

126341

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

THIS MORTGAGE, DEED OF TRUST, ASSIGNMENT OF PRODUCTION, SECURITY AGREEMENT AND FINANCING STATEMENT (hereinafter called the "Mortgage") entered into as of the effective time and date hereinafter stated (the "Effective Date") by and between SMK ENERGY CORPORATION, a Texas corporation whose address is 1717 East Gentry Parkway, Tyler, Texas 75701; W.L. SUDDERTH and MICHAEL H. NEUFELD, both of 811 Dallas, Suite 1335, Houston, Texas 77002 (hereinafter called "Mortgagors"), and Investors Financial Limited of Neptune House, Marina Bay, Gibraltar (hereinafter called the "Lender").

W I T N E S S E T H:

I

To secure payment of the Indebtedness (as hereinafter defined) and the performance of the covenants and obligations herein contained and in consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration in hand paid by Lender to Mortgagors, who shall be jointly and severally liable for the indebtedness hereby secured (and for the purpose of this instrument the term "Mortgagors" shall be deemed to include any one or more of the above Mortgagors) and in consideration of the debts and trusts hereinafter mentioned, the receipt and sufficiency of all of which is hereby acknowledged, Mortgagors do by these present hereby GRANT, BARGAIN, SELL, ASSIGN, MORTGAGE, TRANSFER and CONVEY unto Stuart G. Sharrock of Houston, Texas, as Trustee (hereinafter called "Trustee") and his successors and substitutes in trust hereunder, for the use and benefit of Lender, the following described real and personal property, rights, titles, interests and estates (which are hereinafter collectively called the "Mortgaged Property"), to wit:

(a) All rights, titles, interests and estates now owned or hereafter acquired by Mortgagors in and to the oil and gas and/or the oil, gas and mineral leases (hereinafter called the "Leases"), royalty and overriding royalty interests (hereinafter called the "Royalty Interests"), described on Exhibit "A" which is attached hereto and made a part hereof for all purposes, or which Leases and Royalty Interests are otherwise mentioned or referred to herein and specifically, but without limitation, Mortgagors's undivided interest in said Leases and Royalty Interests as specified on attached Exhibit "A".

(b) All rights, titles, interests and estates now owned or hereafter acquired by Mortgagors in and to (i) the properties now or hereafter pooled or unitized with the Leases and Royalty Interests; (ii) all presently existing or future unitization, communitization, pooling agreements and declarations of pooled units and the units created thereby (including, without limitation, all units created under orders, regulation, rules or other official acts of any Federal, State or other governmental body or agency having jurisdiction) which may affect all or any portion of the Leases and Royalty Interests including, without limitation, those units which may be described or referred to on attached "Exhibit A"; (iii) all operating agreements, contracts and other agreements described or referred to in this Mortgage which relate to any of the Leases and Royalty Interests or interests in the Leases and Royalty Interests described or referred to herein or on attached Exhibit "A" or, to the production, sale, purchase, exchange or processing of the Hydrocarbons (hereinafter defined) from or attributable to such Leases and Royalty Interests or interests; and (iv) the Leases and Royalty Interests described on attached Exhibit "A" and covered by this Mortgage even though Mortgagors's interests therein be incorrectly described or a description of a part or

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all such Leases and Royalty Interests or Mortgagors's interests therein be omitted.

(c) All rights, titles, interests and estates now owned or hereafter acquired by Mortgagors in and to all oil, gas, casinghead gas, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all products refined therefrom and all other minerals (hereinafter collectively called the "Hydrocarbons") in and under and which may be produced and saved from or attributable to the Leases and Royalty Interests, the lands covered thereby and all rents, issues, profits, proceeds, products, revenues and other income from or attributable to the Leases and Royalty Interests, the lands covered thereby and Mortgagors's interests therein which are subjected or required to be subjected to the liens and security interests of this Mortgage.

(d) All tenements, hereditaments, appurtenances and properties in anywise appertaining, belonging, affixed or incidental to the Leases and Royalty Interests, properties, rights, titles, interests and estates described or referred to in subparagraphs (a) and (b) above, which are now owned or which may hereafter be acquired by Mortgagors, including, without limitation, any and all property, real or personal, now owned or hereafter acquired and situated upon, used, held for use, or useful in connection with the operating, working or development of any of such Leases and Royalty Interests or properties (excluding drilling rigs, automotive equipment or other personal property which may be on such premises for the purpose of drilling a well or for other similar temporary uses) and including any and all oil wells, gas wells, injection wells or other wells, buildings, structures, field separators, liquid extraction plants, plant compressors, pumps, pumping units, field gathering systems, tanks and tank batteries, fixtures, valves, fittings, machinery and parts, engines, boilers, meters, apparatus, equipment, appliances, tools, implements, cables, wires, towers, casing, tubing and rods, surface leases, rights-of-way, easements and servitudes together with all additions, substitutions, replacements, accessions and attachments to any and all of the foregoing properties.

(e) Any property that may from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien and security interest hereof by Mortgagors or by anyone on Mortgagors's behalf; and the Trustee is hereby authorized to receive the same at any time as additional security hereunder.

(f) All of the rights, titles and interests of every nature whatsoever now owned or hereafter acquired by Mortgagors in and to the Leases, Royalty Interests, properties, rights, titles, interests and estates and every part and parcel thereof, including, without limitation, said Leases, Royalty Interests, properties, rights, titles, interests and estates as the same may be enlarged by the discharge of any payments out of production or by the removal of any charges or Encumbrances (hereinafter defined) to which any of said Leases, Royalty Interests, properties, rights, titles interests or estates are subject, or otherwise; together with any and all renewals and extensions of any of said Leases, Royalty Interests, properties, rights, titles, interests or estates; all contracts and agreements supplemental to or amendatory of or in substitution for the contracts and agreements described or mentioned above; and any and all additional interests of any kind hereafter acquired by Mortgagors in and to said Leases, Royalty Interests, properties, rights, titles, interests or estates.

TO HAVE AND TO HOLD the Mortgaged Property unto the Trustee and to his successors and assigns forever to secure the payment of the Indebtedness (hereinafter defined) and to secure the



performance of the covenants, agreements, and obligations of the Mortgagors herein contained.

## II

This Mortgage is executed and delivered by Mortgagors to secure and enforce the Indebtedness described below:

(a) Any and all indebtedness of Mortgagors unto Lender now or hereafter existing in accordance with the terms of that certain Promissory Note (the "Note ") of even date, in the principal amount of \$5,000,000.00, executed by and between Mortgagors and Lender.

(b) The indebtedness evidenced by said Note in the principal amount and with interest, collection and attorney's fees, all as provided therein; all renewals, rearrangements or extensions of said Note, in whole or in part; any sums which may be advanced or paid by Lender or Trustee under the terms hereof on account of the failure of Mortgagors to comply with the covenants of Mortgagors contained herein; and all other indebtedness of Mortgagors arising pursuant to the provisions of this Mortgage.

(c) Any additional loans made by Lender to Mortgagors. It is contemplated that Lender may lend additional sums to Mortgagors from time to time, but shall not be obligated to do so, and Mortgagors agree that any such additional loans shall be secured by this Mortgage.

(d) Any and all other indebtedness, obligations and liabilities of any kind of Mortgagors to Lender, now or hereafter existing, arising directly between Mortgagors and Lender or acquired outright, as a participation, conditionally or as collateral security from another by Lender, absolute or contingent, joint and/or several, secured or unsecured, due or not due, arising by operation of law or otherwise, or direct or indirect, including indebtedness, obligations and liabilities to Lender of Mortgagors as a member of any partnership, syndicate, association or other group, and whether incurred by Mortgagors as principal, surety, endorser, guarantor, accommodation party or otherwise.

The term "Indebtedness" as used herein shall mean and include said Note and all other indebtedness described, referred to or mentioned in subparagraphs (a) through (d), inclusive, of this Section II.

## III

Mortgagors hereby represent, warrant and covenant as follows:

(a) Mortgagors have good and indefeasible title to and is possessed of the Mortgaged Property; the Mortgaged Property is free of any and all liens, encumbrances, security interests, contracts, agreements, preferential purchase rights or other restrictions or limitations of any nature or kind (herein collectively called the "Encumbrances"); Mortgagors' ownership of the Leases and Royalty Interests and the undivided interests therein as specified on attached Exhibit "A" will afford Mortgagors not less than those net interests in the production from or allocated to such Leases and Royalty Interests and properties as is specified on attached Exhibit "A"; Mortgagors have full power and lawful authority to bargain, grant, sell, mortgage, assign, transfer, convey and grant a security interest in all of the Mortgaged Property all in the manner and form herein provided and without obtaining the waiver, consent or approval of any lessor, sublessor, governmental agency or entity or party whomever or whatsoever; all rentals and royalties due

and duly paid in accordance with the terms of the Leases and Royalty Interests have been duly paid or provided for and said Leases and Royalty Interests are in full force and effect; none of the Encumbrances include "take or pay" or other comparable provisions in accordance with which Hydrocarbons have been or may be produced and delivered without Mortgagors then or thereafter receiving full payment therefor.

(b) Mortgagors will warrant and defend the title to the Mortgaged Property against the claims and demands of all other persons whomsoever and will maintain and preserve the lien created hereby so long as any of the Indebtedness secured hereby remains unpaid. Should an adverse claim be made against or a cloud develop upon the title to any part of the Mortgaged Property, Mortgagors agree it will immediately defend against such adverse claim or take appropriate action to remove such cloud at Mortgagors' cost and expense, and Mortgagors further agree that the Trustee and/or Lender may take such other action as they deem advisable to protect and preserve their interests in the Mortgaged Property, and in such event Mortgagors will indemnify the Trustee and Lender against any and all cost, attorney's fees and other expenses which they may incur in defending against any such adverse claim or taking action to remove any such cloud.

(c) This Mortgage is, and always will be kept, a direct first lien and security interest upon the Mortgaged Property subject to no Encumbrances and Mortgagors will not create or suffer to be created or permit to exist any lien, security interest or charge prior or junior to or on a parity with the lien and security interest of this Mortgage upon the Mortgaged Property or any part thereof or upon the rents, issues, revenues, profits and other income therefrom, and Mortgagors will, from time to time, pay or cause to be paid as they become due and payable all taxes, assessments and governmental charges lawfully levied or assessed upon the Mortgaged Property or any part thereof, or upon or arising from any of the Mortgaged Property, or incident to or in connection with the production of Hydrocarbons or other minerals therefrom, or the operation and development thereof.

(d) Mortgagors will at its own expense do or cause to be done all things necessary to preserve and keep in full repair, working order and efficiency all of the Mortgaged Property, including, without limitation, all equipment, machinery and facilities, and from time to time will make all the needful and proper repairs, renewals and replacements so that at all time the state and condition of the Mortgaged Property will be fully preserved and maintained.

(e) Mortgagors will promptly pay and discharge all rentals, delay rentals, royalties and indebtedness accruing under, and perform or cause to be performed each and every act, matter or thing required by, each and all of the assignments, deeds, Leases and Royalty Interests, sub-leases, contracts and agreements described or referred to herein or affecting Mortgagors' interests in the Mortgaged Property, and will do all other things necessary to keep unimpaired Mortgagors' rights with respect thereto and prevent any forfeiture thereof or default thereunder. Mortgagors will operate the Mortgaged Property in a careful and efficient manner in accordance with the practices of the industry and in compliance with all applicable contracts and agreements and in compliance with all applicable proration and conservation laws of the jurisdiction in which the Mortgaged Property is situated, and all applicable laws, rules and regulations of every other agency and authority from time to time constituted to regulate the development and operation of the Mortgaged Property and the production and sale of Hydrocarbons and other minerals therefrom. Mortgagors will do or cause to be done such development work as may be reasonably necessary to the prudent



and economical operation of the Mortgaged Property in accordance with the most approved practices of operators in the industry, including all to be done that may be appropriate to protect from diminution the productive capacity of the Mortgaged Property and each producing well thereon including, with limitation, cleaning out and completing at a different level each such well, drilling a substitute well to conform to changed spacing regulations and to protect the Mortgaged Property against drainage whenever and as often as is necessary.

(f) Mortgagors will keep adequately insured by insurers of recognized responsibility all of the Mortgaged Property of an insurable nature and of a character usually insured by persons engaged in the same or similar business against all risks customarily insured against by such persons. Mortgagors will maintain liability insurance against claims for personal injury or death or property damage suffered by members of the public or others in or about the Mortgaged Property or occurring by reason of Mortgagors' ownership, maintenance, use or operation of any plants, shops, machinery, automobiles, trucks or other vehicles, or other facilities on or in connection with the Mortgaged Property; all such workmen's compensation or similar insurance as may be required under the laws of any jurisdiction in which any of the Mortgaged Property may be situated; and well control including oil spill clean-up insurance. All such insurance shall be maintained in such amounts as is usually carried by persons engaged in the same or a similar business and shall be effected under a valid and enforceable policy or policies issued by insurers of recognized responsibility. The character, coverage, amount and insurers of all such insurance shall be satisfactory to and approved by Lender. If requested by Lender, the loss payable clauses or provisions in said policy or policies shall be endorsed in favor of and made payable to Lender as its interest may appear. Lender shall have the right to collect, and Mortgagors hereby assign to Lender, any and all monies that may become payable under any such policies of insurance by reason of damage, loss or destruction of any of the Mortgaged Property, and Lender may apply all or any part of the sums so collected, at its election, toward payment of the Indebtedness, whether or not such Indebtedness is then due and payable, in such manner as the Lender may elect.

(g) Mortgagors will permit the Trustee and/or Lender and the agents of either of them to visit and inspect any of the Mortgaged Property, to examine the books of account of Mortgagors and to discuss the affairs, finances or accounts of Mortgagors, all at such reasonable times or intervals as the Trustee or Lender may desire.

(h) Mortgagors will, upon request by Lender, furnish or cause to be furnished to Lender reports prepared by or for Mortgagors concerning the productivity and the productive life of all or any wells included in the Mortgaged Property; the quantity of the Hydrocarbons and other minerals recoverable therefrom; the projected income and expense attributable to the Mortgaged Property; and the expediency of any change in methods of treatment or operation of all of any well included in the Mortgaged Property; any new drilling or development; any abandonment or proposed abandonment of any well; any plugging of any well or reopening of same at a different level; any method of repressuring in the field or any other action with respect to the Mortgaged Property; and further, upon request of Lender, will furnish a report of an independent engineer designated by Lender covering such of the foregoing matters as shall be so requested. Mortgagors will, also upon request by Lender, furnish Lender within (60) days after the end of each calendar month a report showing for such calendar month the gross proceeds of the sale of Hydrocarbons and other minerals from the Mortgaged Property, the quantities so sold, the taxes deducted from or paid out of such

proceeds, the number of wells operated, drilled and abandoned and such other information as Lender may reasonably request.

(i) Mortgagors will promptly upon demand by Lender pay all costs and expenses heretofore or hereafter incurred by Lender for legal, engineering, geological or accounting services rendered to it in connection with the making and documenting of the initial or any future loan to Mortgagors secured in whole or in part by the lien and security interest hereof and/or in connection with the enforcement of any of Lender's rights hereunder.

(j) Mortgagors will execute and deliver such further instruments and do such further acts as may be necessary or desirable or as may be reasonably requested by the Trustee or Lender to carry out more effectively the purposes of this Mortgage and to subject to the lien created hereby any properties, rights and interest covered or intended to be covered hereby.

(k) Mortgagors will duly and punctually pay the principal of and interest on all of the Indebtedness as the same shall become due and payable.

(l) If any tax is levied or assessed against the Indebtedness or any part thereof, or against this Mortgage, or against Lender with respect to said Indebtedness or any part thereof or this Mortgage, Mortgagors shall promptly pay the same.

(m) All or portions of the Mortgaged Property may be comprised of interests which are other than working interests or which may be operated by a party or parties other than one of the Mortgagors. With respect to all or any such interests and properties as may be comprised of interests other than working interests or which may be operated by parties other than one of the Mortgagors, Mortgagors' covenants as expressed in subparagraphs (d) through (g) inclusive of this Section III are modified to require that Mortgagors use their best efforts to obtain compliance with such covenants by the working interest owners or the operator or operators of such interests or properties.

#### IV

(a) If any of the following (herein called "Event(s) of Default") shall occur:

(i) default shall be made in the payment, in whole or in part, of any of the Indebtedness or any installment thereof as and when the same become due and payable;

(ii) any indebtedness of Mortgagors to others is not paid when due, or becomes or is declared to be due and payable prior to its expressed maturity by reason of any default by Mortgagors in the performance or observance of any obligation or condition;

(iii) any warranty or representation made by Mortgagors herein or in any other instrument or document executed in connection with or as security for the Indebtedness is untrue in any material respect or any schedule, statement, report, notice or writing furnished by Mortgagors in connection herewith to the Lender is untrue in any material respect on the date as of which the facts set forth are stated or certified;

(iv) default or breach shall be made in the due performance of any covenant or agreement of Mortgagors contained herein or in any other agreement or instrument executed by Mortgagors in connection with or as security for any of the Indebtedness;

(v) Mortgagors shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debt



or shall admit in writing its inability to pay its debts as the same become due or shall file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent or shall file any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation or shall file any answer admitting or not contesting the material allegations of a petition filed against Mortgagors in any such proceeding, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Mortgagors or any partner of Mortgagors shall take any action looking to the termination, dissolution, winding-up or liquidation of Mortgagors; or within thirty (30) days after the commencement of an action against Mortgagors seeking any reorganization, arrangement, composition, readjustment, liquidation, termination, dissolution, winding-up or similar relief under any present or future statute, law or regulation, such action shall not have been dismissed or all orders or proceedings thereunder affecting the operations or business of Mortgagors stayed or the stay of any such order or proceeding shall thereafter be set aside or within thirty (30) days after the appointment without the consent or acquiescence of Mortgagors of any trustee, receiver or liquidator of Mortgagors or of all or any substantial part of the property of Mortgagors such appointment shall not have been vacated;

then, upon the occurrence of any such Event of Default, Lender may, by written notice mailed to Mortgagors, postage prepaid, addressed to Mortgagors at its address set forth in the recitals hereof or at such other address as Mortgagors may furnish to Trustee in writing, declare the Note to be due and payable whereupon the Note shall become immediately due and payable without notice of any kind; provided, however, that the occurrence of an Event of Default as described in sub-paragraph (v) of this Section IV(a) shall result in the immediate and automatic acceleration of maturity of the Note and all other Indebtedness mentioned or referred to herein. All costs and expenses (including attorney's fees) incurred by the Trustee or the Lender in protecting and enforcing their rights hereunder shall constitute a demand obligation owing by Mortgagors and shall draw interest at the rate of 10% per annum, and shall constitute a portion of the Indebtedness secured hereby and shall have the benefit of the lien hereby created.

(b) If the Note or any of the Indebtedness shall become due and payable, and Mortgagors shall not promptly pay the same, the Trustee or his successor or substitutes shall have the right and power to sell, as he may elect and to the extent permitted by law, all or any portion of the Mortgaged property at one or more sales, as an entirety or in parcels, at such place or places and otherwise in such manner and upon such notice as may be required by law, or, in the absence of any such requirement, as the Trustee may deem appropriate, and to make conveyance to the purchaser or purchasers. Any sale of any part of the Mortgaged Property located in the State of Texas shall be made at the courthouse door of the county in which such part of the Mortgaged Property to be sold at such sale is located, on the first Tuesday in any month, between the hours of 10:00 o'clock A.M. and 4:00 o'clock P.M. to the highest bidder for cash at public auction, after the Trustee shall have given at least twenty-one (21) days' notice of the time, place and terms of sale, preceding the date of sale, by publicly advertising the same by posting or causing to be posted written or printed notice thereof at the door of the courthouse in the county where such Mortgaged Property is located. Where any part of the Mortgaged Property located in the State of Texas is situated in more than one county, notices as above provided shall be given in all such counties, and such part may be sold in any such county and such notice shall designate the county where such part shall be sold. The Lender or any person chosen by it, at least twenty-one (21) days preceding the

date of said sale shall serve written notice of such proposed sale by certified mail on each Mortgagors or other party obligated to pay the Indebtedness according to the records of the Lender. Service of such notice to each of the Mortgagors or other such party shall be completed upon deposit of the notice, enclosed in a postpaid wrapper, properly addressed to each of the Mortgagors or other party at the most recent address as shown by the records of Lender, in a post office or official depository under the care and custody of the United States Postal Service. The affidavit of any person having knowledge of the facts to the effect that such service was completed shall be prima facie evidence of the fact of service. The Trustee may postpone the sale of all or any portion of the Mortgaged Property by public announcement at the time and place of such sale, and from time to time thereafter may further postpone such sale by public announcement made at the time of sale fixed by the preceding postponement. Upon receipt of the sales price in cash, the Trustee is hereby authorized, empowered and directed to make due conveyance to the purchaser or purchasers, with general warranty binding upon Mortgagors and the heirs, successors and assigns of Mortgagors. The right of sale hereunder shall not be exhausted by one or more sales until all of the Mortgaged Property be legally sold or the Note and all the Indebtedness shall have been paid. Mortgagors hereby irrevocably appoint the Trustee to be the attorney of Mortgagors and in the name and on behalf of Mortgagors to execute and deliver any deeds, transfers, conveyances, assignments, assurances and notices which Mortgagors ought to execute and deliver and do and perform any and all such acts and things which Mortgagors ought to do and perform under the covenants herein contained and generally to use the name of Mortgagors in the exercise of all or any of the powers hereby conferred on the Trustee. Upon any sale, whether under the power of sale hereby given or by virtue of judicial proceedings, it shall not be necessary for the Trustee or any public officer acting under execution or order of court to have physically present or constructively in his possession any of the Mortgaged Property, and Mortgagors hereby agree to deliver all of such personal property to the purchaser at such sale on the date of sale, and if it should be impossible or impracticable to make actual delivery of such property, then the title and right of possession to such property shall pass to the purchaser at such sale as completely as if the same had been actually present and delivered. Lender shall have the right to become the purchaser at any sale held by the Trustee or by any receiver or public officer and shall have the right to be credited upon the amount of the bid made therefore with the amount payable out of the net proceeds of such sale to Lender. Recitals contained in any conveyance made by the Trustee to any purchaser at any sale made pursuant hereto shall conclusively establish the truth and accuracy of the matters therein treated, including, without limiting the generality of the foregoing, nonpayment of the unpaid principal, the interest accrued thereon, the Note or any of the Indebtedness after the same has become due and payable, advertisement and conduct of such sale in the manner provided herein and appointment of any successor trustee hereunder. Upon any sale, whether made under the power of sale hereby given or by virtue of judicial proceedings, the receipt of the Trustee, or of the officer making a sale under judicial proceedings, shall be a sufficient discharge to the purchaser or purchasers at any sale for his or their purchase money, and such purchaser or purchasers, his or their assigns or personal representatives, shall not, after paying such purchase money and receiving such receipt of the Trustee or of such officer therefor, be obliged to see to the application of such purchase money, or be in anywise answerable for any loss, misapplication or nonapplication thereof.

(c) If the Note or any of the Indebtedness shall become due and payable and shall not be promptly paid, the Trustee or Lender shall have the right and power to proceed by a suit or



suits in equity or at law, whether for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, or for any foreclosure hereunder or for the sale of the Mortgaged Property under the judgment or decree of any court or courts of competent jurisdiction, or for the appointment of a receiver pending any foreclosure hereunder or for the sale of the Mortgaged Property under the order of the court or courts of competent jurisdiction or under executory or other legal process, or for the enforcement of any other appropriate legal or equitable remedy. Mortgagors agree to the full extent that it lawfully may that, in case one or more of the Events of Default shall have occurred and shall not have been remedied, then, and in every such case, the Trustee or Lender shall have the right and power to enter into and upon and take possession of the Mortgaged Property, and may exclude Mortgagors, its successors or assigns, and all persons claiming under Mortgagors, and its or their agents or servants wholly or partly therefrom; and, holding the same, the Trustee may use, administer, manage, operate and control the Mortgaged Property to the same extent as Mortgagors, their successors or assigns, might at the time do and may exercise all rights and powers of Mortgagors, in the name, place and stead of Mortgagors, or otherwise as the Trustee shall deem best.

(d) Every right, power and remedy herein given to the Trustee or Lender shall be cumulative and in addition to every other right, power and remedy herein specifically given or now or hereafter existing in equity, at law or by statute; and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and so often and in such order as may be deemed expedient by the Trustee or Lender, and the exercise, or the beginning of the exercise, of any such right, power or remedy shall not be deemed a waiver of the right to exercise, at the same time or thereafter any other right, power or remedy. No delay or omission by the Trustee or Lender in the exercise of any right, power or remedy shall impair any such right, power or remedy or operate as a waiver thereof or of any other right, power or remedy then or thereafter existing.

(e) Any sale or sales of the Mortgaged Property or any part thereof, whether under the power of sale herein granted and conferred or under and by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of Mortgagors of, in and to the premises and the property sold, and shall be a perpetual bar, both at law and in equity, against Mortgagors, its successors and assigns, and against any and all persons claiming or who shall thereafter claim all or any of the property sold from, through or under Mortgagors, its successors and assigns; and Mortgagors, if requested by the Trustee or Lender so to do, shall join in the execution and delivery of all proper conveyances, assignments and transfers of the properties so sold. The proceeds of any sale of the Mortgaged Property or any part thereof and all other moneys received by the Trustee in any proceedings for the enforcement hereof, whose application has not elsewhere herein been specifically provided for, shall be applied first, to the payment of all expenses incurred by the Trustee or Lender incident to the enforcement of this Mortgage, the Note or any of the Indebtedness (including, without limiting the generality of the foregoing, expenses of any entry or taking of possession, of any sale, of advertisement thereof, and of conveyances, and court costs, compensation of agents and employees, legal fees and a reasonable commission to the Trustee acting) and to the payment of all other charges, expenses, liabilities and advances incurred or made by the Trustee or Lender under the Mortgage or in executing any trust or power hereunder; and then to payment of the Note and the Indebtedness in such order and manner as Lender may elect. Lender may resort to any security given by this Mortgage or to any other security now existing or hereafter given to secure the payment of any of

the Indebtedness secured hereby, in whole or in part, and in such portions and in such order as may seem best to Lender in its sole and uncontrolled discretion, and any such action shall not in anywise be considered as a waiver of any of the rights, benefits or liens created by this Mortgage. Mortgagors agree, to the full extent that it may lawfully so agree, that it will not at any time insist upon or plead or in any manner whatever claim or take the benefit or advantage of any appraisal, valuation, stay, extension or redemption law now or hereafter in force, in order to prevent or hinder the enforcement or foreclosure of this Mortgaged Property or the possession thereof by any purchaser at any sale made pursuant to any provision hereof, or pursuant to the decree of any court of competent jurisdiction; but Mortgagors, for themselves and all who may claim through or under them, so far as it or they now or hereafter lawfully may, hereby waives the benefit of all such laws. Mortgagors, for themselves and all who may claim through or under it, waives to the extent that it may lawfully do so, any and all right to have the property included in the Mortgaged Property marshaled upon any foreclosure of the lien hereof, and agrees that any court having jurisdiction to foreclose such lien may sell the Mortgaged Property as an entirety. If any law referred to herein and now in force, of which Mortgagors or their successor or successors might take advantage despite the provisions hereof, shall hereafter be repealed or cease to be in force, such law shall not thereafter be deemed to constitute any part of the contract herein contained or to preclude the operation or application of the provisions hereof.

v

(a) Mortgagors, to additionally secure the said Indebtedness, effective as of the Effective Date at 7:00 o'clock A.M., of the time zone in which the particular Mortgaged Property is located, have assigned, transferred, and conveyed, and do hereby assign, transfer and convey unto Lender, its successors and assigns, all of the Hydrocarbons and all products obtained or processed therefrom, and the revenues and proceeds now and hereafter attributable to said Hydrocarbons and said products. Said Hydrocarbons and products are to be delivered into pipe lines connected with the Mortgaged Property, or to the purchaser thereof, to the credit of Lender, free and clear of all taxes, charges, costs, and expenses; and all said revenues and proceeds shall be paid direct to Lender, at its headquarters office at P.O. Box 122, Mignot Plateau, St. Peter Port, Guernsey, Channel Islands, The British Isles, with no duty or obligation of any party paying the same to inquire into the right of Lender to receive the same, what application is made thereof, or as to any other matter. Mortgagors agree to perform all such acts, and to execute all such further assignments, transfers and division orders, and other instruments as may be required or desired by Lender or any party in order to have said proceeds and revenues so paid to Lender. Lender is fully authorized to receive and receipt for said revenues and proceeds; to endorse and cash any and all checks and drafts payable to the order of Mortgagors received from or in connection with said revenues of proceeds and apply the proceeds thereof to the payment of the Indebtedness, when received, regardless of the maturity of any of the Indebtedness, or any installment thereof; and to execute transfer and division orders in the name of Mortgagors, or otherwise, with warranties binding Mortgagors. Lender shall not be liable for any delay, neglect or failure to effect collection of any proceeds or to take any other action in connection therewith or hereunder; but shall have the right, at its election, in the name of Mortgagors or otherwise, to prosecute and defend any and all actions or legal proceedings deemed advisable by Lender in order to collect such funds and to protect the interests of Lender and/or Mortgagors, with all costs, expenses and attorney's fees incurred in connection therewith being paid by Mortgagors. Mortgagors hereby agree to indemnify the Trustee and Lender



against all claims, actions, liabilities, judgments, costs, charges and attorneys' fees made against or incurred by them or either of them, based on the assertion that they have had and received funds from the production of Hydrocarbons claimed by third persons either before or after the payment in full of the Indebtedness. The Trustee and Lender shall have the right to defend against any such claims, actions and judgments, employing their attorneys therefor, and if they are not furnished with reasonable indemnity, they shall have the right to compromise and adjust any such claims, actions and judgments. Mortgagors agree to indemnify and pay to the Trustee and Lender any and all such claims, judgments, costs, charges and attorneys' fees as may be paid in any judgment, release or discharge thereof or as may be adjudged against them or either of them.

(b) Nothing herein contained shall modify or otherwise alter the obligation of Mortgagors to make prompt payment of all principal and interest owing on the Note and all other Indebtedness when and as the same become due regardless of whether the proceeds of such Hydrocarbons are sufficient to pay the same and the rights provided in accordance with the foregoing assignment provisions shall be cumulative of all other security of any and every character now or hereafter existing to secure payment of the Indebtedness.

(c) To further secure said Indebtedness, Mortgagors hereby grants to Lender a security interest in all of Mortgagors' rights, titles and interests in and to the Mortgaged Property insofar as such Mortgaged Property consists of equipment, accounts, contract rights, general intangibles, inventory, Hydrocarbons, fixtures and any and all other personal property of any kind or character defined in and subject to the provisions of the applicable Uniform Commercial Code, including the proceeds and products from any and all of such personal property. Upon the happening of any of the Events of Default, Lender is and shall be entitled to all of the rights, powers and remedies afforded a secured party by the applicable Uniform Commercial Code with reference to the personal property and fixtures in which Lender has been granted a security interest herein, or the Trustee or Lender may proceed as to both the real and personal property covered hereby in accordance with the rights and remedies granted under this Mortgage in respect to the real property covered hereby. Such rights, powers and remedies shall be cumulative and in addition to those granted Trustee or Lender under any other provision of this instrument or under any other instrument executed in connection with or as security for the Note or any of said Indebtedness.

(d) Without in any manner limiting the generality of any of the other provisions of this Mortgage: (i) some portions of the goods described or to which reference is made herein are or are to become fixtures on the land described or to which reference is made herein or on attached Exhibit "A"; (ii) the security interests created hereby under applicable provisions of the Uniform Commercial Code of one or more of the jurisdictions in which the Mortgaged Property is situated will attach to Hydrocarbons (minerals including oil and gas) or the accounts resulting from the sale thereof at the wellhead or minehead located on the land described or to which reference is made herein; (iii) this instrument is to be filed of record in the real estate records as a financing statement, and (iv) Mortgagors are the record owners of the real estate or interests in the real estate comprised of the Leases and Royalty Interests.

VI

(a) It shall be no part of the duty of the Trustee to see to any recording, filing or registration of this Mortgage or any other instrument in addition or supplemental thereto, or to give any notice thereof, or to see to the payment of or be under any

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

(b) The Trustee may resign by written notice addressed to Lender or be removed at any time with or without cause by an instrument in writing duly executed on behalf of Lender. In case of the death, resignation or removal of the Trustee, a successor trustee may be appointed by Lender by instrument of substitution complying with any applicable requirements of law, or, in the absence of any such requirement, without other formality than appointment and designation in writing. Written notice of such appointment and designation shall be given by Lender to Mortgagors, but the validity of any such appointment shall not be impaired or affected by failure to give such notice or by any defect therein. Such appointment and designation shall be full evidence of the right and authority to make the same and of all the facts therein recited, and, upon the making of any such appointment and designation, this Mortgage shall vest in the successor trustee named all the estate and title in and to all of the Mortgaged Property, and he shall thereupon succeed to all of the rights, powers, privileges, immunities and duties hereby conferred upon the Trustee named herein, and one such appointment and designation shall not exhaust the right to appoint and designate a successor Trustee hereunder but such right may be exercised repeatedly as long as any Indebtedness remains unpaid hereunder. If no successor Trustee shall have been appointed as contemplated by the foregoing provisions, or if appointed shall not have accepted the appointment, within thirty (30) days after the resignation of, or the occurrence of a vacancy in the office of, the Trustee, then upon application of Lender or the retiring Trustee, a successor Trustee may be appointed by any court of competent jurisdiction. In case the Note or any or all of the Indebtedness shall become due and payable and shall not promptly be paid, then upon request of Lender, the Trustee shall give security, satisfactory to Lender, for the faithful performance and discharge of his duties hereunder. The cost of, or premium paid for, any bond which may be given as all or part of such security shall be an expense of the Trustee for which he is entitled to reimbursement as provided herein.

#### VII

(a) With respect to any portions of the Mortgaged Property located in any State or other jurisdiction the laws of which do not provide for the use or enforcement of a deed of trust or the office, rights and authority of the Trustee as herein provided, the general language of conveyance hereof to the Trustee is intended and the same shall be construed as words of mortgage unto and in favor of Lender and the rights and authority granted to the Trustee herein may be enforced and asserted by Lender in accordance with the laws of the jurisdiction in which such portion of the Mortgaged Property is located and the same may be foreclosed at the option of Lender as to any or all such portions of the Mortgaged Property in any manner permitted by the law of



the jurisdiction in which such portions of the Mortgaged Property is so situated.

(b) If all indebtedness secured hereby shall be paid, this Mortgage shall become null and void and the Mortgaged Property shall revert to Mortgagors, and Lender shall forthwith cause satisfaction and discharge of this Mortgage to be entered upon the record at the expense of Mortgagors and shall execute and deliver or cause to be delivered such instruments of satisfaction and reassignment as may be appropriate. Otherwise, this Mortgage shall remain and continue in full force and effect.

(c) If any provision hereof is invalid or unenforceable in any jurisdiction, the other provisions hereof shall remain in full force and effect in such jurisdiction and the remaining provisions hereof shall be liberally construed in favor of the Trustee and Lender in order to effectuate the provisions hereof, and the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of any such provision in any other jurisdiction.

(d) This instrument may be construed as a mortgage, deed of trust, chattel mortgage, conveyance, assignment, security agreement, pledge, financing statement, hypothecation of contract, or any one or more of them, in order fully to effectuate the lien hereof and the purposes and agreements herein set forth.

(e) The term "Mortgagors" as used herein shall mean and include all and each of the individuals, partnerships, corporations or other legal entities or persons executing this Mortgage. The number and gender of pronouns used in referring to Mortgagors shall be construed to mean and correspond with the number and gender of the individuals, partnerships, corporations or other legal entities or persons executing this Mortgage as Mortgagors. The term "Lender" as used herein shall mean and include any legal owner, holder, assignee or pledge of any of the Indebtedness secured hereby. The terms used to designate Trustee, Lender and Mortgagors shall be deemed to include the respective heirs, legal representatives, successors and assigns of such parties.


(f) This instrument is made with full substitution and subrogation of the Trustee and his successors in this trust and his and their assigns in and to all covenants and warranties by others heretofore given or made in respect of the Mortgaged Property or any part thereof.

(g) The covenants and agreements herein contained shall constitute covenants running with the land and interests covered or affected hereby and shall be binding upon the heirs, legal representatives, successors and assigns of the parties hereto.

(h) This instrument may be executed in several counterparts, all of which are identical. Each of such counterparts shall for all purposes be deemed to be an original and all such counterparts shall together constitute but one and the same instrument.

WITNESS THE EXECUTION HEREOF, this 24th day of January,  
1989 (the "Effective Date").

Mortgagors:

  
SMK ENERGY CORPORATION, a  
Texas Corporation, by  
MICHAEL H. NEUFELD,  
President

  
W.L. SUDDERTH

  
MICHAEL H. NEUFELD

LENDER:

INVESTORS FINANCIAL LIMITED OF NEPTUNE HOUSE, MARINA BAY,  
GIBRALTAR, By \_\_\_\_\_



WITNESS THE EXECUTION HEREOF, this 24th day of January,  
19 89 (the "Effective Date").

Mortgagors:

SMK ENERGY CORPORATION, a  
Texas Corporation, by  
MICHAEL H. NEUFELD,  
President

W.L. SUDDERTH

MICHAEL H. NEUFELD

LENDER:

*M. B. Bean*

INVESTORS FINANCIAL LIMITED OF NEPTUNE HOUSE, MARINA BAY,  
GIBRALTAR, By Maria B Bean, Director

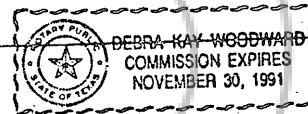
STATE OF TEXAS \*

COUNTY OF HARRIS \*

This instrument was acknowledged before me on  
January 24, 1989, by MICHAEL H. NEUFELD,  
President of SMK Energy Corporation, a Texas corporation, on  
behalf of said corporation.

*Debra K. Woodward*  
Notary Public in and for the  
State of Texas

My commission expires:

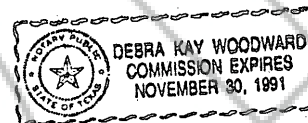


STATE OF TEXAS \*

COUNTY OF HARRIS \*

This instrument was acknowledged before me on  
January 24, 1989, by W.L. SUDDERTH.

*Debra K. Woodward*  
Notary Public in and for the  
State of Texas



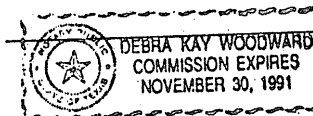
STATE OF TEXAS \*

COUNTY OF HARRIS \*

This instrument was acknowledged before me on  
January 24, 1989, by MICHAEL H. NEUFELD.

*Debra K. Woodward*  
Notary Public in and for the  
State of Texas

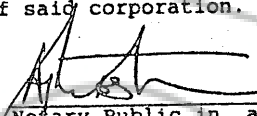
My commission expires:





ISLAND OF GUERNSEY \*  
STATE OF TEXAS \*  
ST. PETER PORT \*  
COUNTY OF HARRIS \*

This instrument was acknowledged before me on  
27th January 1989, by Maria B Bean, Director  
of INVESTORS FINANCIAL LIMITED OF NEPTUNE HOUSE,  
MARINA BAY, GIBRALTAR, on behalf of said corporation.

  
Notary Public in and for the  
State of Texas  
Island of Guernsey

My commission expires: shall endure  
for life

DOCK 1 04 89050

SMK Energy Corporation  
20% Working Interest

SUMMARY OF WORKING LEASES  
NEWEXPLOR PROSPECT NW-264  
STATE OF NEVADA PROPERTIES

Parcel #	Serial No.	County	Description	Acres
1. 132	N-49113	Eureka	T16N-R53E Sec. 28: H/2 Sec. 29: All Sec. 32: All Sec. 33: W/2	1,920.00
2. 146	N-49121	Nye	T12N-R54E Sec. 13, 24, 25, 36: All	2,560.00
3. 182	N-49152	Nye	T9N-R55E Sec. 22, 27: All	1,280.00
4. 205	N-49168	Nye	T9N-R56E Sec. 17: H/2 Sec. 20: H/2 Sec. 29: H/2 Sec. 30: Lots 1-4 E/2W/2, E/2 Sec. 31: Lots 1, 2, N/2NE/4, SE/4NE/4 E/2NE/4 Sec. 32: NE/4NW/4, S/2NW/4, NE/4SW/4 SE/4SE/4 Sec. 33: SE/4SE/4	2,066.25
5. 241	N-49185	Nye	T8N-R57E Sec. 20: SE/4NW/4 Sec. 28: SE/4 Sec. 34: N/2N/2	360.00
6. 242	N-49186	Nye	T9N-R57E Sec. 16: SW/4NE/4	40.00
7. 162	N-49298	Eureka	T26N-R54E Sec. 23: H/2 Sec. 26: H/2 Sec. 34: All Sec. 35: W/2	1,600.00
TOTAL				9,826.25

Note: Leases 1-6 are now five (5) year leases until Lease No. 7 is a 10 year lease

RECORDED AT THE REQUEST OF

BOOK 194 PAGE 034

Ronald S. Block

'89 FEB -3 AM 1:00

OFFICIAL RECORDS  
EUREKA COUNTY, NEVADA  
M.N. REGAL CASH RECORDER

FILE NO FILE \$ 22.00

126341

BOOK 1 @ 4 PAGE 051