

140807

A POWER OF SALE HAS BEEN GRANTED IN THIS MORTGAGE  
A POWER OF SALE MAY ALLOW THE BANK TO TAKE  
THE MORTGAGED PROPERTY AND SELL IT WITHOUT GOING  
TO COURT IN A FORECLOSURE ACTION UPON DEFAULT BY  
THE GRANTOR UNDER THIS MORTGAGE

MORTGAGE, SECURITY AGREEMENT  
AND FIXTURES FINANCING STATEMENT

THE STATE OF NEVADA

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COUNTY OF EUREKA

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THIS MORTGAGE, SECURITY AGREEMENT AND FIXTURES FINANCING STATEMENT (the "Mortgage") made this 30th day of April, 1992 by PARSEC RESOURCES, INC., a Texas corporation, having its principal office at 952 Echo Lane, Suite 200, Houston, Texas 77024 (hereinafter called the "Grantor") in favor of H.S. STANLEY, JR., TRUSTEE IN BANKRUPTCY COURT FOR PETRO-SERVE, LTD. AND MAGNOLIA DEVELOPMENT CORPORATION, having its principal office at c/o William S. Boyd, III, White & Morse, Suite 1209, One Hancock Plaza, Gulfport, Mississippi 39501 (hereinafter called the "Bank").

WITNESSETH:

April 30, WHEREAS, Grantor has executed and delivered that certain Promissory Note dated 1992 in the original principal amount of ONE MILLION TWO HUNDRED THOUSAND DOLLARS (\$1,200,000.00) payable to the order of Bank, bearing interest as provided therein and containing the usual and customary provisions for collection and attorneys' fees (hereinafter called the "Note") and any and all renewals, increases, refundings, substitutions, replacements, consolidations and/or extensions of or for the Note, or any part thereof and all advances made by Bank thereunder;

NOW THEREFORE, to secure the prompt and punctual payments when due of the indebtedness of the Grantor to the Bank pursuant to the Note, including interest accrued and to accrue thereon, and all other monies secured hereby or advanced hereunder or under the Note, or the "Security Instruments" (as hereinafter defined), and the prompt and due performance and observance of the covenants, conditions and agreements contained herein and in the Note, and the Security Agreements, the Grantor does hereby GRANT, BARGAIN, SELL, CONVEY, AND MORTGAGE unto the Bank, and to its successors and assigns, with power of sale, all of the Grantor's rights, title and interest in and to the following properties:

(a) All right, title and interest of Assignor in and to all the oil and gas leases (including mineral rights), oil, gas and mineral leases, mineral interests, subleases, operating rights, estates, farmouts, joint ventures and leaseholds, royalties, overriding royalties, production payments, net profits interests and carried interests on which Assignor conducts oil and/or gas exploration, development or production operations, have the right to conduct such operations or from which Assignor derives or may derive revenue from oil and/or gas exploration, development or production operations, all as more particularly described on Exhibit

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A attached hereto. All of Assignor's right, title and interest in the leases, interests, properties and wells listed on and referred to in Exhibit A attached hereto, and any and all existing rights to acquire any of the foregoing, are hereinafter referred to individually as a "Property" and collectively as the "Properties";

(b) All right, title and interest of Assignor in, to and under or derived from all presently existing and valid unitization, pooling and communitization agreements, declarations and orders, and the properties covered and the units created thereby (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency having jurisdiction), which relate to or affect any of the Properties or the production of oil and gas attributable to the Properties and other minerals and products produced in association therewith;

(c) All right, title and interest of Assignor in, to and under or derived from all presently existing and valid oil, casinghead gas and gas sales, purchase, exchange, transportation and processing contracts, operating agreements, joint venture agreements, gas balancing agreements, partnership agreements, gas gathering agreements, farmout agreements, drilling agreements, gas settlement agreements and other contracts, agreements and instruments that relate to any of the Properties or other rights, interests, properties and estates described or referred to herein, or any unit or units in which part or parts of such properties or interests may be included, or to the exploration, development or production of oil and gas from or attributable to the Properties or such unit or units and other minerals and products produced in association therewith;

(d) All right, title and interest of Assignor in or to all, improvements, equipment, easements, permits, licenses, servitudes, rights-of-way, surface leases and other surface rights (including, but not limited to, any wells, tanks, boilers, buildings, fixtures, pipelines, compression facilities, gathering systems, gas processing plants and facilities, machinery, power lines, telephone and telegraph lines, roads, and other appurtenances, easements and facilities), now being used or held for use in connection with the exploration, development, operation or maintenance of the Properties or other rights, interests, properties and estates described or referred to herein, or any unit or units in which part or parts of such Properties may be included, or now being used or held for use in connection with the producing, treating, processing, storing or gathering of oil and gas attributable to such Properties or such unit or units and other minerals and products produced in association therewith;

(e) All right, title and interest of Assignor in and to all lease files, land files, well files, gas and oil sales contract files, gas balancing, gas processing files, division order files, abstracts, title opinions, land surveys, seismic records, gravity maps, electric logs, geological and geophysical prospect maps, geological base maps and accounting systems data, and all other books, records, correspondence files, intangibles, other files, maps, and production operating, expense and accounting records and all rights thereto of Assignor related to any of the Properties or other rights, interests, properties and estates described or referred to herein, or used primarily in the maintenance or operation thereof, or to any unit or units in which part or parts of such Properties may be included, or to any producing, treating, processing, storing or gathering of oil and gas attributable to such Properties or such unit or units and other minerals and products produced in association therewith; and

(f) All (i) Hydrocarbons (as defined below) produced from or attributable to the Properties with respect to all periods from May 1, 1991 and thereafter together with all proceeds from or attributable to such Hydrocarbons (including accounts receivable relating thereto), and (ii) Hydrocarbons which, as of May 1, 1991, are owned by Assignor and are in storage, within processing plants or in pipelines. "Hydrocarbons" shall mean crude oil, natural gas, casinghead gas, condensate, sulphur, natural gas liquids, other liquid or gaseous hydrocarbons (including carbon dioxide), and all other minerals of every kind and character which may be covered by, included in or attributable to the Properties.

The Properties and the rights, assets, properties and estates described or referred to in (b) through (f) above are hereinafter referred to, collectively, as the "Mortgaged Properties".

TO HAVE AND TO HOLD the Mortgaged Properties, together with all the rights, hereditaments and appurtenances in anywise appertaining or belonging thereto, unto Bank and its successors or assigns, forever.

The term "Grantor's Successors", as used herein, shall mean Grantor's heirs, executors, legal representatives, successors and assigns. Grantor hereby binds Grantor and Grantor's Successors to warrant and forever defend, all and singular, the Mortgaged Properties, unto Bank and its successors or substitutes in this trust, and his and their assigns, forever, against every person whomsoever lawfully claiming or to claim the same or any part thereof.

#### ARTICLE I

##### REPRESENTATIONS AND WARRANTIES

Section 1.1. Grantor hereby expressly represents and warrants to Bank that (a) all of the instruments described or referred to in Exhibit "A" are in full force and effect; (b) Grantor has or will acquire good, valid and indefeasible title to the Mortgaged Properties (with respect to all easements and rights of way comprising a part of the Mortgaged Properties, Grantor has acquired the easements and rights of way and has employed such methods for investigating title to the easements and rights of way as are consistent with good practice and the established methods employed by persons owning and operating similar pipelines and gathering systems in territories in which the easements and rights of way are situated and as would normally result in the obtaining of good, valid and defensible title thereto, free and clear of all claims, liens, encumbrances, security interests or other restrictions or limitations of any nature or kind, and Grantor has not taken any action that would or may adversely affect title to the easements and rights of way), and Grantor has the right, power and authority to execute and deliver this Mortgage, Security Agreement and Financing Statement and convey the Mortgaged Properties; (c) the Mortgaged Properties are free and clear of all claims, liens, encumbrances, security interests, contracts, agreements, options, preferential purchase rights or other restrictions or limitations of any nature or kind, except as expressly provided herein, or as otherwise disclosed to Bank; (d) the holder shall quietly enjoy and possess the Mortgaged Properties; and (e) Grantor and any guarantor of the Secured Indebtedness (hereinafter defined) are now in a solvent condition.

## ARTICLE II

### SECURED INDEBTEDNESS

**Section 2.1.** This Mortgage is given to secure payment and performance of the following indebtedness, obligations and liabilities:

(a) That certain Note of even date herewith in the original principal amount of One Million Two Hundred Thousand and No/100 Dollars (\$1,200,000.00), executed by Borrower, as maker, payable to the order of Bank, bearing interest as provided therein and containing usual and customary provisions for collection and attorneys' fees, and any and all renewals, increases, refundings, substitutions, replacements, consolidations and/or extensions of or for the Note, or any part thereof;

(b) All indebtedness, obligations and liabilities arising pursuant to the provisions of this Mortgage, and any and all other deeds of trust, mortgages, indentures, security agreements, pledge agreements, collateral mortgages, collateral chattel mortgages, assignments, or other conveyances, whether now existing or hereafter arising, and all supplements, amendments, restatements, modifications and replacements thereof or therefor, executed or to be executed by Grantor or any guarantor of the Secured Indebtedness to or for the use and benefit of Bank, together with any and all renewals, increases, refundings, substitutions, replacements, consolidations and/or extensions of or for any such indebtedness, obligations and liabilities, or any part thereof (hereinafter collectively referred to as the "Security Instruments");

The term "Secured Indebtedness", as used herein, shall mean all of the indebtedness, obligations and liabilities described or referred to above in Subsections (a) and (b) of this Section 2.1. The term "holder", as used herein, shall mean the holder or holders of the Secured Indebtedness or any part thereof.

## ARTICLE III

### COVENANTS

**Section 3.1.** The covenants, agreements and undertakings of Grantor contained in this Mortgage, whether in this Article III or elsewhere, are made by Grantor for Grantor and Grantor's Successors.

**Section 3.2.** Grantor hereby covenants and agrees, and undertakes hereby:

(a) To perform, or cause to be performed, each and all covenants, terms and conditions imposed upon Grantor or its predecessors in interest and expressly contained in any of the instruments described or referred to in Exhibit "A" or other form of conveyance, under or through which the Mortgaged Properties, or any part thereof, are now held, and to perform or cause to be performed all implied covenants and obligations imposed in connection therewith upon Grantor or its predecessors in interest, and continuously to cause to be operated in a good and workmanlike manner the processing plants, pipelines and gathering systems comprising a part of the Mortgaged Properties;



(b) To materially comply with, or cause to be materially complied with, all applicable and valid laws, rules and regulations of the United States, the State of Nevada or any other governmental body exercising jurisdiction, with respect to the construction, maintenance, use, operation, repair, alteration, replacement and/or removal of the Mortgaged Properties, or any part thereof, and the sale, purchase, exchange, transmission, transportation and/or processing of oil, gas or other hydrocarbons which may be placed in or passed through any part of the processing plants, pipelines and gathering systems comprising a part of the Mortgaged Properties;

(c) To pay, or cause to be paid, before delinquent, all lawful taxes, assessments and other charges of every kind and character in respect of the Mortgaged Properties, or any part thereof, or incident to or in connection with the construction, maintenance, use, operation, repair, alteration, replacement and/or removal of the Mortgaged Properties, or with the sale, purchase, exchange, transmission, transportation and/or processing of oil, gas or other hydrocarbons which may be placed in or passed through any part of the processing plants, pipelines and gathering systems comprising a part of the Mortgaged Properties, as well as all federal and state income taxes payable generally by Grantor regardless of their relation to the Mortgaged Properties; to pay, as and when due, all federal and state social security taxes, payments and contributions for which Grantor may be liable; and to indemnify the holder from all liability in connection with any of the foregoing; provided, however, Grantor shall not be required to pay any such taxes or charges if (i) the amount, applicability or validity thereof is currently being contested in good faith by appropriate action promptly initiated and diligently conducted, (ii) Grantor shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) reasonably determined by it to be adequate with respect thereto, and (iii) Grantor has notified the Bank of such circumstances, in detail satisfactory to the Bank;

(d) To maintain, preserve and keep Grantor's interests in the Mortgaged Properties and all appurtenances thereto, including, without limitation, all processing plants, pipelines, gathering systems, buildings, improvements, machinery, equipment, fixtures and other personal property of every type or kind whatsoever in thorough repair, working order and condition, and from time to time, at Grantor's own expense, do or cause to be done all necessary and proper repairs, renewals, replacements and substitutions of the Mortgaged Properties and all appurtenances thereto, so that at all times the state and condition of the Mortgaged Properties and all appurtenances thereto will be fully preserved and maintained;

(e) To pay promptly all bills for labor and material in respect of the Mortgaged Properties, and never to permit to be fixed thereon any lien, even though inferior to the lien hereof, for any such bills which may be legally due and payable, and never to permit to be created or to exist, in respect of any of the Mortgaged Properties, any other or additional lien or security interest, except the liens and security interests, if any, set forth in Exhibit "A";

(f) To permit the holder, its agents, employees and representatives, at their own risk, to go upon, examine, inspect and remain on the Mortgaged Properties, and to inspect any and all processing plants, pipelines and gathering systems comprising a part of the Mortgaged Properties; and

Grantor shall do all things necessary or proper to enable the holder to exercise said rights whenever it so desires;

(g) To promptly notify the holder in writing if the validity or priority of this Mortgage or any of the rights, titles, liens or security interests created or evidenced hereby with respect to the Mortgaged Properties, or any part thereof, shall be questioned, attacked or endangered, directly or indirectly, and do all things necessary or proper to protect, warrant and defend title to the Mortgaged Properties unto the holder and its successors and assigns at Grantor's expense against all persons whomsoever claiming an interest therein or a lien or security interest thereon, but the holder shall have the right, at any time, to intervene in any suit affecting such title and to employ independent counsel in connection with any such suit to which it may be a party by intervention or otherwise; and upon demand Grantor agrees to pay the holder all reasonable expenses paid or incurred by it in respect of any such suit affecting title to any such property or affecting the holder's rights, titles, liens or security interests hereunder, including, without limitation, reasonable fees to the holder's attorneys, and Grantor will indemnify and hold the holder harmless from and against any and all costs and expenses, including, without limitation, any and all cost, loss, damage or liability which the holder may suffer or incur by reason of the failure of the title to all or any part of the Mortgaged Properties, or by reason of the failure or inability of Grantor, for any reason, to convey the rights, titles, liens and security interests which this Mortgage purports to mortgage, create or assign, and all amounts at any time so payable by Grantor shall be secured by the lien and security interest hereof;

(h) At any time and from time to time, upon request by the holder and at Grantor's expense, forthwith to execute and deliver to the holder and to record, file or register, any and all additional instruments and further assurances as may be necessary or proper, in the holder's opinion, to effect the intent of these presents;

(i) To pay all Secured Indebtedness in accordance with the terms thereof or hereof, or when the maturity thereof be accelerated in accordance with the terms thereof or hereof;

(j) To promptly perform or cause to be performed each and every act, matter or thing required by each and all of the instruments described or referred to in Exhibit "A" and all other contracts, agreements, instruments, franchises, privileges, permits, grants, leases and consents comprising a part of or affecting Grantor's interests in the Mortgaged Properties, and to do all other things necessary to keep unimpaired Grantor's rights with respect thereto and to prevent any forfeiture thereof or default thereunder; and

(k) To promptly correct and cure any defect, error or omission which may be discovered in the contents of this Mortgage or in any other Security Instrument or in the execution or acknowledgement hereof or thereof and in connection therewith, promptly execute, acknowledge and deliver to the holder any and all such corrective or curative instruments as the holder may in its sole and absolute discretion deem necessary or appropriate, and pay all costs and expenses, including, without limitation, the reasonable attorneys' fees of the holder, in connection with any of the foregoing.

**Section 3.3.** Any and all covenants contained in this Mortgage may from time to time, by instrument in writing signed by the holder and delivered to Grantor, be waived to such extent and in such manner as the holder may consider appropriate; but no such waiver shall at any time affect or impair the holder's rights or liens hereunder, except to the extent so specifically stated in such written instrument.

#### ARTICLE IV

##### DEFAULTS AND REMEDIES

**Section 4.1.** The term "Event of Default", as used herein, shall mean the occurrence of any one or more of the following events:

(a) The failure or refusal of Grantor to pay all or any part of the Secured Indebtedness, as the same becomes due, whether by acceleration or otherwise;

(b) The failure or refusal of Grantor punctually and properly to observe, keep and perform any covenant, agreement or undertaking contained in this Mortgage, any guaranty of the Secured Indebtedness (or any part thereof) and/or any one or more of the Security Instruments and the continuance thereof beyond any applicable grace period;

(c) Any representation or warranty made by Grantor herein, or any representation or warranty made by Borrower or Grantor in the Loan Agreement, in any of the Security Instruments or in any certificate or statement furnished or made to Bank pursuant thereto or hereto, or in connection herewith or therewith, or in connection with any document furnished hereunder or thereunder, shall prove untrue in any material respect;

then, Grantor shall be in default hereunder, and Bank may, at its option, declare the principal of and all interest then accrued on the Note, and any other obligations, indebtedness and liabilities hereunder to be forthwith due and payable whereupon the same shall forthwith become due without presentment, demand, protest, notice of intent to accelerate and notice of acceleration or other notice of any kind, all of which Grantor hereby expressly waives, except as provided in the Note. Bank may thereupon avail itself of any of its legal and equitable rights and remedies, either by the institution of a suit or suits, in equity or at law, or in bankruptcy, in any court or courts of competent jurisdiction, whether for the specific performance of any covenant, undertaking or agreement contained herein or in the aid of any execution of any powers granted herein, or for any foreclosure hereof or hereunder, or for any sale of the Mortgaged Properties, or any part thereof, so far as may be authorized by law, or for the enforcement of such other or additional appropriate legal or equitable remedies as Bank may deem most effectual to protect and enforce the aforesaid rights.

**Section 4.2.** If Grantor should fail, refuse or be unable to pay any sum of money herein covenanted to be paid by Grantor, or fail, refuse or be unable to observe, keep or perform any additional covenant, agreement or undertaking whatsoever contained in this Mortgage, the holder may, but shall not be obligated to, pay said sums of money, or perform or attempt to perform any such covenant, agreement or undertaking and any such payment so made or expense reasonably incurred in the performance or attempted performance of any such covenant, agreement or undertaking shall be, and is hereby declared by Grantor to be, a part of the Secured Indebtedness, and Grantor promises, upon demand, to pay to the holder at the office of Bank set forth



hereinabove all sums so advanced or paid by the holder, with interest at the highest lawful rate per annum from the date paid or incurred by the holder. No such payment by the holder shall in any way be considered or constitute a waiver of any such default or of the holder's right to declare the Secured Indebtedness at once due and payable. In addition to the lien and security interest hereof, the holder shall be subrogated to all rights and liens securing the payment of any debt, claim, tax or assessment for the payment of which it shall have made such advance.

**Section 4.3.** In addition to all rights, privileges and options specified above, it is mutually agreed that upon the occurrence of an Event of Default, if permitted by the laws of the state in which the Mortgaged Properties are located, Bank, acting by and through any one or more designated agents or representatives, shall have the right (but not the obligation) and is hereby authorized and empowered to sell the Mortgaged Properties, or any part or parts thereof, either as a whole or in parts, at public or private sale, in whatever manner and upon whatever terms Bank may specify, and to convey same to the purchaser or purchasers; provided, however, that Bank may exercise the authority thus granted only after first having complied fully with all applicable laws of the state in which the Mortgaged Properties are located, including, without limitation, such laws as pertain to the foreclosure of mortgages or deeds of trust, the giving of notice of the time, place and terms of sale or sales, and the exercise of any of the rights, privileges and options thereby granted. Any holder of any indebtedness secured hereby shall have the right to become the purchaser at any such sale. The sale of any part of the Mortgaged Properties shall not exhaust the power of sale, but sales may be made from time to time until all property is sold or the Secured Indebtedness is paid in full. It shall not be necessary to have present or to exhibit at any such sale any of the personal property subject to the lien hereof. To the extent permitted by applicable law, any sale hereunder may be adjourned by announcement at the time and place appointed for such sale, without further notice except as may be required by applicable law.

**Section 4.4.** Upon the occurrence of an Event of Default, the holder may, at its option, and is hereby authorized, prior or subsequent to the exercise of any remedies under Section 4.3 hereof, to enter upon the Mortgaged Properties, or any part thereof, and to take possession of the Mortgaged Properties in the possession of Grantor or Grantor's Successors, and may exclude Grantor or Grantor's Successors, and all persons claiming under Grantor, wholly or partly therefrom; and, holding the same, the holder may exercise without interference from Grantor or Grantor's Successors, any and all rights which Grantor has with respect to the management, possession, operation, protection or preservation of the Mortgaged Properties, and the holder may use, administer, manage, operate and control the Mortgaged Properties and conduct the business thereof to the same extent as Grantor or Grantor's Successors might at the time do and may exercise all rights and powers of Grantor, in the name, place and stead of Grantor, or otherwise as the holder shall deem best. All costs, expenses and liabilities of every character incurred by the holder shall be a demand obligation owed by Grantor to holder and shall bear interest at the highest lawful rate per annum and shall constitute a portion of the Secured Indebtedness and shall be secured by this Mortgage and all of the Security Instruments. If necessary to obtain the possession provided for hereinabove, the holder may invoke any one or more actions for forcible entry and detainer, trespass to try title and restitution. In connection with any action taken by the holder pursuant to this Section 4.4, the holder shall not be liable for any loss sustained by Grantor resulting from any act or omission of the holder in managing the Mortgaged Properties, unless such loss is caused by the willful misconduct or bad faith of the holder. Grantor hereby agrees to indemnify and hold harmless the holder from and against any and all liability, loss or damage which may be incurred by reason of the exercise of rights or remedies hereunder. Should the holder incur any such liability by reason of this Mortgage or the



exercise of rights or remedies hereunder or in defense of any such claims or demands, the amount thereof, including, without limitation, costs, expenses and reasonable attorneys' fees, shall be a demand obligation owing by Grantor to the holder, and shall bear interest each day from the date incurred until paid at the highest lawful rate per annum and shall be a part of the Secured Indebtedness and shall be secured by this Mortgage and all of the Security Instruments. Grantor hereby consents to, ratifies and confirms any and all actions of the holder with respect to the Mortgaged Properties taken under this Section 4.4.

Section 4.5. Bank is authorized to receive the proceeds of any foreclosure sale hereunder and apply the same as follows: First, to the payment of all necessary costs and expenses incident to such foreclosure sale, including but not limited to all court costs and charges of every character in event foreclosure is by suit; Second, to the payment of the Secured Indebtedness in such order as the holder shall elect; and Third, the balance, if any, remaining after the full and final payment of the Secured Indebtedness, to Grantor or Grantor's Successors.

Section 4.6. It is agreed that in any deed or deeds given pursuant to the exercise of a power of sale, any and all statements of fact or other recitals therein made as to the identity of the holder or holders of the Secured Indebtedness or as to the occurrence or existence of any default, or as to the acceleration of the maturity of the Secured Indebtedness, or as to the request to sell, notice of sale, time, place, terms, and manner of sale, and receipt, distribution and application of the money realized therefrom, and, without being limited by the foregoing, as to any act or thing having been duly done by the holder, or any of them if there be more than one, shall be taken by all courts of law and equity as prima facie evidence that the said statements of recitals state facts and are without further question to be so accepted, and Grantor does hereby ratify and confirm any and all acts that Bank may lawfully do in the premises by virtue hereof.

Section 4.7. In case the lien and security interest thereof shall be foreclosed by power of sale or by judicial action, the purchaser at any such sale shall receive, as an incident to its ownership, immediate possession of the property purchased, and Grantor agrees for Grantor and for all persons claiming under Grantor, that if Grantor or any such person shall hold possession of said property, or any part thereof, subsequent to foreclosure, Grantor or the parties so holding possession shall be considered as tenants at sufferance of the purchaser at foreclosure sale, and anyone occupying the property after demand for possession thereof shall be guilty of forcible detainer and shall be subject to eviction and removal, forcible or otherwise, with or without process of law, and all damages by reason thereof are hereby expressly waived.

Section 4.8. Upon the occurrence of an Event of Default, the holder may, at its election, proceed by suit or suits, at law or in equity, to enforce the payment of the Secured Indebtedness in accordance with the terms hereof and of the notes or other instruments evidencing it, to foreclose the lien and security interest of this Mortgage as against all or any portion of the Mortgaged Properties, and to have said properties sold under the judgment or decree of a court of competent jurisdiction. Appraisement of all of the Mortgaged Properties situated in the State of Nevada may be waived at the option of Bank, such option to be exercised prior to or at the time the judgment is rendered in any foreclosure proceeding. To the full extent Grantor may do so, Grantor agrees that Grantor will not at any time insist upon, plead, claim or take the benefit or advantage of any law now or hereafter in force providing for any appraisement, valuation, stay, extension or redemption, and Grantor, for Grantor and Grantor's Successors, and for any and all persons ever claiming any interest in the Mortgaged

Properties, or any part thereof, to the extent permitted by law, hereby waives and releases all rights of redemption, valuation, appraisal, stay of execution, notice of intention to mature or declare due the whole of the Secured Indebtedness, and all rights to a marshaling of the assets of Grantor, including the Mortgaged Properties, or to a sale in inverse order of alienation in the event of foreclosure of the liens and security interests hereby created. On or at any time after the filing of judicial proceedings to protect or enforce the rights of the holder, the holder, as a matter of right and without regard to the sufficiency of the security, and without any showing of insolvency, fraud or mismanagement on the part of Grantor, shall be entitled to the appointment of a receiver or receivers of the Mortgaged Properties, and of the income, rents, issues, products, profits and proceeds thereof.

Section 4.9. It is agreed that Bank or any other holder may be the purchaser of the Mortgaged Properties, or of any part thereof, at any sale thereof, whether such sale be under the power of sale, or upon any other foreclosure of the lien and security interest hereof or otherwise, and Bank or other holder so purchasing shall, upon any such purchase, acquire good title to the Mortgaged Properties so purchased, free of the lien and security interest of these presents.

Section 4.10. The rights and remedies hereinabove expressly conferred are cumulative of all other rights and remedies herein, or by law or in equity provided, and shall not be deemed to deprive the holder of any such other legal or equitable rights or remedies, by judicial proceedings or otherwise, appropriate to enforce the conditions, covenants and terms of this Mortgage and of the notes or other instruments evidencing the Secured Indebtedness, and the employment of any remedy hereunder, or otherwise, shall not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies.

Section 4.11. The procedures for foreclosure and all other provisions of this Article IV relating to remedies upon default and related matters shall be modified to the extent necessary to comply with the laws of the state where the Mortgaged Properties are located. It is the intent of Grantor that this Mortgage shall be legal and enforceable in any state where the Mortgaged Properties, or any part thereof, are located and that the provisions hereof shall be modified only to the extent necessary to comply with the laws of such state, and that all other provisions contained herein shall be in no way affected or impaired by the necessity to so modify some or all of the provisions of this Article IV. In the event of foreclosure hereof, Grantor agrees to pay all costs and expenses, including reasonable attorneys' fees, incurred by Bank in connection with such foreclosure, whether by suit or under power of sale, and the payment of same shall be secured by the lien of this Mortgage.

## ARTICLE V

### SECURITY AGREEMENT

Section 5.1. With respect to all personal property and fixtures comprising a part of the Mortgaged Properties, together with all proceeds and products thereof (hereinafter collectively referred to as the "Collateral"), this Mortgage shall likewise be a security agreement, and for a valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and for the purpose of further securing payment and performance of the Secured Indebtedness, Grantor hereby grants to Bank a security interest in the Collateral including, without limitation, all rights now owned and at any time hereafter acquired by Grantor in all (a) equipment, other personal property and fixtures at any time used on or in connection with all or any part of the Mortgaged

Properties, (b) oil, gas and other hydrocarbons which may at any time hereafter be owned, possessed or controlled by Grantor or which may be placed in or is in the process of being passed through, any part of the processing plants, pipelines and gathering systems comprising a part of the Mortgaged Properties, (c) accounts, contract rights and general intangibles of Grantor (i) arising in connection with the sale or other disposition of such oil, gas and other hydrocarbons, and/or (ii) arising out of, in connection with or pursuant to all oil, gas and other hydrocarbon sales, purchase, exchange, transmission, transportation and/or processing contracts, agreements and instruments, whether now in existence or hereafter made, which relate to (1) such oil, gas and other hydrocarbons, and/or (2) any part of the processing plants, pipelines and gathering systems comprising a part of the Mortgaged Properties, and/or (3) any of the instruments or tracts of land described or referred to in Exhibit "A", (d) additions, substitutions, replacements, accessions, attachments, improvements, betterments, renewals, extensions, ratifications, supplements and amendments to, of or for any of the foregoing, and (e) proceeds, rents, issues, profits, products, revenues and other income arising from or by virtue of the sale, lease, or other disposition of, or from any insurance payable with respect to damage, loss or destruction of, any of the foregoing.

**Section 5.2.** Grantor represents and warrants that, except for any financing statement now in force filed by Bank, or as shown on Exhibit "A", no financing statement covering the Collateral, or any part thereof, has been filed with any filing officer, and no other security interest now in force has attached or been perfected in the Collateral, or any part thereof.

**Section 5.3.** This Mortgage shall be effective as a financing statement filed as a fixture filing with respect to all of the Collateral which is or will become fixtures related to the tracts of land described or referred to in Exhibit "A" and is to be filed for record as a financing statement in the real estate records of each county where any part of the Mortgaged Properties (including such fixtures) is situated. The above goods are or are to become fixtures on the tracts of land described or referred to in Exhibit "A". The record owner of the real estate interest covered by this Mortgage is Grantor.

## ARTICLE VI

### ASSIGNMENT OF PRODUCTION

**Section 6.1.** In order further to secure the payment of the Secured Indebtedness, Grantor does hereby TRANSFER, ASSIGN, and CONVEY unto and in favor of the holder all of the interest of Grantor in the oil, gas, casinghead gas, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and other minerals (herein collectively referred to as the "Hydrocarbons"), in and under, or which may be produced from, the Mortgaged Properties, or allocated thereto pursuant to pooling of unitization of the Lessee or otherwise, together with all accounts, contract rights, general intangibles, products and proceeds arising from or derived from the sale, transfer or other disposition of such Hydrocarbons on and after the date of the execution of this Deed of Trust.

**Section 6.2.** The foregoing assignment is made upon, and subject to, the following terms:

- (a) The holder may give written or telegraphic notice to all of the parties producing, purchasing, taking, possessing any such Hydrocarbons, or having in their possession or receiving any such Hydrocarbons belonging to Grantor or such proceeds for which they or others are accountable to the



holder by virtue of the provisions of this Section 6.2, to hold and dispose of such Hydrocarbons for the account of the holder and to make payment of such proceeds direct to the holder at its principal office, and the holder shall thereafter receive, collect and retain, subject to the provisions of Section 6.5, as part of the Mortgaged Properties, all such Hydrocarbons, all for the benefit and further security of the Secured Indebtedness.

(b) All parties producing, purchasing, taking, possessing, processing or receiving any such Hydrocarbons, or having in their possession any such Hydrocarbons or such proceeds for which they or others are accountable to the holder by virtue of the provisions of this Section 6.2, are authorized and directed by Grantor, upon receipt of notice by the holder given pursuant to Subsection 6.2(a) above, to treat and regard the holder as the assignee and transferee of Grantor and entitled in its place and stead to receive such Hydrocarbons and proceeds; and such parties and each of them shall be fully protected in so treating and regarding the holder and shall be under no obligation to see to the application by the holder of any such proceeds received by it. Until such notice is received by such parties, payments of all proceeds attributable to such Hydrocarbons shall be payable directly to Grantor. Without in any way limiting the effectiveness of the authorization and direction in the next preceding sentence, if Grantor shall receive any such proceeds which under this Section 6.2 are receivable by the holder, Grantor will hold the same in trust and will remit such proceeds, or cause such proceeds to be remitted, immediately, to the holder.

(c) Without limiting the foregoing provisions of this Article VI, Grantor stipulates that this Article VI is intended to grant to the holder a security interest in Grantor's interest in the Hydrocarbons to be extracted from or attributable to the Mortgaged Properties, and in and to the proceeds resulting from the sale thereof at the well head.

Section 6.3. Grantor covenants and agrees, and undertakes hereby, to cause, after Bank shall have so requested, all pipeline companies or other purchasers of the Hydrocarbons to pay promptly to the holder at its principal office, Grantor's interest in the proceeds derived from the sale thereof, in accordance with the terms of this assignment, and forthwith to execute, acknowledge and deliver to such pipeline companies and other purchasers such further and proper division orders, transfer orders, certificates and other documents as may be necessary or proper to effect the intent of these presents; and the holder shall not be required at any time, as a condition to its right to obtain the proceeds of the Hydrocarbons, to warrant its title thereto or to make any guaranty whatsoever. In addition, and without limitation, Grantor covenants and agrees, and undertakes hereby, to provide to the holder the name and address of every pipeline company or other purchaser of the oil, gas and other minerals produced from or allocated to the Mortgaged Properties when determined, together with a copy of the applicable purchase and sales contracts. All expenses incurred by the holder in the collection of such proceeds shall be repaid promptly by Grantor; and prior to such repayment, such expenses shall be a part of the Secured Indebtedness.

Section 6.4. Without limitation upon any of the foregoing, Grantor hereby designates and appoints the holder as Grantor's true and lawful agent and attorney-in-fact (with full power of substitution, either generally or for such periods or purposes as the holder may from time to time prescribe), with full power and authority, for and on behalf of and in the name of Grantor, to execute, acknowledge and deliver all such division orders, transfer orders, certificates and other documents of every nature, with



such provisions as may from time to time, in the opinion of the holder, be necessary or proper to effect the intent and purpose of the assignment contained in this Article V; and to demand, collect, receive and sue for, in the holder's own name or in the name of Grantor, all cash, other distributions or proceeds due or which may become due to Grantor by virtue of the Mortgaged Properties or any part thereof or interest therein, with the absolute right in the holder to rehypothecate, pledge, compromise, settle or discharge the same and to do all acts and things necessary or convenient for any such purpose, including, without limitation, the right to give good and sufficient receipts and releases; to endorse the name of Grantor upon any and all checks, drafts, money orders and other instruments for the payment of monies which are payable to Grantor and constitute collections on the Mortgaged Properties; and to perform such other and further acts and deeds in the name of Grantor which the holder may deem necessary and appropriate; and Grantor shall be bound thereby as fully and effectively as if Grantor had personally executed, acknowledged and delivered any of the foregoing certificates or documents; as if Grantor had personally demanded, collected, received and/or sued for any and all cash, other distributions or proceeds; as if Grantor had personally done any and all acts and things necessary or convenient for any such purpose; as if Grantor had personally endorsed Grantor's own name upon any and all checks, drafts, money orders and other instruments; and as if Grantor personally performed such other and further acts and deeds in Grantor's own name which the holder deemed necessary and appropriate. The powers and authorities herein conferred on the holder may be exercised by the holder through any person who, at the time of exercise, is an officer of the holder. The power of attorney conferred by this Section 6.4 is granted for valuable consideration and coupled with an interest and is irrevocable so long as the Secured Indebtedness, or any part thereof, shall remain unpaid. All persons dealing with the holder, or any substitute, shall be fully protected in trusting the powers and authorities conferred by this Section 6.4 as continuing in full force and effect until advised by the holder that the Secured Indebtedness is fully and finally paid.

**Section 6.5.** All proceeds received by the holder in collected funds pursuant to this Article V shall be placed in a collateral collection account at Bank, and the holder is hereby authorized to apply all such proceeds as follows: First, to the payment of all necessary costs and expenses incident to the receipt and collection of such proceeds; Second, to the payment of the Secured Indebtedness (matured or unmatured) in such order as the holder shall elect; and Third, the balance, if any, remaining after the full and final payment of the Secured Indebtedness, to Grantor or Grantor's Successors.

**Section 6.6.** Should any person or entity now or hereafter purchasing or taking any part of the Hydrocarbons fail to make payment promptly to the holder for the purchase price of such Hydrocarbons, after notice pursuant to this Article VI, the holder shall have the right to make or to require Grantor to make, a change of connection and the right to designate or approve the purchaser with whose facilities a new connection shall be made, and the holder shall be without liability or responsibility in connection therewith so long as ordinary care is used in making such designation.

**Section 6.7.** The holder shall never be under any obligation to enforce the collection of the funds assigned to it hereunder, nor shall it ever be liable for failure to exercise diligence in the collection of such funds, but it shall only be accountable for the sums that it shall actually receive.

## ARTICLE VII

### MISCELLANEOUS

**Section 7.1.** Upon the full and final payment of the Secured Indebtedness, this Mortgage shall be extinguished and be of no further force and effect; and the Mortgaged Properties shall become wholly free and clear hereof and all of the property as assigned hereby shall be automatically reassigned to Grantor without any further act being required; and the holder, upon the request and at the expense of Grantor, shall promptly deliver to Grantor such instruments evidencing the Secured Indebtedness, marked "PAID", and execute and deliver to Grantor and others a release of this Mortgage and such other instruments of satisfaction as may be appropriate.

**Section 7.2.** The rights, titles, interests, liens and powers hereunder are cumulative of each other and of all other rights, titles, interests, liens and powers which may now or hereafter exist to secure the payment of the Secured Indebtedness to the holder, or any part thereof. The security herein and hereby provided shall not affect or be affected by any other Security Instrument or by any other or further security heretofore or hereafter taken for the Secured Indebtedness or any part thereof. Grantor, for Grantor and Grantor's Successors, and for any and all persons ever claiming any interest in the Mortgaged Properties, hereby waives all rights of marshalling in event of foreclosure of the lien hereby created. No failure to exercise and no delay in exercising on the part of the holder any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege.

**Section 7.3.** For all purposes of this instrument, the post office address of Bank shall be: c/o William S. Boyd, III, White & Morse, Suite 1209, One Hancock Plaza, Gulfport, MS 39501, and the post office address of Grantor shall be: 952 East Lane, Suite 2001, Houston, Texas.

**Section 7.4.** No provision herein or in any promissory note, instrument, or any other loan document executed by Grantor evidencing the Secured Indebtedness shall require the payment or permit the collection of interest in excess of the maximum permitted by law. If any excess of interest in such respect is provided for herein or in any such promissory note, instrument, or any other loan document, the provisions of this Section 6.4 shall govern, and Grantor shall not be obligated to pay the amount of such interest to the extent that it is in excess of the amount permitted by law. The intention of the parties being to conform strictly to the usury laws now in force, all promissory notes, instruments and other loan documents executed by Grantor evidencing the Secured Indebtedness shall be held subject to reduction to the amount allowed under said usury laws as now or hereafter construed by the courts having jurisdiction.

**Section 7.5.** These presents shall be binding upon the Grantor and Grantor's Successors, and shall inure to the benefit of the holder, its successors and assigns, and shall be covenants running with the lands comprising the Mortgaged Properties.

**Section 7.6.** In the event that any one or more of the provisions contained in this Mortgage shall be invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

**Section 7.7.** This Mortgage shall be governed by and construed in accordance with the laws of the State of Nevada.

**Section 7.8.** Notwithstanding anything to the contrary contained herein or in the Note, but subject to the provisions of Section 7.9 hereof, Grantor covenants and agrees that in the event Grantor conveys, assigns, or otherwise transfers or hypothecates its interest in the Mortgaged Properties or any part thereof, then the Bank shall have the option to immediately accelerate the maturity of the Note hereby secured and declare the entire indebtedness, both principal and accrued interest, due and owing and to demand prompt payment thereof. The failure of the Bank to exercise this option at the time of any such conveyance, assignment, or other transfer or hypothecation, shall not be deemed a waiver of its right to exercise this option at any later date.

**Section 7.9.** Grantor, its successors and assigns shall be entitled to obtain releases of the Bank's liens hereunder on one or more of the Properties in accordance with the terms, conditions and agreements set forth in Exhibit B hereto, referred to and incorporated herein for all purposes.

EXECUTED this 30<sup>th</sup> day of April, 1992 in multiple counterparts.

ATTEST:

"GRANTOR"

PARSEC RESOURCES, INC.

(Seal) Woodrow A. Holland  
Woodrow A. Holland  
Secretary

By: Woodrow A. Holland  
WOODROW A. HOLLAND  
Chairman of the Board and Vice President

ATTEST:

"BANK"

(Seal)

By: H.S. Stanley, Jr.  
H.S. STANLEY, JR., TRUSTEE IN  
BANKRUPTCY COURT FOR PETRO-  
SERVE, LTD. AND MAGNOLIA  
DEVELOPMENT CORPORATION

THE STATE OF MISSISSIPPI

COUNTY OF Harrison

§  
§  
§

BE IT REMEMBERED, that on this 30th day of April, 1992, before me, the undersigned authority, a Notary Public, personally appeared H.S. Stanley, Jr., Trustee in Bankruptcy Court for Petro-Serve, Ltd. and Magnolia Development Corporation in the capacity therein stated.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal on this 30th day of April, 1992.

Tammy Simmons  
Notary Public in and for  
the State of Mississippi

Printed Name of Notary Public:

Tammy Simmons

My Commission Expires:

My Commission Expires  
June 30, 1995



STATE OF MISSISSIPPI

COUNTY OF HARRISON

PERSONALLY appeared before me, the undersigned authority in and for said County and State, on this 30th day of April, 1992, within my jurisdiction, the within named WOODROW A. HOLLAND, who acknowledged that he is the Chairman of the Board and Vice President of Parsec Resources, Inc., a Texas corporation, and that for and on behalf of the said corporation, and as its act and deed he executed the above and foregoing instrument, after first having been duly authorized by said corporation so to do.

Sammy Simmons  
NOTARY PUBLIC

My Commission Expires  
June 30, 1995

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

EXHIBIT "A"

(1) That certain Oil and Gas Lease covering lands located in Eureka County, Nevada, described as follows:

Township 29 North, Range 52 East, Mt. Diablo  
Base and Meridian Section 27, W/2SE/4.  
(North Willow Creek Wellsite.)

Subject to the provisions and conditions of that certain Farmout Agreement dated July 20, 1987, by and between Southern Pacific Land Company and Foreland Corporation and that certain Farmout Agreement dated on or around February 2, 1987, between Foreland Corporation and Sun Operating Limited Partnership and Reading & Bates Petroleum Company.

(2) That certain Oil and Gas Lease covering lands located in Eureka County, Nevada, described as follows:

Township 28 North, Range 52 East, Mt. Diablo  
Base and Meridian Section 34, NE/4. (North  
Blackburn Wellsite.)

EXHIBIT "B"  
PARTIAL RELEASE AND SUBORDINATION PROVISIONS

Grantor, its successors or assigns, shall be entitled to releases of the liens of this Mortgage on a Property or Properties in accordance with the following terms, conditions and agreements, to wit:

1. There shall be no right to obtain a release of lien while there is a default in the payment of the Note or in the performance of any of the obligations under this Mortgage.

2. For each Developed Property or Properties which Grantor desires to be released, Grantor shall pay to Bank, either as a part of the obligatory payments of principal on the Note, or as a prepayment of principal on the Note, an amount equal to 105% of the value of the Property or Properties as of the time of the request for a release of lien pursuant to the Ryder Scott Reserve Study dated as of May 1, 1991, a copy of which is in the possession of both Grantor and Bank. In the event Bank does not agree to Grantor's determination of the value of the Property or Properties for which a release of lien is requested, Grantor shall obtain a statement of such value from Ryder Scott Co., the reasonable cost of which shall be shared equally by Grantor and Bank. Grantor shall pay Forty Dollars (\$40.00) per acre for the release of all Undeveloped Property.

3. Prepayments on the Note shall be applied against the principal portion of the Note and the principal amount of installments shall be reduced in the inverse order of their maturity.

4. Any principal portions of an installment paid or prepaid on the Note, and which has not been applied to obtain a release of lien, shall be a credit for application on a release subsequently requested, that is to say, all principal payments whether obligatory or prepayments of principal, shall entitle Grantor to a partial release, whether requested at the time of said payment, or at any subsequent time thereafter.

5. At any time that any release of lien is granted, there shall be paid in addition to the amounts indicated above, all accrued interest due and owing upon that portion of the principal which may be prepaid for such release.

6. All partial release or subordination of lien documents shall be prepared at the expense of Grantor. All such documents shall be prepared and presented to Bank, or to the then holder of the Note, who shall, within ten (10) business days of receipt of same, execute and return same to Grantor.

7. In the event Grantor or its assigns desire to drill a new oil and gas well or recomplete, redrill or achieve a major reworking of an oil and gas well which is subject to the Mortgage and is either shut in, not producing in commercial paying quantities (revenues do not equal lease operating expenses), or plugged, Bank or its successors or assigns shall, at the Grantor's request, after presentment of a proposed drilling contract, subordinate their liens evidenced by the Mortgage against the spacing unit or other proposed drilling tract not exceeding 320 leasehold acres ("Drilling Acres") until the Grantor's costs of drilling and competing such well have been recovered from the production of such well(s).

BOOK 234 PAGE 332  
OFFICIAL RECORDS  
RECORDED AT THE REQUEST OF  
*Parsec Resources*  
'92 MAY 12 AM 1:03  
*Inc.*  
EUREKA COUNTY, NEVADA  
M.N. REBALEATI, RECORDER  
FILE NO. FEE \$  
140807 24.00