been received, Administrative Agent shall have received telegraphic or other written confirmation from that Lender of execution of a counterpart hereof by that Lender.

12.16. CONFIDENTIALITY. In the event that Borrower provides to Administrative Agent or Lenders written confidential information belonging to Borrower, if Borrower shall denominate such information in writing as "confidential", Administrative Agent and Lenders shall thereafter maintain such information in confidence in accordance with the standards of care and diligence that each utilizes in maintaining its own confidential information. This obligation of confidence shall not apply to such portions of the information which (i) are in the public domain, (ii) hereafter become part of the public domain without Administrative Agent or Lenders breaching their obligation of confidence to Borrower, (iii) are previously known by Administrative Agent or Lenders from some source other than Borrower, (iv) are hereafter developed by Administrative Agent or Lenders without using Borrower's information, (v) are hereafter obtained by or available to Administrative Agent or Lenders from a third party who owes no obligation of confidence to Borrower with respect to such information or through any other means other than through disclosure by Borrower, (vi) are disclosed with Borrower's consent, (vii) must be disclosed either pursuant to any Governmental Requirement or to Persons regulating the activities of Administrative Agent or Lenders, or (viii) as may be required by law or regulation or order of any Governmental Authority in any judicial, arbitration, or governmental proceeding. Further, Administrative Agent or a Lender may disclose any such information to any other Lender, any independent petroleum engineers or consultants, any independent certified public accountants, any legal counsel employed by such Person in connection with this Agreement or any Security Instrument, including without limitation, the enforcement or exercise of all rights and remedies thereunder, or any assignee or participant (including prospective assignees and participants) in the Loans; PROVIDED, HOWEVER, that Administrative Agent or Lenders shall receive a confidentiality agreement from the Person to whom such information is disclosed such that said Person shall have the same obligation to maintain the confidentiality of such information as is imposed upon Administrative Agent or the Lenders hereunder. Notwithstanding anything to the contrary provided herein, this obligation of confidence shall cease five years from the date the information was furnished, unless Borrower requests in writing at least 30 days prior to the expiration of such five year period, to maintain the confidentiality of such information for an additional five year period.

Executed in Fort Worth, Texas, on the date first set forth above.

BORROWER:

-----

LOMAK PETROLEUM, INC.

By:

-----

John H. Pinkerton, President

LENDERS:  
-----

THE CHASE MANHATTAN BANK,  
as Syndication Agent, Issuing Lender,  
and a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK ONE, TEXAS, N.A.,  
as Administrative Agent, Issuing Lender,  
and a Lender

By: \_\_\_\_\_  
Brad Bartek,  
Vice President

NATIONSBANK OF TEXAS, N.A.,  
as Documentation Agent, Issuing Lender,  
and a Lender

By: \_\_\_\_\_  
J. Scott Fowler,  
Vice President

PNC BANK, NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Thomas K. Grundman,  
Senior Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CIBC INC.

By: \_\_\_\_\_  
Michael A.G. Corkum,  
Authorized Signer

THE FIRST NATIONAL BANK OF CHICAGO

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK OF MONTREAL

By: \_\_\_\_\_  
Bobby Roberts,  
Director

WELLS FARGO BANK (TEXAS), N.A.

By: \_\_\_\_\_  
Charles D. Kirkham,  
Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ABN AMRO BANK N.V., HOUSTON AGENCY  
By: ABN AMRO NORTH AMERICA, INC.

By: \_\_\_\_\_  
H. Gene Shiels,  
Vice President and Director

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## SCHEDULE 1

## COMMITMENTS

LENDER	COMMITMENT	COMMITMENT PERCENTAGE
The Chase Manhattan Bank	\$45,000,000	11.25%
Bank One, Texas, N.A.	\$45,000,000	11.25%
NationsBank of Texas, N.A.	\$45,000,000	11.25%
PNC Bank, National Association	\$35,000,000	8.75%
The First National Bank of Boston	\$35,000,000	8.75%
CIBC Inc.	\$35,000,000	8.75%
The First National Bank of Chicago	\$35,000,000	8.75%
Bank of Montreal	\$35,000,000	8.75%
Wells Fargo Bank (Texas), N.A.	\$35,000,000	8.75%
Credit Lyonnais New York Branch	\$35,000,000	8.75%
ABN AMRO Bank N.V., Houston Agency	\$20,000,000	5.00%
Total Commitment	\$400,000,000	100.00%

## SCHEDULE 2

-----

## ADDRESSES FOR NOTICES

-----

ABN AMRO Bank N.V., Houston Agency  
 c/o ABN AMRO North America, Inc.  
 Three Riverway, Suite 1700  
 Houston, Texas 77056  
 Attention: H. Gene Shields  
 Telephone No.: (713) 964-3356  
 Fax No.: (713) 629-7533

Credit Lyonnais New York Branch  
 1000 Louisiana, Suite 5360  
 Houston, Texas 77002  
 Attention: David Dodd  
 Telephone No.: (713) 753-8705  
 Fax No.: (713) 751-0307

-----

The First National Bank of Boston  
 100 Federal Street  
 Boston, Massachusetts 02110  
 Attention: George Passela  
 Telephone No.: (617) 434-7160  
 Fax No.: (617) 434-2473

The First National Bank of Chicago  
 One First National Plaza, 10th Floor  
 Suite 0634  
 Chicago, Illinois 60670-0634  
 Attention: John Bierne  
 Telephone No.: (312) 732-3659  
 Fax No.: (312) 732-4840

-----

Bank of Montreal  
 700 Louisiana, Suite 4400  
 Houston, Texas 77002  
 Attention: Bobby Roberts  
 Telephone No.: (713) 546-9754  
 Fax No.: (713) 223-4007

NationsBank of Texas, N.A.  
 901 Main Street, 64th Floor  
 Dallas, Texas 75283-0140  
 Attn: J. Scott Fowler  
 Telephone No.: (214) 508-3747  
 Fax No.: (214) 508-1285

-----

Bank One, Texas, N.A.  
 500 Throckmorton Street  
 Fort Worth, Texas 76102  
 Attention: Brad Bartek  
 Telephone No.: (817) 884-5707  
 Fax No.: (817) 884-5622

PNC Bank, National Association  
 One PNC Plaza, 249 5th Avenue  
 Pittsburgh, Pennsylvania 15265  
 Attention: John Way  
 Telephone No.: (412) 762-5290  
 Fax No.: (412) 762-2571

-----

CIBC Inc.  
 909 Fannin, Suite 1200  
 Houston, Texas 77010  
 Attention: Paul Jordan  
 Telephone No.: (713) 658-8400  
 Fax No.: (713) 650-3727

Wells Fargo Bank (Texas), N.A.  
 500 North Akard, 3535 Lincoln Plaza  
 Dallas, Texas 75201  
 Attention: Chad Kirkham  
 Telephone No.: (214) 777-4026  
 Fax No. (214) 777-4044

-----

The Chase Manhattan Bank  
 2200 Ross Avenue  
 Dallas, Texas 75266-6197  
 Attn: Timothy E. Perry  
 Telephone No.: (214) 965-2536  
 Fax No.: (214) 965-2389

-----

## SCHEDULE 3

-----

## LIST OF SUBSIDIARIES

Buffalo Oilfield Services, Inc., an Ohio corporation, 100% owned by Lomak Petroleum, Inc.;

LPI Acquisition, Inc., a Texas corporation, 100% owned by Lomak Petroleum, Inc.;

LPI Operating Company, an Ohio corporation, 100% owned by Lomak Petroleum, Inc.;

Lomak Energy Company, a Delaware corporation, 100% owned by Lomak Production Company;

Lomak Energy Services Company, a Delaware corporation, 100% owned by Lomak Petroleum, Inc.;

Lomak Gathering & Processing Company, a Delaware corporation, 100% owned by Lomak Petroleum, Inc.;

Lomak Gas Company, a Delaware corporation, 100% owned by Lomak Petroleum, Inc.;

Lomak Operating Company, an Ohio corporation, 100% owned by Lomak Petroleum, Inc.;

Lomak Production Company, a Delaware corporation, 100% owned by Lomak Petroleum, Inc.;

Lomak Resources Company, a Delaware corporation, 100% owned by Lomak Operating Company;

Lomak Resources, L.L.C., an Oklahoma limited liability company, owned by Lomak Production Company (2.5%) and Lomak Resources Company (97.5%);

Lomak Offshore, L.P., an Ohio limited partnership, owned by LPI Operating Company (1%), Lomak Operating Company (49%), and Lomak Resources Company (50%);

Lomak Pipeline Systems, L.P., a Texas limited partnership, owned by Lomak Gathering & Processing Company (1%) and Lomak Gas Company (99%); and

Lomak Production I, L.P., a Texas limited partnership, owned by Lomak Production Company (1%) and Lomak Energy Company (99%).



SCHEDULE 4  
-----

LIENS

None

Exhibit A to  
Credit Agreement

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (this "ASSIGNMENT") is entered into as of the 14th day of February, 1997, by and among Bank One, Texas, N.A. ("BANK ONE"), NationsBank of Texas, N.A. ("NATIONSBANK"), Texas Commerce Bank National Association ("TCB"), PNC Bank, National Association ("PNC"), The Chase Manhattan Bank ("CHASE"), The First National Bank of Boston ("BB"), CIBC, Inc. ("CIBC"), The First National Bank of Chicago ("FC"), Bank of Montreal ("BOM"), Wells Fargo Bank, N.A. ("WF"), Credit Lyonnais New York Branch ("CL"), ABN AMRO Bank N.V., Houston Agency ("ABN"), and Lomak Petroleum, Inc., Lomak Operating Company, Lomak Production Company, Lomak Resources Company, Eastern Petroleum Company, Lomak Production I, L.P., and Lomak Resources, L.L.C., as borrowers (the "EXISTING BORROWERS").

Recitals:  
-----

A. THE EXISTING BORROWERS AND BANK ONE, INDIVIDUALLY AND AS AGENT, NATIONSBANK, TCB, AND PNC (THE "EXISTING LENDERS"), as lenders, are parties to a Second Amended and Restated Revolving Credit and Term Loan Agreement dated December 20, 1995 (as amended through the date hereof, the "EXISTING CREDIT AGREEMENT"), pursuant to which the Existing Lenders made revolving loans (the "EXISTING LOANS") to the Existing Borrowers, payment of which is secured by liens, security interests, and other rights in oil and gas properties and other properties in Alabama, Louisiana, Michigan, Ohio, Oklahoma, Pennsylvania, Texas, and West Virginia.

B. (a) The Existing Lenders desire to sell and assign to Chase, BB, CIBC, FC, BOM, WF, CL, and ABN (collectively the "ASSIGNEE LENDERS"), certain undivided interests in all rights and obligations of the Existing Lenders under the Existing Credit Agreement, including without limitation, certain interests in (i) the Existing Loans, including the current aggregate principal amount of \$79,700,000 owed on the Existing Loans by the Existing Borrowers as of the date of this Assignment, and participation interests in letters of credit outstanding thereunder, if any, (ii) the Existing Credit Agreement and all related loan documents, (iii) the commitment of each Existing Lender to make loans and participate in letters of credit under the Existing Credit Agreement, and (iv) the right to receive payments of principal, interest, and fees payable under the Existing Credit Agreement (collectively, the "EXISTING RIGHTS AND OBLIGATIONS"), and (b) the Assignee Lenders desire to purchase and assume such interests in the Existing Rights and Obligations from the Existing Lenders so that, after giving effect to such Assignment, each of the Existing Lenders and the Assignee Lenders (collectively the "LENDERS") will hold an undivided percentage interest of the Existing Rights and Obligations equal to its Commitment Percentage (as herein defined).

C. The percentage of the Existing Rights and Obligations held by each Existing Lender on the date hereof is as set forth on SCHEDULE 1 hereto (for each Existing Lender, its "EXISTING COMMITMENT PERCENTAGE"); and

D. The parties desire to enter into this Assignment to, among other things, evidence the sale and assignment from the Existing Lenders and the purchase and assumption by the Assignee Lenders of a portion of the Existing Rights and Obligations.

Agreement:  
-----

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed, the parties agree as follows:

SECTION 1. ASSIGNMENT AND ASSUMPTION. In reliance on the representations, warranties, covenants, and agreements contained in this Assignment, the parties hereby agree to the following:

1.1 ASSIGNMENT TO THE ASSIGNEE LENDERS. Each Existing Lender has ASSIGNED, TRANSFERRED, SET OVER, and CONVEYED, and by these presents does hereby ASSIGN, TRANSFER, SET OVER, and CONVEY unto each Assignee Lender that percentage interest of the Existing Rights and Obligations reflected as being sold and assigned by each Existing Lender to each Assignee Lender in SCHEDULE 2 hereto (such percentage of the aggregate assigned Existing Rights and Obligations applicable to any single assignment between a single Existing Lender and a single Assignee Lender pursuant to SCHEDULE 2 being reflected to herein as the "SPECIFIED PERCENTAGE").

TO HAVE AND TO HOLD unto each Assignee Lender and its permitted successors and assigns forever. With the exception of the representations and warranties contained in SECTION 1.5 hereof, the assignments contained in this SECTION 1.1 (collectively the "ASSIGNMENTS") are WITHOUT RECOURSE OR WARRANTY OF ANY NATURE, EITHER EXPRESS OR IMPLIED, ALL OF WHICH ARE HEREBY EXPRESSLY DISCLAIMED. Without limiting the foregoing, and except as set forth in SECTION 1.5 hereof, no Existing Lender (a) makes any representation or warranty nor assumes any responsibility with respect to any statements, warranties, or representations made in or in connection with the Existing Credit Agreement or any other loan document executed or delivered pursuant to the Existing Credit Agreement, regarding the execution, legality, validity, enforceability, genuineness, sufficiency, or value of the Existing Credit Agreement or any other loan document or any collateral securing payment thereof, and (b) makes any representation or warranty nor assumes any responsibility with respect to the financial condition of any Existing Borrower or any of their affiliates or the performance or observance by any Existing Borrower or any of their affiliates of any of their respective obligations under the Existing Credit Agreement or any other loan document.

1.2 PURCHASE PRICE OF ASSIGNED INTERESTS. In consideration for the Assignments, each Assignee Lender agrees to pay to each Assignor Lender by wire transfer on the date hereof an amount equal to the Specified Percentage of the aggregate principal balance of all Loans outstanding on the date hereof as reflected in applicable payment instructions provided to each Assignee Lender on the date hereof by Bank One.

1.3 ASSUMPTION OF OBLIGATIONS BY THE ASSIGNEE LENDERS. Each Assignee Lender hereby assumes and agrees to timely perform in accordance with their terms for the benefit of each Existing Lender the applicable Specified Percentage of all obligations, undertakings, and commitments which are included in the Existing Rights and Obligations (the "ASSUMPTION").

1.4 EXISTING CREDIT AGREEMENT AND OTHER LOAN DOCUMENTS. In order to reflect the Assignment and the Assumption, the parties hereby agree as follows:

a. EXISTING CREDIT AGREEMENT. Each Assignee Lender shall be deemed a "Lender" under and as defined in the Existing Credit Agreement and the other loan documents, and the Existing Credit Agreement and other loan documents shall be binding upon and enforceable by each Assignee Lender to the same extent as if executed by each Assignee Lenders, unless and to the extent that a particular loan document may be enforced only by Bank One, as Agent on behalf of the Lenders, in which event such loan document shall remain enforceable only by Bank One.

b. COMMITMENTS. After giving effect to the Assignment and the Assumption, the percentage of the Existing Rights and Obligations held by each Lender are as set forth in SCHEDULE 3 hereto (the "COMMITMENT PERCENTAGES").

1.5 REPRESENTATIONS AND WARRANTIES OF EXISTING LENDERS. Each Existing Lender represents and warrants to each Assignee Lender (a) that it holds good and valid title to the interests in the assigned Existing Rights and Obligations assigned pursuant to SECTION 1.1, and (b) that this Assignment is a valid and binding obligation of each such Existing Lender enforceable in accordance with its terms except as the enforceability thereof may be limited by bankruptcy, insolvency, or similar laws affecting creditors' rights generally.

1.6 REPRESENTATIONS AND WARRANTIES OF THE ASSIGNEE LENDERS. Each Assignee Lender represents and warrants to each Existing Lender (a) that it is legally authorized to enter into this Assignment, and

(b) that this Assignment is a valid and binding obligation of such Assignee Lender enforceable in accordance with its terms except as the enforceability thereof may be limited by bankruptcy, insolvency, or similar laws affecting creditors' rights generally.

1.7 AGREEMENTS OF EACH ASSIGNEE LENDER. Each Assignee Lender (a) confirms that it has received the most recent quarterly and annual financial statements of Borrower, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment; (b) agrees that it will, independently and without reliance upon Bank One, as Agent, or any Lenders, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Existing Credit Agreement; and (c) appoints and authorizes Bank One, as Agent, to take such action as agent on its behalf and to exercise such powers under the Existing Credit Agreement as are delegated to the Agent by the terms of the Existing Credit Agreement, together with such powers as are reasonably incidental thereto.

1.8 PAYMENTS OF INTEREST AND FEES. Simultaneously with the execution of this Assignment by the parties hereto, Existing Borrowers shall pay to Bank One, as Agent for the account of the Existing Lenders (in accordance with their Existing Commitment Percentages prior to giving effect to this Assignment), the following to the extent accrued but unpaid as of February 14, 1997: (a) the full amount of all interest on the principal balance of all Existing Loans outstanding on the date hereof; and (b) all fees payable pursuant to the Existing Credit Agreement.

1.9 CONSENT AND RELEASE. Existing Borrowers hereby consent to the Assignment and the Assumption. Existing Borrowers hereby release each Existing Lender from their respective obligations pursuant to the Existing Credit Agreement and the other loan documents to the extent such obligations have been assigned to and assumed by the Assignee Lenders hereunder.

SECTION 2.           Miscellaneous  
-----

2.1 PARTIES IN INTEREST. All of the terms and provisions of this Assignment and Assumption shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

2.2 COUNTERPARTS. This Assignment may be executed in counterparts and all parties need not execute the same counterpart; however, no party shall be bound by this Assignment until all parties have executed a counterpart.

2.3 COMPLETE AGREEMENT. THIS ASSIGNMENT EMBODIES THE COMPLETE AGREEMENT AND UNDERSTANDING AMONG THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS AMONG THE PARTIES WHICH MAY HAVE RELATED TO THE SUBJECT MATTER HEREOF IN ANY WAY. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES HERETO.

2.4 HEADINGS. The headings, captions, and arrangements used in this Assignment are for convenience only and shall not be deemed to limit, amplify, or modify the terms of this Assignment, nor affect the meaning hereof.

In witness whereof the parties have caused this instrument to be executed and delivered as of the date and year first above written.

TEXAS COMMERCE BANK  
NATIONAL ASSOCIATION

By: \_\_\_\_\_  
          Timothy E. Perry,  
          Senior Vice President

NATIONS BANK OF TEXAS, N.A.

By: \_\_\_\_\_  
J. Scott Fowler,  
Vice President

PNC BANK, NATIONAL ASSOCIATION

By: \_\_\_\_\_  
John Way,  
Vice President

BANK ONE, TEXAS, N.A.

By: \_\_\_\_\_  
Brad Bartek,  
Vice President

THE CHASE MANHATTAN BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THE FIRST NATIONAL BANK OF BOSTON

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CIBC, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THE FIRST NATIONAL BANK OF CHICAGO

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK OF MONTREAL

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

WELLS FARGO BANK (TEXAS), N.A.

By: \_\_\_\_\_  
Charles D. Kirkham,  
Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ABN AMRO BANK N.V., HOUSTON AGENCY  
By: ABN AMRO North America, Inc.,

By: \_\_\_\_\_  
H. Gene Shields,  
Vice President and Director

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
LOMAK PETROLEUM, INC.

By: \_\_\_\_\_  
John H. Pinkerton  
President

LOMAK OPERATING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

EASTERN PETROLEUM COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION I, L.P.

By: Lomak Production Company,  
General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES, L.L.C.

By: Lomak Production Company,  
Member

By: \_\_\_\_\_  
John H. Pinkerton, President

Schedule 1 to  
Assignment and Assumption Agreement

## EXISTING LENDERS AND COMMITMENT PERCENTAGES

EXISTING LENDER	COMMITMENT PERCENTAGE	COMMITMENT
Bank One	35%	\$87,500,000
TCB	35%	\$87,500,000
NationsBank	20%	\$50,000,000
PNC	10%	\$25,000,000
Total	100%	\$250,000,000

NOTE-Page 65

Schedule 2 to  
Assignment and Assumption Agreement

ASSIGNMENT FROM EXISTING LENDERS TO ASSIGNEE LENDERS

ASSIGNEE LENDERS	% OF TOTAL COMMITMENT			
	BANK ONE	TCB	NATIONSBANK	PNC
Chase	-----	11.250000%	-----	-----
BB	3.614130%	3.614130%	1.331522%	0.190218%
CIBC	3.614130%	3.614130%	1.331522%	0.190218%
FC	3.614130%	3.614130%	1.331522%	0.190218%
BOM	3.614130%	3.614130%	1.331522%	0.190218%
WF	3.614130%	3.614130%	1.331522%	0.190218%
CL	3.614130%	3.614130%	1.331522%	0.190218%
ABN	2.065220%	2.065220%	0.760868%	0.108692%
Total Assigned by Existing Lender	23.75%	35.00%	8.75%	1.25%

NOTE-Page 66



Schedule 3 to  
Assignment and Assumption Agreement

COMMITMENTS AND COMMITMENT PERCENTAGES AFTER ASSIGNMENTS

LENDER	COMMITMENT PERCENTAGE	COMMITMENT
Bank One	11.25%	\$45,000,000
Chase	11.25%	\$45,000,000
NationsBank	11.25%	\$45,000,000
PNC	8.75%	\$35,000,000
BB	8.75%	\$35,000,000
CIBC	8.75%	\$35,000,000
FC	8.75%	\$35,000,000
BOM	8.75%	\$35,000,000
WF	8.75%	\$35,000,000
CL	8.75%	\$35,000,000
ABN	5.00%	\$20,000,000
<b>Total</b>	<b>100%</b>	<b>\$400,000,000</b>

NOTE-Page 67

Exhibit B to  
Credit Agreement

NOTE

\$ \_\_\_\_\_ Fort Worth, Texas February \_\_, 1997

For value received, LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), hereby unconditionally promises to pay to the order of \_\_\_\_\_ ("LENDER") at the office of Bank One, Texas, N.A. ("BANK ONE"), located at 500 Throckmorton Street, Fort Worth, Texas 76102, or at such other account or place as shall be designated in writing by Bank One for such purpose, in lawful money of the United States of America and in immediately available funds, on the Termination Date, as defined in the Credit Agreement referred to below, the principal amount of (a) \_\_\_\_\_ MILLION DOLLARS (\$\_\_\_\_,000,000.00), or, if less, (b) the aggregate unpaid principal amount of all Loans made by Lender to Borrower pursuant to Section 2.01 of the Credit Agreement. Capitalized terms herein have the meanings assigned in the Credit Agreement.

Borrower further agrees to pay interest in lawful money of the United States of America and in immediately available funds at such office on the unpaid principal amount hereof from time to time outstanding at the rates and on the dates specified in the Credit Agreement.

The holder of this Note is authorized to endorse on the schedules annexed hereto (or on a continuation attached), the date, type of Loan, and amount of each Revolving Credit Loan made pursuant to the Credit Agreement, and the date and amount of each payment or prepayment of principal thereof, each continuation thereof, each conversion of all or a portion thereof to another type of Loan, and, in the case of Eurodollar Loans, the length of each Interest Period with respect thereto. Each such endorsement shall constitute PRIMA FACIE evidence of the accuracy of the information endorsed. The failure to make any such endorsement shall not affect the obligations of Borrower in respect of such Loan.

This Note (a) is one of the Notes referred to in the Credit Agreement dated February \_\_, 1997 (as amended, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT"), among Borrower, Guarantors, Lender, the other banks and financial institutions from time to time parties thereto, Bank One, as administrative agent, The Chase Manhattan Bank, N.A., as syndication agent, and NationsBank of Texas, N.A., as documentation agent, (b) is subject to the provisions of the Credit Agreement, and (c) is subject to optional and mandatory prepayment in whole or in part as provided in the Credit Agreement. This Note is secured and guaranteed as provided in the Loan Documents; and reference is hereby made to the Loan Documents for a description of (w) the properties and assets in which a security interest has been granted, (x) the nature and extent of the security and the guaranties, (y) the terms and conditions upon which the

security interests and each guaranty were granted, and (z) the rights of the holder of this Note in respect thereof. This Note is issued pursuant to, and Lender is entitled to the benefits of, all Loan Documents executed and delivered in connection with the Credit Agreement.

Upon the occurrence of any one or more of the Events of Default, all amounts then remaining unpaid on this Note shall become, or may be declared to be, at the option of Lender, immediately due and payable, all as provided in the Credit Agreement.

Borrower promises to pay all reasonable costs and expenses, including attorneys fees and disbursements incurred in the collection and enforcement of this Note.

No reference herein to the Credit Agreement and no provision of this Note, the Credit Agreement, or any other Loan Document shall alter or impair the obligation of Borrower, which is absolute and unconditional, to pay the principal and interest on this Note at the place, at the respective times, and in the currency prescribed herein or in the Credit Agreement.

All parties now and hereafter liable with respect to this Note, whether maker, principal, surety, guarantor, or endorser or otherwise, hereby waive diligence, presentment, demand, protest, notice of intent to accelerate, notice of the acceleration, and all other notices of any kind, to the fullest extent permitted by law, and consent to all renewals, extensions, or modifications of this Note and the Loan Documents, before or after maturity.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO ITS RULES GOVERNING CONFLICTS OF LAWS. BORROWER AGREES THAT VENUE FOR ANY ACTION OR CLAIM RELATED TO THIS NOTE SHALL BE IN TARRANT COUNTY, TEXAS.

This Note is given in renewal and extension, but not extinguishment, of \_\_\_% of all amounts left owing and unpaid on the Existing Loans.

LOMAK PETROLEUM, INC.

By:

-----

John H. Pinkerton,  
President





Exhibit C to  
Credit Agreement

GUARANTY AGREEMENT

made by

BUFFALO OILFIELD SERVICES, INC.,  
LPI ACQUISITION, INC.,  
LPI OPERATING COMPANY,  
LOMAK ENERGY COMPANY,  
LOMAK ENERGY SERVICES COMPANY,  
LOMAK GATHERING & PROCESSING COMPANY,  
LOMAK GAS COMPANY,  
LOMAK OPERATING COMPANY,  
LOMAK PRODUCTION COMPANY,  
LOMAK RESOURCES COMPANY,  
LOMAK RESOURCES, L.L.C.,  
LOMAK OFFSHORE, L.P.,  
LOMAK PIPELINE SYSTEMS, L.P., and  
LOMAK PRODUCTION I, L.P.

in favor of

BANK ONE, TEXAS, N.A.,  
As Administrative Agent

Dated February 14, 1997

## GUARANTY AGREEMENT

This Guaranty Agreement dated February 14, 1997, is executed by BUFFALO OILFIELD SERVICES, INC., an Ohio corporation, LPI ACQUISITION, INC., a Texas corporation, LPI OPERATING COMPANY, an Ohio corporation, LOMAK ENERGY COMPANY, a Delaware corporation, LOMAK ENERGY SERVICES COMPANY, a Delaware corporation, LOMAK GAS & PROCESSING COMPANY, a Delaware corporation, LOMAK GAS COMPANY, a Delaware corporation, LOMAK OPERATING COMPANY, an Ohio corporation, LOMAK PRODUCTION COMPANY, a Delaware corporation, LOMAK RESOURCES COMPANY, a Delaware corporation, LOMAK RESOURCES, L.L.C., an Oklahoma limited liability company, LOMAK OFFSHORE, L.P., an Ohio limited partnership, LOMAK PIPELINE SYSTEMS, L.P., a Texas limited partnership and LOMAK PRODUCTION I, L.P., a Texas limited partnership (individually a "GUARANTOR" and collectively, together with any other Person that may become a party hereto, the "GUARANTORS"), in favor of BANK ONE, TEXAS, N.A., as administrative agent (in such capacity, the "ADMINISTRATIVE AGENT") for the banks and other financial institutions, including Administrative Agent and the two other agent banks described below (individually a "LENDER" and collectively, including the three agent banks, "LENDERS"), from time to time parties to the Credit Agreement (as defined below).

## Recitals:

- - - - -

A. Pursuant to a Credit Agreement of even date (as amended, restated, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT"), among LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), Lenders, Administrative Agent, The Chase Manhattan Bank, as syndication agent, and NationsBank of Texas, N.A., as documentation agent, Lenders have severally agreed to make extensions of credit to Borrower upon the terms and subject to the conditions set forth therein;

B. The Guarantors are subsidiaries of Borrower;

C. The proceeds of the extensions of credit will be used in part to enable Borrower to make valuable transfers to one or more of the Guarantors in connection with the operation of their respective businesses;

D. Borrower and the Guarantors are engaged in related businesses, and each Guarantor will derive substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement; and

E. It is a condition precedent to the obligation of Lenders to make their respective extensions of credit to Borrower under the Credit Agreement that the Guarantors execute and deliver this Agreement to Administrative Agent for the ratable benefit of each Lender.

## Agreement:

- - - - -

For valuable consideration, the receipt and sufficiency of which are acknowledged, and to induce Administrative Agent and Lenders to enter into the Credit Agreement and to induce Lenders to make their respective extensions of credit to Borrower thereunder, Guarantors hereby agree with Administrative Agent, for the ratable benefit of Lenders, as follows:

## ARTICLE 1 - DEFINED TERMS

- - - - -

1.1 DEFINITIONS. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein have the meanings given to them in the Credit Agreement.

(b) The following terms have the meanings assigned below:

"AGREEMENT" means this Guaranty Agreement, as amended, restated, supplemented, or otherwise modified from time to time.

"BORROWER OBLIGATIONS" means collectively the unpaid principal of and interest on the Loans and Reimbursement Obligations and all other obligations and liabilities of Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and Reimbursement Obligations and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to Borrower, whether or not a claim for post-filing or post-petition interest is allowed in the proceeding) to Administrative Agent or any Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, the other Loan Documents, or any Letter of Credit entered into by Borrower with any Lender (or any Affiliate of any Lender) or any other document made, delivered, or given in connection therewith, in each case whether on account of principal, interest, Reimbursement Obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to Administrative Agent or to Lenders that are required to be paid by Borrower pursuant to the terms of any of the foregoing agreements).

"CODE" means the Uniform Commercial Code as from time to time in effect in the State of Texas.

"EVENT OF DEFAULT" means the occurrence of an Event of Default as defined in the Credit Agreement.

"GUARANTOR OBLIGATIONS" means, with respect to any Guarantor, the collective reference to (i) the Borrower Obligations and (ii) all obligations and liabilities of a Guarantor which may arise under or in connection with this Agreement or any other Loan Document to which a Guarantor is a party, in each case whether on account of direct obligations, guaranty obligations, Reimbursement Obligations, principal, interest (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans, and Reimbursement Obligations, and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization, or like proceeding, relating to a Guarantor or Borrower, whether or not a claim for post-filing or post-petition interest is allowed in any such proceeding), fees, indemnities, costs, expenses, or otherwise (including, without limitation, all fees and disbursements of counsel to Administrative Agent or to Lenders that are required to be paid by a Guarantor pursuant to the terms of this Agreement or any other Loan Document).

"REIMBURSEMENT OBLIGATIONS" means any amounts, other than the Loans, payable or to be reimbursed to Lenders under the Credit Agreement or any of the Loan Documents, including but not limited to the Obligations.

1.2 OTHER DEFINITIONAL PROVISIONS. (a) The words "hereof," "herein," "hereto," and "hereunder" and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of the terms.

## ARTICLE 2 - GUARANTY

2.1 GUARANTIES. (a) Each of the Guarantors hereby, jointly and severally, unconditionally and irrevocably, guarantees to Administrative Agent, for the ratable benefit of Lenders and their respective successors, indorsees, transferees, and assigns, the prompt and complete payment and performance by Borrower when due (whether at the stated maturity, by acceleration, or otherwise) of the Guarantor Obligations.

(b) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of each Guarantor hereunder and under the other Loan Documents shall in no event exceed the



amount which can be guaranteed by the Guarantor under applicable federal and state laws relating to the insolvency of debtors (after giving effect to the right of contribution established in Section 2.2).

(c) Each Guarantor agrees that the Guarantor Obligations may at any time and from time to time exceed the amount of the liability of the Guarantor hereunder without impairing this guaranty or affecting the rights and remedies of Administrative Agent or any Lender hereunder.

(d) This guaranty shall remain in full force and effect until all the Guarantor Obligations and the obligations of each Guarantor under this guaranty has been satisfied by payment in full in cash, no Letter of Credit is outstanding and the Total Commitment is terminated, notwithstanding that from time to time during the term of the Credit Agreement Borrower may be free from any Borrower Obligations.

2.2 RIGHT OF CONTRIBUTION. Each Guarantor hereby agrees that to the extent that a Guarantor has paid more than its proportionate share of any payment made hereunder, the Guarantor shall be entitled to seek and receive contribution from and against any Guarantor hereunder which has not paid its proportionate share of the payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 2.3. The provisions of this Section 2.2 shall in no respect limit the obligations and liabilities of any Guarantor to Administrative Agent and Lenders, and each Guarantor shall remain liable to Administrative Agent and Lenders for the full amount guaranteed by the Guarantor hereunder.

2.3 LIMITED SUBROGATION. Notwithstanding any payment made by any Guarantor hereunder or any setoff or application of funds of any Guarantor by Administrative Agent or any Lender, no Guarantor shall be entitled to be subrogated to any of the rights of Administrative Agent or any Lender against Borrower or any Guarantor or any collateral security or guaranty or right of setoff held by Administrative Agent or any Lender for the payment of the Guarantor Obligations, nor shall any Guarantor seek or be entitled to seek any contribution or reimbursement from Borrower or any Guarantor in respect of payments made by the Guarantor hereunder, until all amounts owing to Administrative Agent and Lenders by Borrower on account of the Guarantor Obligations are paid in full in cash, no Letter of Credit is outstanding, and the Total Commitment is terminated. If any amount is paid to any Guarantor on account of subrogation rights at any time when all of the Guarantor Obligations have not have been paid in full, that amount shall be held by the Guarantor in trust for Administrative Agent and Lenders, segregated from other funds of the Guarantor, and shall, forthwith upon receipt by the Guarantor, be turned over to Administrative Agent in the exact form received by the Guarantor (duly indorsed by the Guarantor to Administrative Agent, if required), to be applied against the Guarantor Obligations, whether matured or unmatured, in such order as Administrative Agent may determine.

2.4 AMENDMENTS WITH RESPECT TO THE GUARANTOR OBLIGATIONS. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, any demand for payment of any of the Guarantor Obligations made by Administrative Agent or any Lender may be rescinded by Administrative Agent or the Lender and any of the Guarantor Obligations continued, and the Guarantor Obligations, or the liability of any other Person upon or for any part thereof, or any collateral security or guaranty therefor or right of setoff with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered, or released by Administrative Agent or any Lender, and the Credit Agreement and the other Loan Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented, or terminated, in whole or in part, as Administrative Agent (or Required Lenders, as the case may be) may deem advisable from time to time, and any collateral security, guaranty, or right of setoff at any time held by Administrative Agent or any Lender for the payment of the Guarantor Obligations may be sold, exchanged, waived, surrendered, or released. Neither Administrative Agent nor any Lender shall have any obligation to protect, secure, perfect, or insure any Lien at any time held by it as security for the Guarantor Obligations or for this guaranty or any property subject thereto.

2.5 GUARANTY ABSOLUTE AND UNCONDITIONAL. Each Guarantor waives any and all notice of the creation, renewal, extension, or accrual of any of the Guarantor Obligations and notice of or proof of reliance by Administrative Agent or any Lender upon this guaranty or acceptance of this guaranty; the Guarantor Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon this guaranty; and all dealings between Borrower and any of the Guarantors, on the one hand, and Administrative Agent and Lenders, on the other hand, likewise shall be conclusively presumed to have been had or

consummated in reliance upon this guaranty. Each Guarantor waives diligence, presentment, protest, demand for payment, and notice of default or nonpayment to or upon Borrower or any Guarantors with respect to the Guarantor Obligations. Each Guarantor understands and agrees that this guaranty shall be construed as a continuing, absolute, and unconditional guaranty of payment without regard to (a) the validity or enforceability of the Credit Agreement or any other Loan Document, any of the Guarantor Obligations or any other collateral security therefor or guaranty or right of setoff with respect thereto at any time or from time to time held by Administrative Agent or any Lender, (b) any defense, setoff, or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by Borrower against Administrative Agent or any Lender, or (c) any other circumstance whatsoever (with or without notice to or knowledge of Borrower or the Guarantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of Borrower for the Borrower Obligations, or of the Guarantor under this guaranty, in bankruptcy, or in any other instance. When making any demand hereunder or otherwise pursuing its rights and remedies hereunder against any Guarantor, Administrative Agent or any Lender may, but shall be under no obligation to, make a similar demand on or otherwise pursue such rights and remedies as it may have against Borrower, any Guarantor, or any other Person or against any collateral security or guaranty for the Guarantor Obligations or any right of setoff with respect thereto, and any failure by Administrative Agent or any Lender to make any such demand, to pursue their other rights or remedies, or to collect any payments from Borrower, any Guarantor, or any other Person or to realize upon any collateral security or guaranty or to exercise any right of setoff, or any release of Borrower, any Guarantor, or any other Person or any collateral security, guaranty, or right of setoff, shall not relieve any Guarantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied, or available as a matter of law, of Administrative Agent or any Lender against any Guarantor. For the purposes hereof "demand" shall include the commencement and continuance of any legal proceedings.

2.6 REINSTATEMENT. This guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Guarantor Obligations is rescinded or must otherwise be restored or returned by Administrative Agent or any Lender upon the insolvency, bankruptcy, dissolution, liquidation, or reorganization of Borrower or any Guarantor, or upon or as a result of the appointment of a receiver, intervenor, or conservator of, or trustee or similar officer for, Borrower or any Guarantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

2.7 PAYMENTS. Each Guarantor hereby guarantees that payments hereunder will be paid to Administrative Agent without setoff or counterclaim in lawful money of the United States of America in immediately available funds at the office of Administrative Agent located at 500 Throckmorton Street, Fort Worth, Texas 76102, or at such other place as may be designated in writing by Administrative Agent.

ARTICLE 3 - COVENANTS  
 - - - - -

Each Guarantor covenants and agrees with Administrative Agent and Lenders that, from and after the date of this Agreement until the Guarantor Obligations shall have been paid in full, no Letter of Credit is outstanding, and the Total Commitment is terminated:

3.1 COVENANTS IN CREDIT AGREEMENT. In the case of each Guarantor which is not a party to the Credit Agreement, such Guarantor shall take, or shall refrain from taking as the case may be, each action that is necessary to be taken or not taken, as the case may be so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action by such Guarantor.

3.2 FURTHER DOCUMENTATION. At any time and from time to time, upon the written request of Administrative Agent, and at the sole expense of the Guarantors, each Guarantor will promptly and duly execute and deliver such further instruments and documents and take such further actions as Administrative Agent may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted.

ARTICLE 4 - MISCELLANEOUS  
 - - - - -

4.1 AMENDMENTS. Subject to the terms of the Credit Agreement, none of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by Borrower, each affected Guarantor, and Administrative Agent, provided that any provision of this Agreement imposing obligations on Borrower or any Guarantor may be waived by Administrative Agent in a written instrument executed by Administrative Agent.

4.2 NOTICES. All notices, requests, and demands to or upon Administrative Agent, Borrower, or any Guarantor hereunder shall be effected in the manner provided for in Section 12.10 of the Credit Agreement; provided that any such notice, request, or demand to or upon any Guarantor shall be addressed to such Guarantor at its notice address set forth on SCHEDULE 1.

4.3 NO WAIVER, COURSE OF CONDUCT; CUMULATIVE REMEDIES. Neither Administrative Agent nor any Lender shall by any act (except by a written instrument pursuant to Section 4.1), delay, indulgence, omission, or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Event of Default. No failure to exercise, nor any delay in exercising, on the part of Administrative Agent or any Lender, any right, power, or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power, or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. A waiver by Administrative Agent or any Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Administrative Agent or such Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently, and are not exclusive of any other rights or remedies provided by law.

4.4 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the successors and assigns of Borrower and each Guarantor and shall inure to the benefit of Administrative Agent and Lenders and their successors and assigns; provided that no Borrower or Guarantor may assign, transfer, or delegate any of its rights or obligations under this Agreement without the prior written consent of Administrative Agent.

4.5 SETOFF. In addition to any rights and remedies of Lenders provided by law, each Lender shall have the right, without prior notice to Borrower or any Guarantor, any such notice being expressly waived by each to the extent permitted by applicable law, upon any amount becoming due and payable by Borrower or any Guarantor hereunder or under any other Loan Document (whether at the stated maturity, by acceleration, or otherwise) to setoff and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness, or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of Borrower or any Guarantor. Each Lender agrees promptly to notify Borrower or the relevant Guarantor and Administrative Agent after any such setoff and application made by such Lender, provided that, to the extent permitted by applicable law, the failure to give such notice shall not affect the validity of such setoff and application.

4.6 COUNTERPARTS. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

4.7 SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4.8 SECTION HEADINGS. The section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

4.9 INTERPRETATION. This Agreement and the other Loan Documents represent the agreement of Borrower, the Guarantors, Administrative Agent, and Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties by Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

4.10 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO ITS RULES GOVERNING CONFLICT OF LAWS. EACH GUARANTOR AGREES THAT VENUE FOR ANY ACTION OR CLAIM RELATED TO THIS AGREEMENT SHALL BE IN TARRANT COUNTY, TEXAS.

4.11 SUBMISSION TO JURISDICTION; WAIVERS. Guarantors hereby irrevocably and unconditionally:

(a) submit for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of Texas, the courts of the United States of America for the Northern District of Texas, and appellate courts from any thereof;

(b) consent that any such action or proceeding may be brought in such courts and waive any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agree not to plead or claim the same;

(c) agree that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to Borrower or Guarantor at its address referred to in Section 4.2 or at such other address of which Administrative Agent shall have been notified pursuant thereto;

(d) agree that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waive, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive, or consequential damages.

4.12 ACKNOWLEDGMENTS. Guarantors hereby acknowledge (a) each has been advised by counsel in the negotiation, execution, and delivery of this Agreement and the other Loan Documents to which each is a party; (b) neither Administrative Agent nor any Lender has any fiduciary relationship with or duty to Borrower or any Guarantor arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Borrower and the Guarantors, on the one hand, and Administrative Agent and Lenders, on the other hand, is solely that of debtor and creditor; and (c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among Lenders or among Borrower, the Guarantors, and Lenders.

4.13 WAIVER OF JURY TRIAL. GUARANTORS HEREBY KNOWINGLY AND INTENTIONALLY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

4.14 ADDITIONAL GUARANTORS. Each Subsidiary of Borrower that is required to become a party to this Agreement shall become a Guarantor for all purposes of this Agreement upon execution and delivery by such Subsidiary of an assumption agreement in form and substance acceptable to Administrative Agent, in its discretion.

4.15 NOTICE OF FINAL AGREEMENT. (a) This Agreement, the Credit Agreement, and the Loan Documents will be collectively referred to as the "WRITTEN LOAN AGREEMENT." It is the intention of Borrower, Guarantors, Administrative Agent, and Lenders that this Section 4.15 be incorporated by reference into each of the agreements, instruments, and documents comprising the Written Loan Agreement. Guarantors warrant to Lenders that the entire agreement made and existing by or among them and Lenders with respect to the Obligations is contained within the Written Loan Agreement and that no agreements or promises exist among them and Lenders that are not reflected in the Written Loan Agreement.

(b) THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, each of the undersigned has caused this Guaranty Agreement to be duly executed and delivered as of the date first above written.

BUFFALO OILFIELD SERVICES, INC.

By: \_\_\_\_\_  
John H. Pinkerton, President

LPI ACQUISITION, INC.

By: \_\_\_\_\_  
John H. Pinkerton, President

LPI OPERATING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK ENERGY COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK ENERGY SERVICES COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK GATHERING &  
PROCESSING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK GAS COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK OPERATING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES, L.L.C.

By: Lomak Production Company, member

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK OFFSHORE, L.P.,

By: LPI Operating Company, General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PIPELINE SYSTEMS, L.P.,

By: Lomak Gathering & Processing Company,  
General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION I, L.P.,

By: Lomak Production Company, General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

SCHEDULES AND EXHIBITS:

- - - - -

Schedule 1 - Guarantors' Addresses, Jurisdictions, and Offices

Exhibit D to  
Credit Agreement

PLEDGE AGREEMENT

made by

LOMAK PETROLEUM, INC.,

and its subsidiaries

LPI OPERATING COMPANY,  
LOMAK ENERGY COMPANY,  
LOMAK GATHERING & PROCESSING COMPANY,  
LOMAK GAS COMPANY,  
LOMAK OPERATING COMPANY,  
LOMAK PRODUCTION COMPANY, and  
LOMAK RESOURCES COMPANY

in favor of

BANK ONE, TEXAS, N.A.,  
As Administrative Agent

Dated February 14, 1997



## PLEDGE AGREEMENT

This Pledge Agreement dated February 14, 1997, is executed by LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), and LPI OPERATING COMPANY, an Ohio corporation, LOMAK ENERGY COMPANY, a Delaware corporation, LOMAK GATHERING & PROCESSING COMPANY, a Delaware corporation, LOMAK GAS COMPANY, a Delaware corporation, LOMAK OPERATING COMPANY, an Ohio corporation, LOMAK PRODUCTION COMPANY, a Delaware corporation, and LOMAK RESOURCES COMPANY, a Delaware corporation (individually a "GUARANTOR" and collectively, together with any other Person that may become a party hereto, the "GUARANTORS"), in favor of BANK ONE, TEXAS, N.A., as administrative agent (in such capacity, the "ADMINISTRATIVE Agent") for the banks and other financial institutions, including Administrative Agent and the two other agent banks described below (individually a "LENDER" and collectively, including the three agent banks, "LENDERS"), from time to time parties to the Credit Agreement (as defined below).

Recitals:  
- - - - -

A. Pursuant to a Credit Agreement of even date (as amended, restated, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT"), among Borrower, Lenders, Administrative Agent, The Chase Manhattan Bank, as syndication agent, and NationsBank of Texas, N.A., as documentation agent, Lenders have severally agreed to make extensions of credit to Borrower upon the terms and subject to the conditions set forth therein; and

B. It is a condition precedent to the obligation of Lenders to make their respective extensions of credit to Borrower under the Credit Agreement that Borrower execute and deliver this Agreement to Administrative Agent for the ratable benefit of Lenders.

Agreement:  
- - - - -

For valuable consideration, the receipt and sufficiency of which are acknowledged, and to induce Administrative Agent and Lenders to enter into the Credit Agreement and to induce Lenders to make their respective extensions of credit to Borrower thereunder, Borrower hereby agrees with Administrative Agent, for the ratable benefit of Lenders, as follows:

## ARTICLE 1 - DEFINED TERMS

1.1 DEFINITIONS. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein have the meanings given to them in the Credit Agreement.

(b) The following terms have the meanings assigned below:

"AGREEMENT" means this Pledge Agreement, as amended, restated, supplemented, or otherwise modified from time to time.

"BORROWER OBLIGATIONS" means collectively the unpaid principal of and interest on the Loans and Reimbursement Obligations and all other obligations and liabilities of Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and Reimbursement Obligations and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to Borrower, whether or not a claim for post-filing or post-petition interest is allowed in the proceeding) to Administrative Agent or any Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, the other Loan Documents, or any Letter of Credit entered into by Borrower with any Lender (or any Affiliate of any Lender) or any other document made, delivered, or given in connection therewith, in each case whether on account of principal, interest, Reimbursement Obligations, fees, indemnities, costs, expenses or otherwise

(including, without limitation, all fees and disbursements of counsel to Administrative Agent or to Lenders that are required to be paid by Borrower pursuant to the terms of any of the foregoing agreements).

"CODE" means the Uniform Commercial Code as from time to time in effect in the State of Texas.

"COLLATERAL ACCOUNT" means any collateral account established by Administrative Agent as provided in Section 5.2.

"EVENT OF DEFAULT" means the occurrence of an Event of Default as defined in the Credit Agreement.

"GUARANTOR OBLIGATIONS" means, with respect to any Guarantor, the collective reference to (i) the Borrower Obligations and (ii) all obligations and liabilities of a Guarantor which may arise under or in connection with this Agreement or any other Loan Document to which a Guarantor is a party, in each case whether on account of direct obligations, guaranty obligations, Reimbursement Obligations, principal, interest (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans, and Reimbursement Obligations, and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization, or like proceeding, relating to a Guarantor or Borrower, whether or not a claim for post-filing or post-petition interest is allowed in any such proceeding), fees, indemnities, costs, expenses, or otherwise (including, without limitation, all fees and disbursements of counsel to Administrative Agent or to Lenders that are required to be paid by a Guarantor pursuant to the terms of this Agreement or any other Loan Document).

"ISSUERS" means the collective reference to the Persons identified on SCHEDULE 2 as the issuers of the Pledged Stock.

"PLEDGED NOTES" means any promissory note or similar instrument in favor of and held by Borrower and listed on SCHEDULE 2, and any promissory note in favor of and held by Borrower or Guarantors and pledged to Administrative Agent pursuant to the Credit Agreement.

"PLEDGED SECURITIES" means the collective reference to the Pledged Stock and the Pledged Notes.

"PLEDGED STOCK" means the shares of capital stock, partnership interests, or units in limited liability companies, listed on SCHEDULE 2, together with any other shares, stock certificates, options, or rights of any nature whatsoever in respect of the capital stock, partnership interests, or units of any Issuer that may be issued or granted to, or held by, Borrower or Guarantors, while this Agreement is in effect.

"PROCEEDS" means all "proceeds" as that term is defined in Section 9.306(a) of the Code and including, without limitation, all dividends, distributions, or other income from the Pledged Securities and all payments made in respect of the Pledged Securities, collections thereon or distributions or payments with respect thereto.

"REIMBURSEMENT OBLIGATIONS" means any amounts, other than the Loans, payable or to be reimbursed to Lenders under the Credit Agreement or any of the Loan Documents, including but not limited to the Obligations.

1.2 OTHER DEFINITIONAL PROVISIONS. (a) The words "hereof," "herein," "hereto," and "hereunder" and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of the terms.

ARTICLE 2 - GRANT OF SECURITY INTEREST  
-----

2.1 PLEDGED SECURITIES. Borrower and Guarantors hereby assign and transfer to Administrative Agent, and hereby grant to Administrative Agent, for the ratable benefit of Lenders, a security interest in, all Pledged Stock

and Pledged Notes, now owned or at any time hereafter acquired by Borrower or Guarantor or in which Borrower or Guarantor now has or at any time in the future may acquire any right, title, or interest, and all books and records pertaining to the Pledged Securities, and all Proceeds and products of any of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration, or otherwise) of the Borrower Obligations and the Guarantor Obligations, respectively. The grant of a security interest in this section is limited for Borrower and each Guarantor to the Pledged Securities owned by that party.

ARTICLE 3 - REPRESENTATIONS AND WARRANTIES  
-----

To induce Administrative Agent and Lenders to enter into the Credit Agreement and to induce Lenders to make their respective extensions of credit to Borrower thereunder, Borrower and Guarantors hereby represent and warrant to Administrative Agent and each Lender that:

3.1 TITLE; NO LIENS. Except for the security interest granted to the Administrative Agent for the ratable benefit of Lenders pursuant to this Agreement, Borrower owns each of the Pledged Securities pledged by it free and clear of any and all Liens other than Permitted Encumbrances. Except for the security interest granted to the Administrative Agent for the ratable benefit of Lenders pursuant to this Agreement, Guarantors own each of the Pledged Securities pledged by them free and clear of any and all Liens other than Permitted Encumbrances.

3.2 PERFECTED FIRST LIENS. The security interests granted pursuant to this Agreement with respect to Pledged Securities which are capable of perfection under the Code (a) upon delivery of the share certificates or other evidence of ownership and other actions specified on SCHEDULE 3 will constitute valid perfected security interests in all Pledged Securities in favor of Administrative Agent, for the ratable benefit of Lenders, as collateral security for the Borrower Obligations and Guarantor Obligations, enforceable in accordance with the terms hereof against all creditors of Borrower, Guarantors, and any Persons purporting to purchase any Pledged Securities from Borrower or Guarantors and (b) are prior to all other Liens on the Pledged Securities except for Permitted Encumbrances.

3.3 CHIEF EXECUTIVE OFFICE. On the date hereof, Borrower's and each Guarantors' jurisdiction of organization and the location of their chief executive office or sole place of business are specified on SCHEDULE 1.

3.4 PLEDGED STOCK. The shares of Pledged Stock pledged by Borrower and Guarantor hereunder constitute all the issued and outstanding shares of all classes of the capital stock, all partnership interests, and all units of each Issuer. All the shares, interests, and units of the Pledged Stock have been duly and validly issued and are fully paid and nonassessable. Borrower or each of the Guarantors is the record and beneficial owner of the Pledged Stock pledged by it hereunder, free of any and all options in favor of, or claims of, any other Person, except the security interest created by this Agreement.

3.5 PLEDGED NOTES. The promissory notes listed on SCHEDULE 2 constitute all Pledged Notes held by Borrower or Guarantor and payable to it or its order. All Pledged Notes have been duly and validly issued and are not subject to any dispute, counterclaim, setoff, or defense. Borrower or each of the Guarantors is the record and beneficial owner of the Pledged Notes pledged by it hereunder, free of any and all claims of any other Person, except the security interest created by this Agreement.

## ARTICLE 4 - COVENANTS

- - - - -

Borrower and Guarantors covenant and agree with Administrative Agent and Lenders that, from and after the date of this Agreement until the Borrower Obligations and Guarantor Obligations are paid in full, no Letter of Credit is outstanding, and the Total Commitment is terminated:

4.1 COVENANTS IN CREDIT AGREEMENT. Borrower shall take, or shall refrain from taking as the case may be, and shall cause each Subsidiary to take, or refrain from taking, each action that is necessary to be taken or not taken, as the case may be, so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action. In the case of each Guarantor which is not a party to the Credit Agreement, such Guarantor shall take, or shall refrain from taking as the case may be, each action that is necessary to be taken or not taken, as the case may be so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action by such Guarantor.

4.2 DELIVERY OF PROMISSORY NOTES AND CHATTEL PAPER. If any amount payable under or in connection with any of the Pledged Securities is or becomes evidenced by any promissory notes, Chattel Paper, or similar instruments having a value or a principal amount of \$100,000 or more, the promissory note, Chattel Paper, or similar instrument shall be immediately delivered to Administrative Agent, duly indorsed in a manner satisfactory to Administrative Agent, to be held as collateral pursuant to this Agreement.

4.3 MAINTENANCE OF PERFECTED SECURITY INTEREST; FURTHER DOCUMENTATION. Borrower and Guarantors shall maintain the security interest created by this Agreement on the Pledged Securities as a perfected security interest having at least the priority described in Sections 3.2 and shall defend such security interest against the claims and demands of all Persons.

(b) Borrower will furnish to Administrative Agent from time to time statements and schedules further identifying and describing the Pledged Securities and such other reports in connection with the Pledged Securities as Administrative Agent may reasonably request, all in reasonable detail.

(c) At any time and from time to time, upon the written request of Administrative Agent, and at the sole expense of Borrower and Guarantors, Borrower and Guarantors will promptly and duly execute and deliver such further instruments and documents and take such further actions as Administrative Agent may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Code (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby.

4.4 CHANGES IN LOCATIONS, NAME, ETC. Borrower and Guarantors will not, except upon not less than 10 days prior written notice to Administrative Agent and delivery to the Administrative Agent of all additional executed financing statements and other documents reasonably requested by Administrative Agent to maintain the validity, perfection, and priority of the security interests provided for herein:

(a) change the location of its chief executive office or sole place of business from that referred to in SCHEDULE 1; or

(b) change its name, identity, or corporate structure to such an extent that any financing statement filed by Administrative Agent in connection with this Agreement would become misleading.

4.5 PLEDGED SECURITIES. (a) If Borrower or any Guarantors shall become entitled to receive or shall receive (i) any stock certificate (including, without limitation, any certificate representing a stock dividend or a distribution in connection with any reclassification increase or reduction of capital or any certificate issued in connection with any reorganization), option or rights in respect of the capital stock, partnership interests, or units of any Issuer, whether in addition to, in substitution of, as a conversion of, or in exchange for, any shares of the Pledged Stock, or otherwise in respect thereof, or (ii) any promissory note, security, or rights in exchange for all or any portion of any Pledged Note, or otherwise in respect thereof, Borrower and Guarantors shall accept the same as the agent of Administrative Agent and Lenders, hold the same in trust for Administrative Agent and deliver the same forthwith to Administrative Agent in the exact form received, duly indorsed by Borrower and Guarantors to Administrative Agent, if required, together with an undated stock power (in the case of Pledged Stock) or an undated endorsement (in the

case of Pledged Notes) covering such certificate, security, or note, duly executed in blank by Borrower and Guarantors and with, if Administrative Agent so requests, signature guaranteed, to be held by Administrative Agent, subject to the terms hereof, as additional collateral security for the Borrower Obligations and Guarantor Obligations. Any sums paid upon or in respect of the Pledged Securities upon the liquidation or dissolution of any Issuer shall, during the continuation of an Event of Default, be paid over to Administrative Agent to be held by it hereunder as additional collateral security for the Borrower Obligations and Guarantor Obligations, and in case any distribution of capital shall be made on or in respect of the Pledged Securities or any property shall be distributed upon or with respect to the Pledged Securities pursuant to the recapitalization or reclassification of the capital of any Issuer or pursuant to the reorganization thereof, the property so distributed shall, to the extent required by the Credit Agreement or during the continuation of an Event of Default, be delivered to Administrative Agent to be held by it hereunder as additional collateral security for the Borrower Obligations and Guarantor Obligations. If any sums of money or property so paid or distributed in respect of the Pledged Securities shall be received by Borrower or any Guarantor, Borrower and Guarantors shall, until such money or property is paid or delivered to Administrative Agent, hold such money or property in trust for Lenders, segregated from other funds of Borrower and Guarantors, as additional collateral security for the Borrower Obligations and Guarantor Obligations.

(b) Without the prior written consent of Administrative Agent, Borrower and Guarantors will not (i) vote to enable, or take any other action to permit, any Issuer to issue any stock or other equity securities of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any stock or other equity securities of any nature of any Issuer, (ii) sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Pledged Securities or Proceeds thereof (except pursuant to a transaction expressly permitted by the Credit Agreement), (iii) create, incur, or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Pledged Securities or Proceeds thereof, or any interest therein, except for the security interests created by this Agreement and Liens permitted by the Credit Agreement or (iv) enter into any agreement or undertaking restricting the right or ability of Borrower, Guarantors, or Administrative Agent to sell, assign, or transfer any of the Pledged Securities or Proceeds thereof.

(c) In the case of each Subsidiary of Borrower or Guarantors which is an Issuer, Borrower and Guarantors will cause the Issuer to (i) be bound by the terms of this Agreement relating to the Pledged Securities issued by it and comply with those terms insofar as such terms are applicable to it, (ii) notify Administrative Agent promptly in writing of the occurrence of any of the events described in Subsection 4.5(a) with respect to the Pledged Securities issued by it, and (iii) comply with the terms of Subsections 5.1(c) and 5.5, mutatis mutandis, with respect to all actions that may be required of it pursuant to Subsections 5.1(c) or 5.5 with respect to the Pledged Stock or Pledged Notes, as the case may be, issued by it.

#### ARTICLE 5 - REMEDIAL PROVISIONS

-----

5.1 PLEDGED SECURITIES. (a) Unless an Event of Default shall have occurred and be continuing and Administrative Agent shall have given notice to Borrower and Guarantors of Administrative Agent's intent to exercise its corresponding rights pursuant to Subsection 5.1(b), Borrower shall be permitted to receive all distributions paid in respect of the Pledged Stock and all payments made in respect of the Pledged Notes. Unless an Event of Default shall have occurred and be continuing and Administrative Agent shall have given notice to Borrower and Guarantors of Administrative Agent's intent to exercise its corresponding rights pursuant to Subsection 5.1(b), Borrower shall be permitted to exercise all voting and corporate rights with respect to the Pledged Securities; provided, however, that no vote shall be cast or corporate right exercised or other action taken which, in Administrative Agent's reasonable judgment, would result in any violation of any provision of the Credit Agreement, this Agreement, or any other Loan Document.

(b) If an Event of Default shall occur and be continuing and Administrative Agent shall deliver written notice (which notice need not be given during the continuation of any Event of Default described in Subsections 8.01 (g) or (h) of the Credit Agreement) of its intent to exercise such rights to Borrower and Guarantors, Administrative Agent shall have the right to receive any and all cash dividends, payments, or other Proceeds paid in respect of the Pledged Securities and make application thereof to the Borrower Obligations and Guarantor Obligations in such order as Administrative Agent may determine. If an Event of Default shall have occurred and be continuing and Administrative Agent shall deliver written notice (which notice need not be given during the continuation of any

Event of Default described in Subsections 8.01 (g) or (h) of the Credit Agreement) of its intent to exercise such rights to Borrower and Guarantors, any or all of the Pledged Securities shall be registered in the name of Administrative Agent or its nominee, and Administrative Agent or its nominee may thereafter exercise (i) all voting, corporate, and other rights pertaining to such Pledged Securities at any meeting of shareholders of the relevant Issuer or Issuers or otherwise and (ii) any and all rights of conversion, exchange, subscription and any other rights, privileges, or options pertaining to such Pledged Securities as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Pledged Securities upon the merger, consolidation, reorganization, recapitalization, or other fundamental change in the corporate structure of any Issuer, or upon the exercise by Borrower, Guarantors, or Administrative Agent of any right, privilege, or option pertaining to such Pledged Securities, and in connection therewith, the right to deposit and deliver any and all of the Pledged Securities with any committee, depository, transfer agent, registrar, or other designated agency upon such terms and conditions as Administrative Agent may determine), all without liability except to account for property actually received by it, but Administrative Agent shall have no duty to Borrower or Guarantors to exercise any such right, privilege, or option and shall not be responsible for any failure to do so or delay in so doing.

(c) Borrower and Guarantors hereby authorize and instruct each Issuer of any Pledged Securities pledged hereunder to (i) comply with any instruction received by it from Administrative Agent in writing that (x) states that an Event of Default has occurred and (y) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from Borrower or Guarantors, and Borrower and Guarantors agree that each Issuer shall be fully protected in so complying, and (ii) unless otherwise expressly permitted hereby, pay any dividends or other payments with respect to the Pledged Securities directly to Administrative Agent.

5.2 PROCEEDS TO BE TURNED OVER. If an Event of Default shall occur and be continuing, all Proceeds received by Borrower and Guarantors consisting of cash, checks, and other near-cash items shall be held by such entity in trust for Administrative Agent and Lenders, segregated from other funds of Borrower and Guarantors, and shall, forthwith upon receipt by Borrower or any Guarantor, be turned over to Administrative Agent in the exact form received (duly indorsed by Borrower and Guarantors to Administrative Agent, if required). All Proceeds received by Administrative Agent hereunder shall be held by Administrative Agent in a Collateral Account maintained under its sole dominion and control. All Proceeds while held by Administrative Agent in a Collateral Account (or by Borrower in trust for Administrative Agent and Lenders) shall continue to be held as collateral security for all the Borrower Obligations and Guarantor Obligations and shall not constitute payment thereof until applied as provided in Section 5.3.

5.3 APPLICATION OF PROCEEDS. If an Event of Default has occurred and is continuing, at any time at Administrative Agent's election, Administrative Agent may apply all or any part of Proceeds held in any Collateral Account in payment of the Borrower Obligations and Guarantor Obligations in such order as Administrative Agent may elect, and any part of such funds which Administrative Agent elects not so to apply and deems not required as collateral security for the Borrower Obligations or Guarantor Obligations shall be paid over from time to time by Administrative Agent to Borrower, Guarantors, or to whomsoever may be lawfully entitled to receive the same. Any balance of such Proceeds remaining after the Borrower Obligations and Guarantor Obligations shall have been paid in full, no Letters of Credit shall be outstanding, and the Total Commitment is terminated shall be paid over to the grantor of such collateral or to whomsoever may be lawfully entitled to receive the same.

5.4 CODE AND OTHER REMEDIES. If an Event of Default shall occur and be continuing, Administrative Agent, on behalf of Lenders, may exercise, in addition to all other rights and remedies granted to them in this Agreement and in any other instrument or agreement securing, evidencing, or relating to the Borrower Obligations or Guarantor Obligations, all rights and remedies of a secured party under the Code or any other applicable law. Without limiting the generality of the foregoing, Administrative Agent, without demand of performance or other demand, presentment, protest, advertisement, or notice of any kind (except any notice required by law referred to below) to or upon Borrower, Guarantors, or any other Person (all and each of which demands, defenses, advertisements, and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate, and realize upon the Pledged Securities, or any part thereof, and may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Pledged Securities or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of Administrative Agent or any Lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Administrative Agent

or any Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Pledged Securities so sold, free of any right or equity of redemption in Borrower or Guarantors, which right or equity is hereby waived and released. Administrative Agent shall apply the proceeds of any action taken by it pursuant to this Section 5.4, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Pledged Securities or in any way relating to the Pledged Securities or the rights of Administrative Agent and Lenders hereunder, including, without limitation, reasonable attorneys fees and disbursements, to the payment in whole or in part of the Borrower Obligations or Guarantor Obligations, in such order as Administrative Agent may elect, and only after such application and after the payment by Administrative Agent of any other amount required by any provision of law, including, without limitation, Section 9.504(a) of the Code, need Administrative Agent account for the surplus, if any, to Borrower or Guarantors. To the extent permitted by applicable law, Borrower and Guarantors waive all claims, damages, and demands any may acquire against Administrative Agent or any Lender arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition.

5.5 SALE OF PLEDGED STOCK. (a) Borrower and Guarantors recognize that Administrative Agent may be unable to effect a public sale of any or all the Pledged Stock, by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Borrower and Guarantors acknowledge and agree that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agree that any such private sale shall be deemed to have been made in a commercially reasonable manner. Administrative Agent shall be under no obligation to delay a sale of any of the Pledged Stock for the period of time necessary to permit the Issuer thereof to register such securities for public sale under the Securities Act of 1933, as amended, or under applicable state securities laws, even if such Issuer would agree to do so.

(b) Borrower and Guarantors agree to use their best efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all or any portion of the Pledged Stock pursuant to this Section 5.5 valid and binding and in compliance with any and all other applicable requirements of law. Borrower and Guarantors further agree that a breach of any of the covenants contained in this Section 5.5 will cause irreparable injury to Administrative Agent and Lenders, that Administrative Agent and Lenders have no adequate remedy at law in respect of such breach, and as a consequence that each and every covenant contained in this Section 5.5 shall be specifically enforceable against Borrower and Guarantors. Borrower and Guarantors hereby waive and agree not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred under the Credit Agreement.

5.6 WAIVER; DEFICIENCY. Borrower and Guarantors waive and agree not to assert any rights or privileges which any may acquire under Section 9.112 of the Code. Borrower and Guarantors shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Pledged Securities are insufficient to pay the Borrower Obligations and Guarantor Obligations and the reasonable fees and disbursements of any attorneys employed by Administrative Agent or any Lender to collect such deficiency.

#### ARTICLE 6 - ADMINISTRATIVE AGENT

6.1 ATTORNEY-IN-FACT. (a) Borrower and Guarantors hereby irrevocably constitute and appoint Administrative Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Borrower and Guarantors and in their name or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, Borrower and Guarantors hereby give Administrative Agent the power and right, on its behalf, without notice to or assent by Borrower or Guarantors, to do any or all of the following:

(i) in the name of Borrower or Guarantors or its own name, or otherwise, take possession of and indorse and collect any checks, drafts, notes, acceptances, or other instruments for the payment of moneys due with respect to any Pledged Securities and file any claim or take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Administrative Agent for the purpose of collecting any and all such moneys due with respect to any Pledged Securities whenever payable;

(ii) pay or discharge taxes and Liens levied or placed on or threatened against the Pledged Securities;

(iii) execute, in connection with any sale provided for in Sections 5.2 or 5.3, any indorsements, assignments, or other instruments of conveyance or transfer with respect to the Pledged Securities; and

(iv) (A) direct any party liable for any payment under any of the Pledged Securities to make payment of any and all moneys due or to become due thereunder directly to Administrative Agent or as Administrative Agent shall direct; (B) ask or demand for, collect, receive payment of, and receipt for, any and all moneys, claims, and other amounts due or to become due at any time in respect of or arising out of any Pledged Securities; (C) sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices, and other documents in connection with any of the Pledged Securities; (D) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Pledged Securities or any portion thereof and to enforce any other right in respect of any Pledged Securities; (E) defend any suit, action, or proceeding brought against Borrower with respect to any Pledged Securities; (F) settle, compromise, or adjust any such suit, action, or proceeding and, in connection therewith, to give such discharges or releases as Administrative Agent may deem appropriate; and (G) generally sell, transfer, pledge, and make any agreement with respect to or otherwise deal with any of the Pledged Securities as fully and completely as though Administrative Agent were the absolute owner thereof for all purposes, and do, at Administrative Agent's option and Borrower's and Guarantors' expense, at any time, or from time to time, all acts and things which the Administrative Agent deems necessary to protect, preserve, or realize upon the Pledged Securities and Administrative Agent's and Lenders' security interests therein and to effect the intent of this Agreement, all as fully and effectively as Borrower might do.

Anything in this Subsection 6.1(a) to the contrary notwithstanding, Administrative Agent agrees that it will not exercise any rights under the power of attorney provided for in this Subsection 6.1(a) unless an Event of Default shall have occurred and be continuing.

(b) If Borrower or Guarantors fail to perform or comply with any of their agreements contained herein, Administrative Agent, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) Borrower and Guarantors hereby ratify all that Administrative Agent as their attorney-in-fact shall lawfully do or cause to be done by virtue hereof. All powers, authorizations, and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

6.2 DUTY OF ADMINISTRATIVE AGENT. Administrative Agent's sole duty with respect to the custody, safekeeping, and physical preservation of the Pledged Securities in its possession, under Section 9.207 of the Code or otherwise, shall be to deal with it in the same manner as Administrative Agent deals with similar property for its own account. Neither Administrative Agent, any Lender nor any of their respective officers, directors, employees, or agents shall be liable for failure to demand, collect, or realize upon any of the Pledged Securities or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Pledged Securities upon the request of Borrower, Guarantors, or any other Person or to take any other action whatsoever with regard to the Pledged Securities or any part thereof. The powers conferred on Administrative Agent and Lenders hereunder are solely to protect Administrative Agent's and Lenders' interests in the Pledged Securities and shall not impose any duty upon Administrative Agent or any Lender to exercise any such powers. Administrative Agent and Lenders shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees, or agents shall be responsible to Borrower or Guarantors for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.



6.3 FINANCING STATEMENTS. Pursuant to Section 9.402 of the Code and any other applicable law, Borrower and Guarantors authorize Administrative Agent to file or record financing statements and other filing or recording documents or instruments with respect to the collateral without their signature in such form and in such offices as Administrative Agent reasonably determines appropriate to perfect the security interests of Administrative Agent under this Agreement. A photographic or other reproduction of this Agreement shall be sufficient as a financing statement or other filing or recording document or instrument for filing or recording in any jurisdiction.

6.4 AUTHORITY OF ADMINISTRATIVE AGENT. Borrower and Guarantors acknowledge that the rights and responsibilities of Administrative Agent under this Agreement with respect to any action taken by Administrative Agent or the exercise or non-exercise by Administrative Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between Administrative Agent and Lenders, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between Administrative Agent and Borrower and Guarantors, Administrative Agent shall be conclusively presumed to be acting as agent for Lenders with full and valid authority so to act or refrain from acting, and Borrower and Guarantors shall not be under any obligation, or entitlement, or make any inquiry respecting such authority.

ARTICLE 7 - MISCELLANEOUS  
 -----

7.1 AMENDMENTS. Subject to the terms of the Credit Agreement, none of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by Borrower, Guarantors, and Administrative Agent, provided that any provision of this Agreement imposing obligations on Borrower or Guarantors may be waived by Administrative Agent in a written instrument executed by Administrative Agent.

7.2 NOTICES. All notices, requests, and demands to or upon Administrative Agent or Borrower hereunder shall be effected in the manner provided for in Section 12.10 of the Credit Agreement; provided that any such notice, request, or demand to or upon any Guarantor shall be addressed to such Guarantor at its notice address set forth on SCHEDULE 1.

7.3 NO WAIVER, COURSE OF CONDUCT; CUMULATIVE REMEDIES. Neither Administrative Agent nor any Lender shall by any act (except by a written instrument pursuant to Section 7.1), delay, indulgence, omission, or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Event of Default. No failure to exercise, nor any delay in exercising, on the part of Administrative Agent or any Lender, any right, power, or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power, or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. A waiver by Administrative Agent or any Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Administrative Agent or such Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently, and are not exclusive of any other rights or remedies provided by law.

7.4 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the successors and assigns of Borrower and Guarantors and shall inure to the benefit of Administrative Agent and Lenders and their successors and assigns; provided that Borrower and Guarantors may not assign, transfer, or delegate any of their rights or obligations under this Agreement without the prior written consent of Administrative Agent.

7.5 SETOFF. In addition to any rights and remedies of Lenders provided by law, each Lender shall have the right, without prior notice to Borrower or Guarantors, any such notice being expressly waived to the extent permitted by applicable law, upon any amount becoming due and payable by Borrower or any Guarantors hereunder or under any other Loan Document (whether at the stated maturity, by acceleration, or otherwise) to setoff and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness, or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of Borrower. Each Lender agrees promptly to notify Borrower, Guarantors,

and Administrative Agent after any such setoff and application made by such Lender, provided that, to the extent permitted by applicable law, the failure to give such notice shall not affect the validity of such setoff and application.

7.6 COUNTERPARTS. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

7.7 SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.8 SECTION HEADINGS. The section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

7.9 INTERPRETATION. This Agreement and the other Loan Documents represent the agreement of Borrower, Guarantors, Administrative Agent, and Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties by Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

7.10 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO ITS RULES GOVERNING CONFLICT OF LAWS. BORROWER AGREES THAT VENUE FOR ANY ACTION OR CLAIM RELATED TO THIS AGREEMENT SHALL BE IN TARRANT COUNTY, TEXAS.

7.11 SUBMISSION TO JURISDICTION; WAIVERS. Borrower and Guarantors hereby irrevocably and unconditionally:

(a) submit for themselves and their property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of Texas, the courts of the United States of America for the Northern District of Texas, and appellate courts from any thereof;

(b) consent that any such action or proceeding may be brought in such courts and waive any objection that any may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agree not to plead or claim the same;

(c) agree that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to Borrower or Guarantors at their address referred to in Section 7.2 or at such other address of which Administrative Agent shall have been notified pursuant thereto;

(d) agree that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waive, to the maximum extent not prohibited by law, any right any may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive, or consequential damages.

7.12 ACKNOWLEDGMENTS. Borrower and Guarantors hereby acknowledge that (a) each has been advised by counsel in the negotiation, execution, and delivery of this Agreement and the other Loan Documents to which each is a party; (b) neither Administrative Agent nor any Lender has any fiduciary relationship with or duty to Borrower or Guarantors arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Borrower and Guarantors, on the one hand, and Administrative Agent and Lenders, on the other hand, is solely that of debtor and creditor; and (c) no joint venture is created hereby or by the other Loan Documents

or otherwise exists by virtue of the transactions contemplated hereby among Lenders or among Borrower, Guarantors, and Lenders.

7.13 WAIVER OF JURY TRIAL. BORROWER AND GUARANTORS HEREBY KNOWINGLY AND INTENTIONALLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

7.14 NOTICE OF FINAL AGREEMENT. (a) This Agreement, the Credit Agreement, and the Loan Documents will be collectively referred to as the "WRITTEN LOAN AGREEMENT." It is the intention of Borrower, Guarantors, Administrative Agent, and Lenders that this Section 7.14 be incorporated by reference into each of the agreements, instruments, and documents comprising the Written Loan Agreement. Borrower and Guarantors warrant to Lenders that the entire agreement made and existing by or among them and Lenders with respect to the Obligations is contained within the Written Loan Agreement and that no agreements or promises exist among them and Lenders that are not reflected in the Written Loan Agreement.

(b) THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

7.15 LIMITATION. All representations, warranties, and covenants of Borrower and each Guarantor herein are limited to the Pledge Securities owned or issued by that party.

7.16 ISSUERS' CONSENT. Each of the Guarantors that is an Issuer and each of the other Issuers signing below to consent to this section agree as follows: (a) Issuers consent to this Pledge Agreement, (b) Issuers will not issue any further shares, partnership interests, units, or equity ownership of any kind, without the prior written consent of Administrative Agent, and (c) Issuers will not permit the transfer of record ownership of any shares, partnership interests, units, or equity ownership of any kind, including transfer of any uncertificated securities, without the prior written consent of Administrative Agent.

In witness whereof, the undersigned has caused this Pledge Agreement to be duly executed and delivered as of the date first above written.

LOMAK PETROLEUM, INC.

By: \_\_\_\_\_  
John H. Pinkerton, President

LPI OPERATING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK ENERGY COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK GATHERING &  
PROCESSING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK GAS COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK OPERATING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

Consent of other Issuers to Section 7.16:

BUFFALO OILFIELD SERVICES, INC.

By: \_\_\_\_\_  
John H. Pinkerton, President

LPI ACQUISITION, INC.

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK ENERGY SERVICES COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES, L.L.C.

By: Lomak Production Company, member

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK OFFSHORE, L.P.,

By: LPI Operating Company, General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PIPELINE SYSTEMS, L.P.,

By: Lomak Gathering & Processing Company,  
General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION I, L.P.,

By: Lomak Production Company, General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

SCHEDULES AND EXHIBITS:

- Schedule 1 - Addresses, Jurisdictions, and Offices  
Schedule 2 - Pledged Stock and Pledged Notes  
Schedule 3 - Perfection of Security Interests

Exhibit E to  
Credit Agreement

SECURITY AGREEMENT

made by

LOMAK PETROLEUM, INC.,

and its subsidiaries

BUFFALO OILFIELD SERVICES, INC.,  
LPI ACQUISITION, INC.,  
LPI OPERATING COMPANY,  
LOMAK ENERGY COMPANY,  
LOMAK ENERGY SERVICES COMPANY,  
LOMAK GATHERING & PROCESSING COMPANY,  
LOMAK GAS COMPANY,  
LOMAK OPERATING COMPANY,  
LOMAK PRODUCTION COMPANY,  
LOMAK RESOURCES COMPANY,  
LOMAK RESOURCES, L.L.C.,  
LOMAK OFFSHORE, L.P.,  
LOMAK PIPELINE SYSTEMS, L.P., and  
LOMAK PRODUCTION I, L.P.

in favor of

BANK ONE, TEXAS, N.A.,  
As Administrative Agent

Dated February 14, 1997

COMPLIANCE CERTIFICATE-Page 24

## SECURITY AGREEMENT

This Security Agreement dated February 14, 1997, is executed by LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), and BUFFALO OILFIELD SERVICES, INC., an Ohio corporation, LPI ACQUISITION, INC., a Texas corporation, LPI OPERATING COMPANY, an Ohio corporation, LOMAK ENERGY COMPANY, a Delaware corporation, LOMAK ENERGY SERVICES COMPANY, a Delaware corporation, LOMAK GAS & PROCESSING COMPANY, a Delaware corporation, LOMAK GAS COMPANY, a Delaware corporation, LOMAK OPERATING COMPANY, an Ohio corporation, LOMAK PRODUCTION COMPANY, a Delaware corporation, LOMAK RESOURCES COMPANY, a Delaware corporation, LOMAK RESOURCES, L.L.C., an Oklahoma limited liability company, LOMAK OFFSHORE, L.P., an Ohio limited partnership, LOMAK PIPELINE SYSTEMS, L.P., a Texas limited partnership and LOMAK PRODUCTION I, L.P., a Texas limited partnership (individually a "GUARANTOR" and collectively, together with any other Person that may become a party hereto, the "GUARANTORS"), in favor of BANK ONE, TEXAS, N.A., as administrative agent (in such capacity, the "ADMINISTRATIVE AGENT") for the banks and other financial institutions, including Administrative Agent and the two other agent banks described below (individually a "LENDER" and collectively, including the three agent banks, "LENDERS"), from time to time parties to the Credit Agreement (as defined below).

## Recitals:

- - - - -

A. Pursuant to a Credit Agreement of even date (as amended, restated, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT"), among Borrower, Lenders, Administrative Agent, The Chase Manhattan Bank, as syndication agent, and NationsBank of Texas, N.A., as documentation agent, Lenders have severally agreed to make extensions of credit to Borrower upon the terms and subject to the conditions set forth therein;

B. The Guarantors are subsidiaries of Borrower;

C. The proceeds of the extensions of credit will be used in part to enable Borrower to make valuable transfers to one or more of the Guarantors in connection with the operation of their respective businesses;

D. Borrower and the Guarantors are engaged in related businesses, and each Guarantor will derive substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement; and

E. It is a condition precedent to the obligation of Lenders to make their respective extensions of credit to Borrower under the Credit Agreement that the Guarantors execute and deliver this Agreement to Administrative Agent for the ratable benefit of each Lender.

## Agreement:

- - - - -

For valuable consideration, the receipt and sufficiency of which are acknowledged, and to induce Administrative Agent and Lenders to enter into the Credit Agreement and to induce Lenders to make their respective extensions of credit to Borrower thereunder, Borrower and each Guarantor hereby agree with Administrative Agent, for the ratable benefit of Lenders, as follows:

## ARTICLE 1 - DEFINED TERMS

- - - - -

1.1 DEFINITIONS. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein have the meanings given to them in the Credit Agreement; and the following terms defined in the Uniform Commercial Code in effect in the State of Texas on the date hereof are used herein

as so defined: Accounts, Chattel Paper, Documents, Equipment, Farm Products, Instruments, and Inventory.

(b) The following terms have the meanings assigned below:

"AGREEMENT" means this Security Agreement, as amended, restated, supplemented, or otherwise modified from time to time.

"BORROWER OBLIGATIONS" means collectively the unpaid principal of and interest on the Loans and Reimbursement Obligations and all other obligations and liabilities of Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and Reimbursement Obligations and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to Borrower, whether or not a claim for post-filing or post-petition interest is allowed in the proceeding) to Administrative Agent or any Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, the other Loan Documents, or any Letter of Credit entered into by Borrower with any Lender (or any Affiliate of any Lender) or any other document made, delivered, or given in connection therewith, in each case whether on account of principal, interest, Reimbursement Obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to Administrative Agent or to Lenders that are required to be paid by Borrower pursuant to the terms of any of the foregoing agreements).

"CODE" means the Uniform Commercial Code as from time to time in effect in the State of Texas.

"COLLATERAL" means all Accounts, Chattel Paper, Contracts, Documents, Equipment, General Intangibles, Instruments, Inventory, Receivables, all books and records pertaining to the Collateral, and to the extent not otherwise included, all Proceeds and products of any and all of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing.

"COLLATERAL ACCOUNT" means any collateral account established by Administrative Agent as provided in Sections 5.1 or 5.3.

"CONTRACTS" means collectively any contract, guaranty, or letter of credit provided to any Guarantor to assure the performance by any party to any such contract or agreement, as the same may from time to time be amended, supplemented, or otherwise modified, and including any contracts relating to the hedging of commodities, together with (a) all rights of any Guarantor to receive moneys due and to become due to it thereunder or in connection therewith, (b) all rights of any Guarantor to damages arising out of, or for, breach or default in respect thereof, (c) all rights of any Guarantor to terminate, amend, supplement, or modify the contracts and agreements, and to perform and to exercise all options, rights, and remedies thereunder and (d) all rights of any Guarantor to receive proceeds of any insurance, indemnity, warranty, or guaranty in respect thereof.

"EVENT OF DEFAULT" means the occurrence of an Event of Default as defined in the Credit Agreement.

"GENERAL INTANGIBLES" means all "general intangibles" as that term is defined in Section 9.106 of the Code and including, without limitation, with respect to Borrower or any Guarantor, all contracts, agreements, instruments, and indentures in any form, and portions thereof, to which Borrower or any Guarantor is a party or under which Borrower or any Guarantor has any right, title, or interest or to which Borrower or any Guarantor or any property of Borrower or any Guarantor is subject, as the same may from time to time be amended, supplemented, or otherwise modified, including, without limitation, (i) all rights of Borrower or any Guarantor to receive moneys due and to become due to it thereunder or in



connection therewith, (ii) all rights of Borrower or any Guarantor to damages arising thereunder, and (iii) all rights of Borrower or any Guarantor to perform and to exercise all remedies thereunder.

"GUARANTOR OBLIGATIONS" means, with respect to any Guarantor, the collective reference to (i) the Borrower Obligations and (ii) all obligations and liabilities of a Guarantor which may arise under or in connection with this Agreement or any other Loan Document to which a Guarantor is a party, in each case whether on account of direct obligations, guaranty obligations, Reimbursement Obligations, principal, interest (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans, and Reimbursement Obligations, and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization, or like proceeding, relating to a Guarantor or Borrower, whether or not a claim for post-filing or post-petition interest is allowed in any such proceeding), fees, indemnities, costs, expenses, or otherwise (including, without limitation, all fees and disbursements of counsel to Administrative Agent or to Lenders that are required to be paid by a Guarantor pursuant to the terms of this Agreement or any other Loan Document).

"PROCEEDS" means all "proceeds" as that term is defined in Section 9.306(a) of the Code and including, without limitation, all dividends, distributions, or other income from the Collateral and all payments made in respect of the Collateral, collections thereon or distributions or payments with respect thereto.

"RECEIVABLE" means any right to payment for goods sold or leased or for services rendered, whether or not the right is evidenced by an Instrument or Chattel Paper and whether or not it has been earned by performance (including, without limitation, any Accounts).

"REIMBURSEMENT OBLIGATIONS" means any amounts, other than the Loans, payable or to be reimbursed to Lenders under the Credit Agreement or any of the Loan Documents, including but not limited to the Obligations.

1.2 OTHER DEFINITIONAL PROVISIONS. (a) The words "hereof," "herein," "hereto," and "hereunder" and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of the terms.

(c) Where the context requires, terms relating to the Collateral or any part thereof, when used in relation to a Guarantor, refer to the Guarantor's Collateral or the relevant part thereof.

## ARTICLE 2 - GRANT OF SECURITY INTEREST

-----

2.1 GUARANTORS' COLLATERAL. Each Guarantor hereby assigns and transfers to Administrative Agent, and hereby grants to Administrative Agent, for the ratable benefit of Lenders, a security interest in all of the Collateral, now owned or at any time hereafter acquired by any Guarantor or in which any now has or at any time in the future may acquire any right, title, or interest, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration, or otherwise) of the Guarantor Obligations. The Collateral shall not include any Contract or General Intangible to the extent the grant by a Guarantor of a security interest pursuant to this Agreement in its rights under any Contract or General Intangible, as the case may be, is prohibited by the Contract or General Intangible, and the consent of applicable Persons has not been obtained, provided that the foregoing limitation shall not affect, limit, restrict, or impair the grant by any Guarantor of a security interest pursuant to this Agreement in any account or any money or other amounts due or to become due under any Contract or General Intangible to the extent provided in Section 9.318 of the Code.

2.2 BORROWER'S COLLATERAL. Borrower hereby assigns and transfers to Administrative Agent, and hereby grants to Administrative Agent, for the ratable benefit of Lenders, a security interest in all of the Collateral, now owned or at any time hereafter acquired by Borrower or in which it now has or at any time in the future may acquire any right, title, or interest, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration, or otherwise) of the Borrower Obligations. The Collateral shall not include any Contract or General Intangible to the extent the grant by Borrower of a security interest pursuant to this Agreement in its rights under any Contract or General Intangible, as the case may be, is prohibited by the Contract or General Intangible, and the consent of applicable Persons has not been obtained, provided that the foregoing limitation shall not affect, limit, restrict, or impair the grant by Borrower of a security interest pursuant to this Agreement in any account or any money or other amounts due or to become due under any Contract or General Intangible to the extent provided in Section 9.318 of the Code.

ARTICLE 3 - REPRESENTATIONS AND WARRANTIES  
 - - - - -

To induce Administrative Agent and Lenders to enter into the Credit Agreement and to induce Lenders to make their respective extensions of credit to Borrower thereunder, Borrower and each Guarantor hereby represent and warrant to Administrative Agent and each Lender that:

3.1 TITLE; NO LIENS. Except for the security interest granted to the Administrative Agent for the ratable benefit of Lenders pursuant to this Agreement, each Guarantor owns each item of the Collateral free and clear of any and all Liens other than Permitted Encumbrances. Except for the security interest granted to the Administrative Agent for the ratable benefit of Lenders pursuant to this Agreement, Borrower owns each item of the Collateral free and clear of any and all Liens other than Permitted Encumbrances.

3.2 PERFECTED FIRST LIENS. The security interests granted pursuant to this Agreement with respect to Collateral which are capable of perfection under the Code (a) upon completion of the filings and other actions specified on SCHEDULE 2 (which, in the case of all filings and other documents referred to on that Schedule have been delivered to Administrative Agent in completed and duly executed form) will constitute valid perfected security interests in all Collateral in favor of Administrative Agent, for the ratable benefit of Lenders, as collateral security for the Borrower Obligations and the Guarantor Obligations, enforceable in accordance with the terms hereof against all creditors of Borrower or any Guarantor and any Persons purporting to purchase any Collateral from Borrower or any Guarantor and (b) are prior to all other Liens on the Collateral except for Permitted Encumbrances.

3.3 CHIEF EXECUTIVE OFFICE. On the date hereof, each Guarantor's jurisdiction of organization and the location of each Guarantor's chief executive office or sole place of business are specified on SCHEDULE 1.

3.4 FARM PRODUCTS. None of the Collateral constitutes or is the Proceeds of Farm Products.

ARTICLE 4 - COVENANTS  
 - - - - -

Borrower and each Guarantor covenant and agree with Administrative Agent and Lenders that, from and after the date of this Agreement until the Guarantor Obligations shall have been paid in full, no Letter of Credit is outstanding, and the Total Commitment is terminated:

4.1 COVENANTS IN CREDIT AGREEMENT. In the case of each Guarantor which is not a party to the Credit Agreement, such Guarantor shall take, or shall refrain from taking as the case may be, each

action that is necessary to be taken or not taken, as the case may be so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action by such Guarantor.

4.2 DELIVERY OF PROMISSORY NOTES AND CHATTEL PAPER. If any amount payable under or in connection with any of the Collateral is or becomes evidenced by any promissory notes, Chattel Paper, or similar instruments having a value or a principal amount of \$100,000 or more, the promissory note, Chattel Paper, or similar instrument shall be immediately delivered to Administrative Agent, duly indorsed in a manner satisfactory to Administrative Agent, to be held as Collateral pursuant to this Agreement.

4.3 MAINTENANCE OF PERFECTED SECURITY INTEREST; FURTHER DOCUMENTATION. (a) Borrower and each Guarantor shall maintain the security interest created by this Agreement as a perfected security interest having at least the priority described in Section 3.2 and shall defend such security interest against the claims and demands of all Persons.

(b) Borrower and each Guarantor will furnish to Administrative Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Administrative Agent may reasonably request, all in reasonable detail.

(c) At any time and from time to time, upon the written request of Administrative Agent, and at the sole expense of Borrower and Guarantors, Borrower and each Guarantor will promptly and duly execute and deliver such further instruments and documents and take such further actions as Administrative Agent may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Code (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby.

4.4 CHANGES IN LOCATIONS, NAME, ETC. Borrower and each Guarantor will not, except upon not less than 10 days prior written notice to Administrative Agent and delivery to the Administrative Agent of all additional executed financing statements and other documents reasonably requested by Administrative Agent to maintain the validity, perfection, and priority of the security interests provided for herein:

(a) change the location of its chief executive office or sole place of business from that referred to in SCHEDULE 1; or

(b) change its name, identity, or corporate structure to such an extent that any financing statement filed by Administrative Agent in connection with this Agreement would become misleading.

ARTICLE 5 - REMEDIAL PROVISIONS  
- - - - -

5. 1 CERTAIN MATTERS RELATING TO RECEIVABLES. (a) Administrative Agent shall have the right, upon the occurrence and during the continuance of an Event of Default, to make test verifications of the Receivables in any manner and through any medium that it reasonably considers advisable, and Borrower and each Guarantor shall furnish all such assistance and information as Administrative Agent may require in connection with such test verifications. At any time and from time to time, upon the occurrence and during the continuance of an Event of Default, upon Administrative Agent's reasonable request and at the expense of Borrower or the relevant Guarantor, Borrower and each Guarantor shall cause independent public accountants or others satisfactory to Administrative Agent to furnish to Administrative Agent reports showing reconciliations, aging and test verifications of, and trial balances for, the Receivables.

(b) Administrative Agent hereby authorizes Borrower and each Guarantor to collect their respective Receivables, subject to Administrative Agent's direction and control, and Administrative Agent may curtail or terminate said authority at any time after the occurrence and during

the continuance of an Event of Default. If required by Administrative Agent at any time after the occurrence and during the continuance of an Event of Default, any payments of Receivables, when collected by Borrower or any Guarantor, (i) shall be forthwith (and, in any event, within two Business Days) deposited in the exact form received, duly indorsed by Borrower and each Guarantor to Administrative Agent, if required, in a Collateral Account maintained under the sole dominion and control of Administrative Agent, subject to withdrawal by Administrative Agent for the account of Lenders only, as provided in Section 5.4, and (ii) until so turned over, shall be held by Borrower and each Guarantor in trust for Administrative Agent and Lenders, segregated from other funds of Borrower and Guarantors. Each such deposit of Proceeds of Receivables shall be accompanied by a report identifying in reasonable detail the nature and source of the payments included in the deposit.

(c) At Administrative Agent's request, upon the occurrence and during the continuance of an Event of Default, Borrower and each Guarantor shall deliver to Administrative Agent all original and other documents evidencing, and relating to, the agreements and transactions which gave rise to the Receivables, including, without limitation, all original orders, invoices and shipping receipts.

5.2 COMMUNICATIONS WITH OBLIGORS; GUARANTORS REMAIN LIABLE. (a) Administrative Agent in its own name or in the name of others may at any time after the occurrence and during the continuance of an Event of Default communicate with obligors under the Receivables and parties to the Contracts to verify with them to Administrative Agent's satisfaction the existence, amount, and terms of any Receivables or contracts.

(b) Upon the request of Administrative Agent at any time after the occurrence and during the continuance of an Event of Default, Borrower and each Guarantor shall notify obligors on the Receivables and parties to the Contracts that the Receivables and the contracts have been assigned to Administrative Agent for the ratable benefit of Lenders and that payments in respect thereof shall be made directly to Administrative Agent.

(c) Anything herein to the contrary notwithstanding, Borrower and each Guarantor shall remain liable under each of the Receivables and Contracts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise thereto. Neither Administrative Agent nor any Lender shall have any obligation or liability under any Receivable (or any agreement giving rise thereto) or Contract, by reason of or arising out of this Agreement or the receipt by Administrative Agent or any Lender of any payment relating thereto, nor shall Administrative Agent or any Lender be obligated in any manner to perform any of the obligations of Borrower or any Guarantor under or pursuant to any Receivable (or any agreement giving rise thereto) or Contract, to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party thereunder, to present or file any claim, to take any action to enforce any performance, or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

5.3 PROCEEDS TO BE TURNED OVER. In addition to the rights of Administrative Agent and Lenders specified in Section 5.1 with respect to payments of Receivables, if an Event of Default shall occur and be continuing, all Proceeds received by Borrower or any Guarantor consisting of cash, checks, and other near-cash items shall be held by such entity in trust for Administrative Agent and Lenders, segregated from other funds of Borrower and Guarantors, and shall, forthwith upon receipt by Borrower or Guarantors, be turned over to Administrative Agent in the exact form received (duly indorsed by Borrower or such Guarantor to Administrative Agent, if required). All Proceeds received by Administrative Agent hereunder shall be held by Administrative Agent in a Collateral Account maintained under its sole dominion and control. All Proceeds while held by Administrative Agent in a Collateral Account (or by Borrower or Guarantors in trust for Administrative Agent and Lenders) shall continue to be held as collateral security for all Borrower Obligations and Guarantor Obligations and shall not constitute payment thereof until applied as provided in Section 5.4.

5.4 APPLICATION OF PROCEEDS. If an Event of Default has occurred and is continuing, at any time at Administrative Agent's election, Administrative Agent may apply all or any part of Proceeds held

in any Collateral Account in payment of the Borrower Obligations or Guarantor Obligations in such order as Administrative Agent may elect, and any part of such funds which Administrative Agent elects not so to apply and deems not required as collateral security for the Borrower Obligations or Guarantor Obligations shall be paid over from time to time by Administrative Agent to Borrower or Guarantors or to whomsoever may be lawfully entitled to receive the same. Any balance of such Proceeds remaining after the Borrower Obligations and Guarantor Obligations shall have been paid in full, no Letters of Credit shall be outstanding, and the Total Commitment is terminated shall be paid over to the grantor of such Collateral or to whomsoever may be lawfully entitled to receive the same.

5.5 CODE AND OTHER REMEDIES. If an Event of Default shall occur and be continuing, Administrative Agent, on behalf of Lenders, may exercise, in addition to all other rights and remedies granted to them in this Agreement and in any other instrument or agreement securing, evidencing, or relating to the Borrower Obligations or Guarantor Obligations, all rights and remedies of a secured party under the Code or any other applicable law. Without limiting the generality of the foregoing, Administrative Agent, without demand of performance or other demand, presentment, protest, advertisement, or notice of any kind (except any notice required by law referred to below) to or upon Borrower or any Guarantor, or any other Person (all and each of which demands, defenses, advertisements, and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate, and realize upon the Collateral, or any part thereof, and may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of Administrative Agent or any Lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Administrative Agent or any Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in Borrower or any Guarantor, which right or equity is hereby waived and released. Borrower and each Guarantor further agree, at Administrative Agent's request, to assemble the Collateral and make it available to Administrative Agent at places which Administrative Agent shall reasonably select, whether at Borrower's or such Guarantor's premises or elsewhere. Administrative Agent shall apply the proceeds of any action taken by it pursuant to this Section 5.5, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of Administrative Agent and Lenders hereunder, including, without limitation, reasonable attorneys fees and disbursements, to the payment in whole or in part of the Borrower Obligations and Guarantor Obligations, in such order as Administrative Agent may elect, and only after such application and after the payment by Administrative Agent of any other amount required by any provision of law, including, without limitation, Section 9.504(a) of the Code, need Administrative Agent account for the surplus, if any, to Borrower and Guarantors. To the extent permitted by applicable law, Borrower and each Guarantor waive all claims, damages, and demands it may acquire against Administrative Agent or any Lender arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition.

5.6 WAIVER; DEFICIENCY. Borrower and each Guarantor waive and agree not to assert any rights or privileges which any may acquire under Section 9.112 of the Code. Borrower and each Guarantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Borrower Obligations and Guarantor Obligations and the reasonable fees and disbursements of any attorneys employed by Administrative Agent or any Lender to collect such deficiency.

ARTICLE 6 - ADMINISTRATIVE AGENT  
-----

6.1 ATTORNEY-IN-FACT. (a) Borrower and each Guarantor hereby irrevocably constitute and appoint Administrative Agent and any officer or agent thereof, with full power of substitution, as their true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of

Borrower and Guarantors and in their name or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, Borrower and each Guarantor hereby give Administrative Agent the power and right, on their behalf, without notice to or assent by Borrower or any Guarantor, to do any or all of the following:

(i) in the name of Borrower or any Guarantor or its own name, or otherwise, take possession of and indorse and collect any checks, drafts, notes, acceptances, or other instruments for the payment of moneys due under any Receivable or Contract or with respect to any other Collateral and file any claim or take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Administrative Agent for the purpose of collecting any and all such moneys due under any Receivable or Contract or with respect to any other Collateral whenever payable;

(ii) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, effect any repairs or any insurance called for by the terms of this Agreement, and pay all or any part of the premiums therefor and the costs thereof;

(iii) execute, in connection with any sale provided for in Sections 5.5 any indorsements, assignments, or other instruments of conveyance or transfer with respect to the Collateral; and

(iv) (A) direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to Administrative Agent or as Administrative Agent shall direct; (B) ask or demand for, collect, receive payment of, and receipt for, any and all moneys, claims, and other amounts due or to become due at any time in respect of or arising out of any Collateral; (C) sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices, and other documents in connection with any of the Collateral; (D) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of any Collateral; (E) defend any suit, action, or proceeding brought against Borrower or a Guarantor with respect to any Collateral; (F) settle, compromise, or adjust any such suit, action, or proceeding and, in connection therewith, to give such discharges or releases as Administrative Agent may deem appropriate; and (G) generally sell, transfer, pledge, and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though Administrative Agent were the absolute owner thereof for all purposes, and do, at Administrative Agent's option and Borrower and Guarantors' expense, at any time, or from time to time, all acts and things which the Administrative Agent deems necessary to protect, preserve, or realize upon the Collateral and Administrative Agent's and Lenders' security interests therein and to effect the intent of this Agreement, all as fully and effectively as Borrower and Guarantors might do.

Anything in this Subsection 6.1(a) to the contrary notwithstanding, Administrative Agent agrees that it will not exercise any rights under the power of attorney provided for in this Subsection 6.1(a) unless an Event of Default shall have occurred and be continuing.

(b) If Borrower or any Guarantor fails to perform or comply with any of its agreements contained herein, Administrative Agent, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) Borrower and each Guarantor hereby ratify all that Administrative Agent as its attorney-in-fact shall lawfully do or cause to be done by virtue hereof. All powers, authorizations, and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

6.2 DUTY OF ADMINISTRATIVE AGENT. Administrative Agent's sole duty with respect to the custody, safekeeping, and physical preservation of the Collateral in its possession, under Section 9.207 of the Code or otherwise, shall be to deal with it in the same manner as Administrative Agent deals with

similar property for its own account. Neither Administrative Agent, any Lender nor any of their respective officers, directors, employees, or agents shall be liable for failure to demand, collect, or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Borrower or any Guarantor or any other Person or to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on Administrative Agent and Lenders hereunder are solely to protect Administrative Agent's and Lenders' interests in the Collateral and shall not impose any duty upon Administrative Agent or any Lender to exercise any such powers. Administrative Agent and Lenders shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees, or agents shall be responsible to Borrower or any Guarantor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

6.3 FINANCING STATEMENTS. Pursuant to Section 9.402 of the Code and any other applicable law, Borrower and each Guarantor authorize Administrative Agent to file or record financing statements and other filing or recording documents or instruments with respect to the Collateral without their signature in such form and in such offices as Administrative Agent reasonably determines appropriate to perfect the security interests of Administrative Agent under this Agreement. A photographic or other reproduction of this Agreement shall be sufficient as a financing statement or other filing or recording document or instrument for filing or recording in any jurisdiction.

6.4 AUTHORITY OF ADMINISTRATIVE AGENT. Borrower and each Guarantor acknowledge that the rights and responsibilities of Administrative Agent under this Agreement with respect to any action taken by Administrative Agent or the exercise or non-exercise by Administrative Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between Administrative Agent and Lenders, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between Administrative Agent and Borrower and the Guarantors, Administrative Agent shall be conclusively presumed to be acting as agent for Lenders with full and valid authority so to act or refrain from acting, and no Borrower or Guarantor shall be under any obligation, or entitlement, or make any inquiry respecting such authority.

#### ARTICLE 7 - MISCELLANEOUS

-----

7.1 AMENDMENTS. Subject to the terms of the Credit Agreement, none of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by Borrower, each affected Guarantor, and Administrative Agent, provided that any provision of this Agreement imposing obligations on Borrower or any Guarantor may be waived by Administrative Agent in a written instrument executed by Administrative Agent.

7.2 NOTICES. All notices, requests, and demands to or upon Administrative Agent, Borrower, or any Guarantor hereunder shall be effected in the manner provided for in Section 12.10 of the Credit Agreement; provided that any such notice, request, or demand to or upon any Guarantor shall be addressed to such Guarantor at its notice address set forth on SCHEDULE 1.

7.3 NO WAIVER, COURSE OF CONDUCT; CUMULATIVE REMEDIES. Neither Administrative Agent nor any Lender shall by any act (except by a written instrument pursuant to Section 7.1), delay, indulgence, omission, or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Event of Default. No failure to exercise, nor any delay in exercising, on the part of Administrative Agent or any Lender, any right, power, or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power, or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. A waiver by Administrative Agent or any Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Administrative Agent or such Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently, and are not exclusive of any other rights or remedies provided by law.

7.4 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the successors and assigns of Borrower and each Guarantor and shall inure to the benefit of Administrative Agent and Lenders and their successors and assigns; provided that no Borrower or Guarantor may assign, transfer, or delegate any of its rights or obligations under this Agreement without the prior written consent of Administrative Agent.

7.5 SETOFF. In addition to any rights and remedies of Lenders provided by law, each Lender shall have the right, without prior notice to Borrower or any Guarantor, any such notice being expressly waived by each to the extent permitted by applicable law, upon any amount becoming due and payable by Borrower or any Guarantor hereunder or under any other Loan Document (whether at the stated maturity, by acceleration, or otherwise) to setoff and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness, or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of Borrower or any Guarantor. Each Lender agrees promptly to notify Borrower or the relevant Guarantor and Administrative Agent after any such setoff and application made by such Lender, provided that, to the extent permitted by applicable law, the failure to give such notice shall not affect the validity of such setoff and application.

7.6 COUNTERPARTS. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

7.7 SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.8 SECTION HEADINGS. The section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

7.9 INTERPRETATION. This Agreement and the other Loan Documents represent the agreement of Borrower, the Guarantors, Administrative Agent, and Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations, or warranties by Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

7.10 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO ITS RULES GOVERNING CONFLICT OF LAWS. BORROWER AND EACH GUARANTOR AGREE THAT VENUE FOR ANY ACTION OR CLAIM RELATED TO THIS AGREEMENT SHALL BE IN TARRANT COUNTY, TEXAS.

7.11 SUBMISSION TO JURISDICTION; WAIVERS. Borrower and each Guarantor hereby irrevocably and unconditionally:

(a) submit for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of Texas, the courts of the United States of America for the Northern District of Texas, and appellate courts from any thereof;

(b) consent that any such action or proceeding may be brought in such courts and waive any objection that it may now or hereafter have to the venue of any such action or proceeding in any



such court or that such action or proceeding was brought in an inconvenient court and agree not to plead or claim the same;

(c) agree that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to Borrower or Guarantor at its address referred to in Section 7.2 or at such other address of which Administrative Agent shall have been notified pursuant thereto;

(d) agree that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waive, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive, or consequential damages.

7.12 ACKNOWLEDGMENTS. Borrower and each Guarantor hereby acknowledge (a) each has been advised by counsel in the negotiation, execution, and delivery of this Agreement and the other Loan Documents to which each is a party; (b) neither Administrative Agent nor any Lender has any fiduciary relationship with or duty to Borrower or any Guarantor arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Borrower and the Guarantors, on the one hand, and Administrative Agent and Lenders, on the other hand, is solely that of debtor and creditor; and (c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among Lenders or among Borrower, the Guarantors, and Lenders.

7.13 WAIVER OF JURY TRIAL. BORROWER AND EACH GUARANTOR HEREBY KNOWINGLY AND INTENTIONALLY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

7.14 NOTICE OF FINAL AGREEMENT. (a) This Agreement, the Credit Agreement, and the Loan Documents will be collectively referred to as the "WRITTEN LOAN AGREEMENT." It is the intention of Borrower, Guarantors, Administrative Agent, and Lenders that this Section 7.14 be incorporated by reference into each of the agreements, instruments, and documents comprising the Written Loan Agreement. Borrower and Guarantors warrant to Lenders that the entire agreement made and existing by or among them and Lenders with respect to the Obligations is contained within the Written Loan Agreement and that no agreements or promises exist among them and Lenders that are not reflected in the Written Loan Agreement.

(b) THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

LOMAK PETROLEUM, INC.

By: \_\_\_\_\_  
John H. Pinkerton, President

BUFFALO OILFIELD SERVICES, INC.

By: \_\_\_\_\_

John H. Pinkerton, President

LPI ACQUISITION, INC.

By: \_\_\_\_\_  
John H. Pinkerton, President

LPI OPERATING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK ENERGY COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK ENERGY SERVICES COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK GATHERING &  
PROCESSING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK GAS COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK OPERATING COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES COMPANY

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK RESOURCES, L.L.C.  
By: Lomak Production Company, member

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK OFFSHORE, L.P.,  
By: LPI Operating Company, General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PIPELINE SYSTEMS, L.P.,  
By: Lomak Gathering & Processing Company,  
General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

LOMAK PRODUCTION I, L.P.,  
By: Lomak Production Company, General Partner

By: \_\_\_\_\_  
John H. Pinkerton, President

Schedules And Exhibits:

- - - - -
- Schedule 1 - Guarantors' Addresses, Jurisdictions, and Offices
- Schedule 2 - Perfection of Security Interests

Exhibit F to  
Credit Agreement

NOTICE OF BORROWING

Reference is made to the Credit Agreement dated February 14, 1997, by and among LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), BANK ONE, TEXAS, N.A., as Administrative Agent, THE CHASE MANHATTAN BANK, N.A., as Syndication Agent, NATIONSBANK OF TEXAS, N.A., as Documentation Agent, and certain Lenders designated and defined therein (as from time to time amended, the "CREDIT AGREEMENT"). Capitalized terms which are defined in the Credit Agreement and which are used but not defined herein have the meanings given them in the Credit Agreement. Pursuant to the terms of the Credit Agreement, Borrower hereby requests a Borrowing in the amount of \$\_\_\_\_\_ to be advanced on \_\_\_\_\_, 199\_\_.

Borrower requests that the Borrowing to be made under this notice shall be [AN ABR BORROWING] [A EURODOLLAR BORROWING] and shall have the Interest Periods set forth below:

TYPE OF BORROWING	AGGREGATE AMOUNT	INTEREST PERIOD
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----

Borrower and the Authorized Officer of Borrower signing this Notice of Borrowing hereby certify that:

(a) Such officer is the duly elected, qualified, and acting officer of Borrower as indicated below such officer's signature hereto.

(b) Except as disclosed on Schedule I attached hereto, the representations and warranties of Borrower set forth in the Credit Agreement and the Loan Documents delivered to Administrative Agent and Lenders are true and correct on and as of the date hereof, with the same effect as though such representations and warranties had been made on and as of the date hereof or, if such representations and warranties are expressly limited to particular dates, as of such particular dates. Since December 31, 1995, there has been no development, circumstance, or event which has had or could reasonably be expected to have a Material Adverse Effect.

(c) There does not exist on the date hereof, any condition or event which constitutes a Default or Event of Default, nor will any such Default or Event of Default exist upon Borrower's receipt and application of the proceeds requested hereby. Borrower will use the proceeds hereby requested in compliance with the applicable provisions of the Credit Agreement.

(d) Borrower has performed and complied with all agreements and conditions in the Credit Agreement required to be performed or complied with by Borrower on or prior to the date hereof, and each of the conditions precedent to the requested Borrowing contained in the Credit Agreement have been and remain satisfied in all respects.

(e) After giving effect to the Borrowing requested hereby, the Outstanding Obligations will not be in excess of the lesser of (i) the Total Commitment, or (ii) the Borrowing Base on the date requested for the making of such Borrowing.

In witness whereof, this Notice of Borrowing is executed as of \_\_\_\_\_, 199\_\_.

LOMAK PETROLEUM, INC.,  
a Delaware corporation

By: \_\_\_\_\_

Its: \_\_\_\_\_

Exhibit G to  
Credit Agreement

ROLLOVER NOTICE

Reference is made to the Credit Agreement dated February 14, 1997, by and among LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), BANK ONE, TEXAS, N.A., as Administrative Agent, THE CHASE MANHATTAN BANK, as Syndication Agent, NATIONSBANK OF TEXAS, N.A., as Documentation Agent, and certain Lenders designated and defined therein (as from time to time amended, the "CREDIT AGREEMENT"). Capitalized terms which are defined in the Credit Agreement and which are used but not defined herein have the meanings given them in the Credit Agreement.

[ ] Reference is hereby made to the existing Eurodollar Loans in the aggregate amount of \$\_\_\_\_\_ which are subject to an Interest Period expiring on \_\_\_\_\_, 199\_\_. Borrower hereby requests that on the expiration of such Interest Period the principal of such Eurodollar Loans be converted to ABR Loans or continued as Eurodollar Loans having an Interest Period of \_\_\_\_ months.

[ ] Borrower hereby requests that on \_\_\_\_\_, 199\_\_, \$\_\_\_\_\_ outstanding under the Credit Agreement as ABR Loans be converted to Eurodollar Loans having an Interest Period of \_\_\_\_ months.

Borrower and the Authorized Officer of Borrower signing this instrument hereby certify that:

(a) Such officer is the duly elected, qualified, and acting officer of Borrower as indicated below such officer's signature hereto;

(b) Except as disclosed on Schedule I attached hereto, there does not exist on the date hereof any condition or event which constitutes a Default or Event of Default; and

(c) Except as disclosed on Schedule I attached hereto, the representations and warranties of Borrower set forth in the Credit Agreement and the Loan Documents delivered to Administrative Agent and Lenders are true and correct on and as of the date hereof, with the same effect as though such representations and warranties had been made on and as of the date hereof or, if such representations and warranties are expressly limited to particular dates, as of such particular dates. Since December 31, 1995, there has been no development, circumstance, or event which has had or could reasonably be expected to have a Material Adverse Effect.

In witness whereof, this Rollover Notice is executed as of  
\_\_\_\_\_, 199\_\_\_\_.

LOMAK PETROLEUM, INC.,  
a Delaware corporation

By: \_\_\_\_\_

Its: \_\_\_\_\_

Exhibit H to  
Credit Agreement

REQUEST FOR LETTER OF CREDIT

Reference is made to the Credit Agreement dated February 14, 1997, by and among LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), BANK ONE, TEXAS, N.A., as Administrative Agent, THE CHASE MANHATTAN BANK, N.A., as Syndication Agent, NATIONSBANK OF TEXAS, N.A., as Documentation Agent, and certain Lenders designated and defined therein (as from time to time amended, the "CREDIT AGREEMENT"). Capitalized terms which are defined in the Credit Agreement and which are used but not defined herein have the meanings given them in the Credit Agreement.

Pursuant to the terms of the Credit Agreement, Borrower hereby requests \_\_\_\_\_ ("ISSUING LENDER") to issue a Letter of Credit as follows:

Type of Commitment:  
-----

Requested Amount \$ \_\_\_\_\_

Requested Date of Issuance \_\_\_\_\_

Requested Expiration Date \_\_\_\_\_

Summary of Terms \_\_\_\_\_  
(provide a brief description \_\_\_\_\_  
of conditions under which the \_\_\_\_\_  
drafts under such Letter of \_\_\_\_\_  
Credit are to be available) \_\_\_\_\_

Beneficiary (Name/Address) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The requested Letter of Credit is more particularly described in the Letter of Credit Application of Issuing Lender which is attached hereto.

Borrower and the Authorized Officer of Borrower signing this instrument hereby certify that:

(a) Such officer is the duly elected, qualified, and acting officer of Borrower as indicated below such officer's signature hereto.

(b) Except as disclosed on Schedule I attached hereto, the representations and warranties of Borrower set forth in the Credit Agreement and the other Loan Documents delivered to Administrative Agent and Lenders are true and correct on and as of the date hereof, with the same effect as though such representations and warranties had been made on and as of the date hereof, or if such representations and warranties are expressly limited to particular dates, as of such particular dates. Since December 31, 1995, there has been no development, circumstance, or event which has had or could reasonably be expected to have a Material Adverse Effect.

(c) There does not exist on the date hereof any condition or event which constitutes a Default or Event of Default, nor will any such Default or Event of Default exist upon the issuance of the Letter of Credit requested hereby. Borrower will use the Letter of Credit solely for purposes permitted by the Credit Agreement.

(d) Borrower has performed and complied with all agreements and conditions in the Credit Agreement required to be performed or complied with by Borrower on or prior to the date hereof, and each of the conditions precedent to the issuance of Letters of Credit contained in the Credit Agreement remain satisfied in all material respects.

(e) After the issuance of the Letter of Credit requested hereby, (i) the Outstanding Obligations will not be in excess of the lesser of (A) the Total Commitment or (B) the Borrowing Base, and (ii) the Letter of Credit Outstandings will not exceed \$150,000,000.00 through the earlier of (A) April 30, 1997, or (B) any earlier cancellation, termination, or payment of the Cometra Letter of Credit, and will not exceed \$100,000,000.00 thereafter.

In witness whereof, this Request for Letter of Credit is executed as of \_\_\_\_\_, 199\_\_.

LOMAK PETROLEUM, INC.,  
a Delaware corporation

By: \_\_\_\_\_

Its: \_\_\_\_\_



Exhibit I to  
Credit Agreement

COMPLIANCE CERTIFICATE

Reference is made to the Credit Agreement dated February 14, 1997, by and among LOMAK PETROLEUM, INC., a Delaware corporation ("BORROWER"), BANK ONE, TEXAS, N.A., as Administrative Agent, THE CHASE MANHATTAN BANK, N.A., as Syndication Agent, NATIONSBANK OF TEXAS, N.A., as Documentation Agent, and certain Lenders designated and defined therein (as from time to time amended, the "CREDIT AGREEMENT"). Capitalized terms which are defined in the Credit Agreement and which are used but not defined herein have the meanings given them in the Credit Agreement. Pursuant to SECTION 7.02(C)(3) of the Credit Agreement, the undersigned hereby certifies that the information set forth below and on any attachments to this Certificate is true, correct, and complete as of the date of this Certificate:

(i) Attached hereto as EXHIBIT A are the [un]audited consolidated financial statements of Borrower delivered pursuant to SECTION 7.02(C)[(1)] OR [(2)] of the Credit Agreement for the [fiscal year] [calendar quarter] ended \_\_\_\_\_, 199\_ (the "SUBJECT PERIOD"). Such financial statements were prepared in accordance with GAAP and on a basis consistent with all prior financial statements for Borrower previously delivered to Lenders, and fairly present the consolidated business and financial condition of Borrower as of the date of the delivery of such financial statements.

(ii) Unless otherwise disclosed on EXHIBIT B attached hereto, there does not exist on the date hereof, and there did not exist on the date of such financial statements, any condition or event which constitutes a Default or Event of Default; provided, that for any Default or Event of Default disclosed on EXHIBIT B attached hereto, Borrower is taking or proposes to take the action to cure such Default or Event of Default set forth on EXHIBIT B.

(iii) Unless otherwise disclosed on EXHIBIT C attached hereto, the representations and warranties of Borrower set forth in the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, and were true and correct as of the date of such financial statements.

(iv) A review of the activities of Borrower during the Subject Period has been made under my supervision with a view to determining whether, during the Subject Period, Borrower has kept, observed, performed, and fulfilled all of its obligations under the Loan Documents, and during the Subject Period, Borrower kept, observed, performed, and fulfilled each and every covenant and condition to the Loan Documents (except for the deviations, if any, set forth on the exhibits annexed hereto).

(v) Attached hereto as EXHIBIT D are detailed calculations used by Borrower to establish that Borrower was in compliance with the requirements of SECTION 7.04 of the Credit Agreement on the date of the financial statements attached hereto as EXHIBIT A.

In witness whereof, this compliance certificate is executed as of \_\_\_\_\_, 199\_\_.

Name:

[Authorized Officer]  
of Lomak Petroleum, Inc.

Exhibit A to  
Compliance Certificate

Financial Statements  
(to be attached)

SECURITY AGREEMENT-Page 44

Exhibit B to  
Compliance Certificate  
Defaults/Remedial Action  
(to be attached)

SECURITY AGREEMENT-Page 45

Exhibit C to  
Compliance Certificate

Inaccurate Representations and Warranties  
(to be attached)

Exhibit D to  
Compliance Certificate  
  
Compliance Calculations  
(to be attached)

## EXHIBIT 11.1

LOMAK PETROLEUM, INC.

COMPUTATION OF EARNINGS PER COMMON  
AND COMMON EQUIVALENT SHARES

	Year Ended December 31,		
	1994	1995	1996
	(In thousands, except per share data)		
Average shares outstanding	8,902	11,674	14,334
Net effect of conversion of warrants and stock options	149	167	478
Total primary and fully diluted shares	9,051	11,841	14,812
Net income	\$ 2,619	\$ 4,390	\$ 12,615
Less preferred stock dividends	(375)	(731)	(2,454)
Net income applicable to common shares	\$ 2,244	\$ 3,659	\$ 10,161
Earnings per common share	\$ 0.25	\$ 0.31	\$ 0.69

## EXHIBIT 22

LOMAK PETROLEUM, INC.

## SUBSIDIARIES OF REGISTRANT

Name	Jurisdiction of Incorporation	Percentage of Voting Securities Owned by Immediate Parent
Lomak Operating Company	Ohio	100%
Lomak Production Company	Delaware	100%
Buffalo Oilfield Services, Inc.	Ohio	100%
Lomak Energy Services Company	Delaware	100%
Lomak Resources Company	Delaware	100%
Eastern Petroleum Company	Ohio	100%

## EXHIBIT 23.1

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 14, 1997, included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 File No. 33-66322, Form S-3 File No. 33-64303 and on Form S-3 File No. 333-20257.

Arthur Andersen LLP

Cleveland, Ohio  
March 21, 1997



5  
1,000  
DOLLARS

YEAR

	DEC-31-1996	
	JAN-01-1996	
	DEC-31-1996	
	1	8,625
	7,658	
	18,121	
	0	
	799	
	35,203	
		303,658
	(58,099)	
	282,547	
22,307		
		0
		148
0		
	1,150	
	116,231	
282,547		
		68,054
	91,238	
		24,456
	38,033	
	33,756	
	0	
	7,487	
	19,449	
		6,834
12,615		
	0	
	0	
		0
	12,615	
	0.69	
	0.69	