

**APPLICATION FOR REGISTRATION OF
FOREIGN LIMITED PARTNERSHIP**

To the Secretary of State of the State of Idaho:

Pursuant to the provisions of Chapter 2, Title 53, **Idaho Code**, the undersigned Limited Partnership hereby applies for registration to transact business in your State, and for that purpose submits the following statement:

1. The name of the limited partnership is EP OPERATING COMPANY
2. The name which it shall use in Idaho is EP OPERATING COMPANY (LIMITED PARTNERSHIP)
3. It is organized under the laws of TEXAS
4. The date of its formation is 3-7-85
5. The address of its registered or principal office in the state or country under the laws of which it is organized is 300 South St. Paul Street, Dallas, Texas 75201
6. The name and street address of its proposed registered agent in Idaho are C T CORPORATION SYSTEM, 300 North 6th Street, Boise, Idaho 83701
7. The general character of the business it proposes to transact in Idaho is:
SEE ATTACHED
8. The names and business addresses of its partners are (must be completed only if not included in the certificate of limited partnership):

Name	General or Limited	Address
NEW ENSERCH EXPLORATION, INC.	General	300 South St. Paul Street, Dallas, Texas 75201

(continued on reverse)

8. (Continued)

Name	General or Limited	Address

9. This Application is accompanied by a copy of the certificate of limited partnership and amendments thereto, duly authenticated by the proper officer of the state or country under the laws of which it is organized.

Dated April 4, 19 85.

EP OPERATING COMPANY

~~xxx~~ NEW ENSERCH EXPLORATION, INC.

By 

A General Partner

Sr. VPres.

STATE OF TEXAS)

) ss:

COUNTY OF DALLAS)

I, Cynthia Willis, a notary public, do hereby certify that on this 4th day of April, 19 85, personally appeared

before me NEW ENSERCH EXPLORATION, INC., who being by me first duly sworn,

declared that he is a general partner of EP OPERATING COMPANY

that he signed the foregoing document as a general partner of the limited partnership and that the statements therein contained are true.

Cynthia Willis 6-18-85
Notary Public

PURPOSE

The purpose and business of the Partnership shall be the acquisition, exploration, development, operation and disposition of Oil and Gas Interests; the sale and marketing of any product from such Oil and Gas Interests; the carrying on of any business relating to or arising from exploration for or development, production, treatment, processing or marketing of oil and gas and other minerals produced in association therewith that a limited partnership may carry on; the entering into any partnership, joint venture or other similar arrangement to engage in any of the foregoing and anything incidental to the foregoing.



The State of Texas

SECRETARY OF STATE

85 APR 10 PM 1 29

The undersigned, as Secretary of State of the State of Texas, HEREBY CERTIFIES that the attached is a true and correct copy of the following described instruments on file in this office:

EP OPERATING COMPANY

Certificate/Agreement of Limited Partnership

March 7, 1985



IN TESTIMONY WHEREOF, I have hereunto signed my name officially and caused to be impressed hereon the Seal of State at my office in the City of Austin, this

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CERTIFICATE OF LIMITED PARTNERSHIP
OF
EP OPERATING COMPANY

FILED
In the Office of the
Secretary of State of Texas
MAR 7 1985
Clerk III Z
Corporations Section

The parties hereto mutually agree to form a limited partnership pursuant to the provisions of the Texas Uniform Limited Partnership Act (the "Texas Act"), as amended, and do hereby make, subscribe and swear to this certificate in writing in accordance with the provisions of the laws of the State of Texas. All undefined capitalized terms used herein shall have the meanings assigned to them in the Agreement of Limited Partnership of EP Operating Company (the "Partnership Agreement"), a copy of which is attached hereto as Exhibit A and incorporated herein for all purposes.

A. The name of the limited partnership formed hereby shall be EP OPERATING COMPANY (the "Partnership").

B. The character of business of the Partnership shall be as set forth in Article III of the Partnership Agreement.

C. The location of the principal place of business shall be as set forth in Section 1.3 of the Partnership Agreement.

D. The name and principal place of business of the Managing General Partner is as follows:

New Enserch Exploration, Inc.
300 South St. Paul Street
Dallas, Texas 75201

The name and principal place of business of the Special General Partner is as follows:

ENSERCH Corporation
300 South St. Paul Street
Dallas, Texas 75201

The name and place of business of the Limited Partner is as follows:

Enserch Exploration Partners, Ltd.,
a Texas limited partnership
1817 Wood Street
Dallas, Texas 75201

E. The Partnership shall exist until the close of Partnership business on December 31, 2035, or until earlier dissolved in accordance with the provisions of Section 1.5 or Article XIII of the Partnership Agreement.

F. The Limited Partner has contributed cash to the Partnership the amount of which is set forth in Exhibit B.

G. A Limited Partner is not required to make any additional contributions to the Partnership.

H. There is no agreement as to the time when the contributions of a Limited Partner are to be returned; however, such contributions may be returned through distributions by the Partnership.

I. The share of the profits which a Limited Partner shall receive by reason of its contribution to the Partnership is set forth in Article V of the Partnership Agreement.

J. The rights of a Limited Partner to substitute an assignee as a contributor in his, her or its place, and the terms and conditions of the substitution, are set forth in Articles X and XI of the Partnership Agreement.

K. No Partner shall have the right to admit additional Limited Partners.

L. No Limited Partner shall have priority over any other Partner as to contributions or as to compensation by way of income.

M. The rights of the Partners to continue the business of the Partnership on the withdrawal, bankruptcy, assignment for the benefit of creditors or dissolution

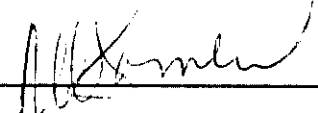
of the Managing General Partner or Special General Partner are set forth in Articles XII and XIII of the Partnership Agreement.

N. No Limited Partner is given the right to demand and receive property other than cash in return for his contribution.

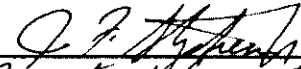
IN WITNESS WHEREOF, the parties hereto, constituting all of the Partners of EP Operating Company, have executed this certificate effective as of this 7th day of March, 1985.

MANAGING GENERAL PARTNER:

New Enserch Exploration, Inc.

By: 

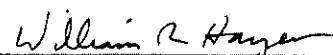
Title: President

Attest: 
Assistant Corporate Secretary

THE STATE OF TEXAS |
 |
COUNTY OF DALLAS |

Subscribed to and sworn before this 7th day of March, 1985.

[N.S.]


Notary Public, State of Texas

William R. Hayes

My commission expires:

1/14/89

SPECIAL GENERAL PARTNER:

ENSERCH Corporation

By: W. A. Zerkow Jr.

Title: Senior Vice President

Attest: W. L. Hay
ASST. CORPORATE CLERK

THE STATE OF TEXAS

COUNTY OF DALLAS

Subscribed to and sworn before me this 7th day of March, 1985.

[N.S.]

J. F. Stephens, Jr.
Notary Public, State of Texas

J. F. Stephens, Jr.

My commission expires:

3/21/88

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LIMITED PARTNER:

Enserch Exploration Partners, Ltd.

By: New Enserch Exploration, Inc.,
Managing General Partner

By: _____

Title: President

Attest: _____

J. J. Stephens
Assistant Corporate Secretary

THE STATE OF TEXAS :

COUNTY OF DALLAS :

Subscribed to and sworn before me this 7th day of March, 1985.

[N.S.]

William R. Hayes

Notary Public, State of Texas

William R. Hayes

My commission expires:

1/14/89

EXHIBIT A

AGREEMENT OF
LIMITED PARTNERSHIP
OF
EP OPERATING COMPANY

EP OPERATING COMPANY
TABLE OF CONTENTS

ARTICLE I

ORGANIZATIONAL MATTERS

	<u>Page</u>
1.1 Formation	1
1.2 Name	1
1.3 Principal Office	1
1.4 Term	1
1.5 Power of Attorney	2

ARTICLE II

DEFINITIONS

"Adjusted Property"	3
"Affiliate"	3
"Affiliated Partnership"	3
"Affiliated Partnership Agreement"	3
"Agreed Value"	3
"Agreement"	3
"Assignee"	3
"Capital Account"	3
"Capital Contribution"	3
"Carrying Value"	3
"Certificate of Limited Partnership"	3
"Code"	3
"Commencement Date"	3
"Contributed Property"	4
"Contributing Partner"	4
"Conveyance Agreement"	4
"Cost"	4
"Departing Partner"	4
"ENSERCH"	4
"EP Partnership Agreement"	4
"EP Unit"	4
"Exploration"	4
"Fair Market Value"	4
"General Partners"	4
"Initial Offering"	4
"Leases"	4
"Limited Partner"	4
"Liquidator"	4
"Managing General Partner"	5
"NASDAQ"	5
"Net Agreed Value"	5
"NEXI"	5
"Oil and Gas Interests"	5
"Opinion of Counsel"	5
"Original Properties"	5

	<u>Page</u>
"Partner"	5
"Partnership"	5
"Partnership Interest"	5
"Percentage Interest"	5
"Person"	5
"Prospect"	5
"Recapture Income"	5
"Registration Statement"	5
"Simulated Basis"	5
"Simulated Depletion Allowance"	5
"Special General Partner"	6
"Texas Act"	6
"Underwriters"	6
"Underwriting Agreement"	6
"Unit Price"	6
"Unrealized Gain"	6
"Unrealized Loss"	6

ARTICLE III

PURPOSE

Purpose	6
---------------	---

ARTICLE IV

CAPITAL CONTRIBUTIONS

4.1 Managing General Partner	6
4.2 Special General Partner	7
4.3 Limited Partner's Contributions	7
4.4 Capital Accounts	7
4.5 Interest	8
4.6 No Withdrawal	9
4.7 Loans from Partners	9
4.8 No Preemptive Rights	9

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

5.1 Capital Accounts and Allocations	9
5.2 Tax Allocations	9
5.3 Current Distributions	11

ARTICLE VI

MANAGEMENT AND OPERATION OF BUSINESS

6.1 Duties of the Managing General Partner	11
6.2 Authority of the Managing General Partner	12
6.3 Reliance by Third Parties	12
6.4 Compensation and Reimbursement of General Partners	13

	<u>Page</u>
6.5 Outside Activities	13
6.6 Partnership Funds	13
6.7 Contracts with Affiliates; Loans to or from General Partners; Joint Ventures	13
6.8 Indemnification of General Partners	15
6.9 Organizational Certificate	16
6.10 Liability of General Partners	16
6.11 Other Matters Concerning General Partners	16

ARTICLE VII

RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

7.1 Limitation of Liability	17
7.2 Management of Business	17

ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS

8.1 Records, Accounting and Reports	17
8.2 Fiscal Year	17
8.3 Annual Reports	17
8.4 Other Reports	17
8.5 Other Information	17

ARTICLE IX

INCOME TAX MATTERS

9.1 Preparation of Tax Returns	18
9.2 Tax Election	18
9.3 Tax Controversies	18
9.4 Organizational Expenses	18
9.5 Intangible Drilling Costs	18
9.6 Taxation as a Partnership	18

ARTICLE X

TRANSFER OF INTERESTS

10.1 Transfer	18
10.2 Transfer of Interests of General Partners	19
10.3 Transfer of Interest of Limited Partner	19

ARTICLE XI

ADMISSION OF SUBSTITUTED PARTNERS

11.1 Admission of Successor Limited Partner	19
11.2 Admission of Successor Managing General Partner	19
11.3 Admission of Successor Special General Partner	19
11.4 Amendment of Agreement	19

ARTICLE XII

WITHDRAWAL OR REMOVAL OF THE GENERAL PARTNERS

12.1	Withdrawal or Removal of Managing General Partner	19
12.2	Withdrawal or Removal of Special General Partner	19
12.3	Interest of Departing Partner	20

ARTICLE XIII

DISSOLUTION AND LIQUIDATION

13.1	Dissolution	20
13.2	Continuation of the Partnership	21
13.3	Liquidation	21
13.4	Distribution in Kind	22
13.5	Return of Capital	22
13.6	Waiver of Partition	22

ARTICLE XIV

AMENDMENT OF PARTNERSHIP AGREEMENT

14.1	Amendments	22
------	------------------	----

ARTICLE XV

LIMITATIONS

15.1	Sale of Substantially All Assets	23
------	--	----

ARTICLE XVI

GENERAL PROVISIONS

16.1	Addresses and Notices	23
16.2	Titles and Captions	23
16.3	Pronouns and Plurals	23
16.4	Further Action	23
16.5	Binding Effect	23
16.6	Integration	24
16.7	Creditors	24
16.8	Waiver	24
16.9	Counterparts	24
16.10	Applicable Law	24
16.11	Invalidity of Provisions	24

ANNEX I

Certificate for Limited Partnership Interest in EP Operating Company

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AGREEMENT
OF
LIMITED PARTNERSHIP
OF
EP OPERATING COMPANY

THIS AGREEMENT OF LIMITED PARTNERSHIP is entered into by and between New Enserch Exploration, Inc., a Delaware corporation, as the Managing General Partner, ENSERCH Corporation, a Texas corporation, as the Special General Partner and Enserch Exploration Partners, Ltd., a limited partnership formed pursuant to the Texas Uniform Limited Partnership Act, as the Limited Partner.

ARTICLE I
ORGANIZATIONAL MATTERS

1.1 *Formation.* The General Partners and the Limited Partner hereby associate themselves in the formation of the Partnership as a limited partnership pursuant to the provisions of the Texas Act. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and the administration and termination of the Partnership shall be governed by the Texas Act. The Partnership Interest of any Partner shall be personal property for all purposes.

1.2 *Name.* The name of the Partnership shall be, and the business of the Partnership shall be conducted under the name of, "EP Operating Company". In the State of Louisiana the name of the Partnership shall be, and the business of the Partnership shall be conducted under the name of, "EP Operating Company, a Limited Partnership". The Partnership's business may be conducted under any other name or names deemed advisable by the Managing General Partner to preserve the limited liability of the Limited Partner, including the name of the Managing General Partner. The Managing General Partner in its sole discretion may change the name of the Partnership at any time and from time to time. The words "Ltd." or "Limited Partnership" shall be included in the name where necessary for purposes of complying with the laws of any jurisdiction that so requires.

1.3 *Principal Office.* The principal office of the Partnership shall be 1817 Wood Street, Dallas, Texas 75201, or such other place as the Managing General Partner may from time to time designate to the Partners. The Managing General Partner will give notice to the Limited Partner within ten days after any change in the principal office of the Partnership. The Partnership may maintain such offices at such other locations as the Managing General Partner deems advisable.

1.4 *Term.* The Partnership shall continue in existence until the close of Partnership business on December 31, 2035, or until the earlier termination of the Partnership in accordance with the provisions of Article XIII; provided, however, that if the EP Partnership shall terminate pursuant to the proviso contained in the first sentence of Section 1.5 of the EP Partnership Agreement, this Agreement and the Partnership shall thereupon terminate and all obligations of the Partnership shall be cancelled (or discharged solely by the Managing General Partner). The Managing General Partner shall not commence or engage in any business on behalf of the Partnership until after the Commencement Date, other than matters necessary or incidental to the Partnership's organization (including, without limitation, the issuance of a Partnership Interest to the Limited Partner) and qualification.

THIS AGREEMENT IS SUBJECT TO THE PROVISIONS OF
THE TEXAS GENERAL ARBITRATION ACT

1.5 *Power of Attorney.* (a) Each Partner hereby constitutes and appoints the Managing General Partner (and any successor by merger, assignment, election or otherwise) with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) all certificates and other instruments (including, at the option of the Managing General Partner, this Agreement) and all amendments thereof which the Managing General Partner deems appropriate or necessary to qualify, or continue the qualification of, the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in all jurisdictions in which the Partnership may conduct business or own property; (B) all instruments which the Managing General Partner deems appropriate or necessary to reflect any amendment, change or modification of this Agreement in accordance with its terms; (C) all conveyances and other instruments or documents which the Managing General Partner deems appropriate or necessary to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement; and (D) instruments relating to the admission or substitution of any Partner pursuant to Article XI; and

(ii) sign, execute and file with the Department of Interior (including any bureau, office, or other unit thereof, whether in Washington, D.C., or in the field, or any officer or employee thereof), as well as with any other Federal or state agencies, departments, bureaus, offices or authorities any documents or instruments related to the Partnership or its business which the Managing General Partner in its sole discretion determines should be filed, including, without limitation, (A) any and all offers to lease and leases of or with respect to (including amendments, modifications, supplements, renewals and exchanges thereof) any lands under the jurisdiction of the United States or any state (including without limitation lands within the public domain, acquired lands and Indian lands) under any act or regulation which provides for the leasing thereof; (B) all statements of interest and holdings on behalf of the Partnership or the Partners; (C) any other statements, notices or communications now or hereafter required or permitted to be filed under any law, rule or regulation of the United States or any state, including, without limitation, the Mineral Lands Leasing Act of 1920, as amended, 30 U.S.C. §181 et seq., the Mineral Leasing Act for Acquired Lands of 1947, as amended, 30 U.S.C. §351 et seq., the Right-of-Way Leasing Act of 1930, 30 U.S.C. §301 et seq., and the Outer Continental Shelf Lands Act of 1953, 43 U.S.C. §1331 et seq., relating to the leasing of lands for oil or gas exploration or development; and (D) any request for approval of assignments or transfers of oil and gas leases, any unitization or pooling agreements and any other documents relating to lands under the jurisdiction of the United States or any state.

Nothing herein contained shall be construed as authorizing the Managing General Partner to amend this Agreement except in accordance with Article XIV or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive the death, incompetency, dissolution, bankruptcy or termination of any Partner and the transfer of his or its Partnership Interest and shall extend to such Partner's heirs, successors and assigns. Each such Partner hereby agrees to be bound by any representations made by the Managing General Partner, acting in good faith hereby pursuant to such power of attorney; and each such Partner hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the Managing General Partner, taken in good faith under such power of attorney. Each Partner shall execute and deliver to the Managing General Partner, within fifteen days after receipt of the Managing General Partner's request therefor, such further designations, powers of attorney and other instruments as the Managing General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

ARTICLE II

DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the terms used in this Agreement.

"Adjusted Property" means any property the Carrying Value of which has been adjusted pursuant to Section 4.4(d)(i).

"Affiliate" means any Person that directly or indirectly controls, is controlled by, or is under common control with, the Person in question. As used in the definition of "Affiliate", the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Affiliated Partnership" means a partnership which is an Affiliate of the Partnership and in which the Partnership owns a partnership interest.

"Affiliated Partnership Agreement" means the partnership agreement entered into by the partners of an Affiliated Partnership.

"Agreed Value" (a) of a Contributed Property transferred to the Partnership by the Limited Partner pursuant to Section 4.3, means such property's Agreed Value as determined in accordance with the provisions of the EP Partnership Agreement, and (b) of any other Contributed Property transferred to the Partnership, means the fair market value of such property as determined by the Managing General Partner using such reasonable method of valuation as may be adopted by the Managing General Partner. The Agreed Value of any Contributed Property shall reflect any adjustments made pursuant to Section 4.4 (b)(v).

"Agreement" means this agreement of limited partnership, as it may be amended or supplemented from time to time.

"Assignee" means a Non-citizen Assignee (as defined in the EP Partnership Agreement) or a person to whom one or more Depositary Units (as defined in the EP Partnership Agreement) or EP Units have been transferred, by assignment of a depositary receipt, or otherwise, in the manner permitted in the EP Partnership Agreement and who thereby has an interest in the Limited Partner equivalent to that of a limited partner but (a) limited to the rights and obligations appurtenant to an EP Unit to share in the allocations and distributions, including liquidating distributions, provided in the EP Partnership Agreement and (b) otherwise subject to the limitations under the Texas Act on the rights of an assignee who has not become a substituted limited partner.

"Capital Account" means the capital account maintained for a Partner pursuant to Section 4.4.

"Capital Contribution" means any cash and any Contributed Property, which a Partner contributes to the Partnership pursuant to Sections 4.1, 4.2 or 4.3.

"Carrying Value" means (a) with respect to a Contributed Property, the Agreed Value of such property reduced (but not below zero) by all depletion, depreciation and cost recovery deductions charged to the Partners' Capital Accounts pursuant to Section 4.4(a) with respect to such property, as well as any other changes for sales, retirements and other dispositions of assets included in a Contributed Property, as of the time of determination, and (b) with respect to any other property, the adjusted basis of such property for federal income tax purposes as of the time of determination. The Carrying Value of any property shall be adjusted in accordance with the provisions of Section 4.4(d).

"Certificate of Limited Partnership" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Texas pursuant to Section 6.1, as it may be amended from time to time.

"Code" means the Internal Revenue Code of 1954, as amended and in effect from time to time.

"Commencement Date" means the date of the "Initial Time of Delivery" as defined in the Underwriting Agreement.

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"Contributed Property" means each Contributing Partner's interest in each property (other than cash) contributed to the Partnership by such Contributing Partner. Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 4.4(d)(i), such property shall no longer constitute a Contributed Property for purposes of Sections 5.2(b), (c) and (d) but shall be deemed Adjusted Property for such purposes.

"Contributing Partner" means each Partner directly or indirectly contributing a Contributed Property to the Partnership.

"Conveyance Agreement" means that agreement entered into among ENSERCH, Exploration, NEXI, the Limited Partner and the Partnership wherein (a) ENSERCH and Exploration contribute and convey to the Limited Partner certain designated assets and the Limited Partner agrees to assume certain designated liabilities and (b) the Limited Partner contributes and conveys such assets to the Partnership and the Partnership agrees to assume such designated liabilities.

"Cost", (i) when used to describe the cost of any Lease, means the sum of (a) the prices paid by such Person for such Lease, including bonuses; (b) title insurance or examination costs, brokers' commissions, filing fees, recording costs, transfer taxes, if any, and like charges paid by such Person in connection with the acquisition of such Lease by such Person or the transfer of such Lease to the Partnership; and (c) rentals and ad valorem taxes paid by such Person with respect to such Lease to the date of its transfer to or by the Partnership, interest on funds used to acquire and maintain such Lease and such portion of such Person's reasonable, necessary and actual expenses for geological, geophysical, seismic, land, engineering, drafting, accounting, legal and other like services as are allocated to such Lease in accordance with generally accepted industry practices and provided that the expenses enumerated in subsection (c) hereof shall have been incurred not more than 36 months prior to purchase of such Lease; and (ii) when used to describe the cost of any property, other than a Lease, means the price paid by such Person for such property in an arms-length transaction and the costs of storing, managing and financing such property (including, without limitation, a reasonable interest charge with respect to acquisitions financed other than through borrowed funds), prior to such transfer.

"Departing Partner" means a General Partner, as of the effective date of any withdrawal or removal of such General Partner pursuant to Section 12.1 or 12.2.

"ENSERCH" means ENSERCH Corporation, a Texas corporation.

"EP Partnership Agreement" means the agreement of limited partnership of the Limited Partner.

"EP Unit" means a unit of limited partner's interest in the Limited Partner.

"Exploration" means Enserch Exploration, Inc., a Texas corporation which is a wholly-owned subsidiary of ENSERCH, and its successors.

"Fair Market Value" of a Lease or other property means the fair market value of such Lease or other property as reasonably determined by the Managing General Partner as if such Lease or other property were being acquired in an arms length transaction.

"General Partners" means NEXI, ENSERCH and their successors.

"Initial Offering" means the initial public offering of EP Units as described in the Registration Statement.

"Leases" means full or partial interests in oil and gas leases, oil and gas mineral rights (other than net profits, royalty or overriding royalty interests), fee rights, licenses, concessions or other rights authorizing the owner to explore for and produce oil and gas or contractual rights to acquire any such interests.

"Limited Partner" means Enserch Exploration Partners, Ltd., a limited partnership organized under the Texas Act, and any successors of the Limited Partner.

"Liquidator" has the meaning specified in Section 13.3.

"Managing General Partner" means NEXI or its successors.

"NASDAQ" means the National Association of Securities Dealers Automated Quotation System.

"Net Agreed Value" means (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any indebtedness either assumed by the Partnership upon such contribution or to which such properties are subject when contributed, (b) in the case of any property currently distributed to a Partner pursuant to Section 5.3, the Partnership's Carrying Value of such property at the time such property is distributed reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution, and (c) in the case of any property distributed to a Partner in liquidation of the Partnership pursuant to Sections 13.3 and 13.4, the fair market value of such property at the time of such distribution (as determined in the manner provided in Section 13.4) reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution.

"NEXI" means New Enserch Exploration, Inc., a Delaware corporation.

"Oil and Gas Interests" means direct or indirect interests in (a) properties suitable for, believed to be suitable for or currently the subject of oil and gas exploration, development or production, including leasehold, operating, non-operating, working and royalty interests, and contract rights relating thereto; (b) geophysical exploration permits; and (c) any tangible or intangible assets or rights incident to the foregoing, whether real, personal or mixed.

"Opinion of Counsel" means a written opinion of counsel acceptable to the Managing General Partner.

"Original Properties" means those properties and assets described in the Conveyance Agreement that are to be contributed to the Partnership by the Limited Partner pursuant to Section 4.3(a).

"Partner" means a General Partner or the Limited Partner.

"Partnership" means the limited partnership established by this Agreement.

"Partnership Interest" means the interest of a Partner in the Partnership.

"Percentage Interest" means (a) as to the Managing General Partner, .99%, (b) as to the Special General Partner, .01%, and (c) as to the Limited Partner, 99%.

"Person" means an individual or a corporation, partnership, trust, unincorporated organization, association or other entity.

"Prospect" means an area covering lands which, in the opinion of the Managing General Partner, contain a geologic feature, some portion of which is considered potentially capable of producing oil or gas in commercial quantities, and in which the Partnership owns or proposes to acquire one or more interests.

"Recapture Income" means any gain recognized by the Partnership or, in the case of gain required by Section 613A(c)(7)(D) of the Code to be computed separately by each Partner, by a Partner (but computed without regard to any adjustment required by Section 734 or 743 of the Code) upon the disposition of any property or asset of the Partnership that is not capital gain because such gain represents the recapture of deductions previously taken for federal income tax purposes with respect to such property or assets.

"Registration Statement" means the Registration Statement on Form S-1 filed with the Securities and Exchange Commission under the Securities Act of 1933, to register the offering and sale of the Depositary Units representing EP Units in the Initial Offering, as it may be amended from time to time.

"Simulated Basis" means the adjusted basis of any oil and gas property (as defined in Section 614 of the Code), determined for federal income tax purposes immediately following the acquisition of such property, as adjusted to reflect (i) additions to basis and (ii) the Simulated Depletion Allowance.

"Simulated Depletion Allowance" means a depletion allowance computed (in accordance with federal income tax principles) for each taxable year with respect to each oil and gas property (as defined in Section

614 of the Code), using the cost method or percentage method of depletion (without regard to limitations imposed on the percentage method under Section 613A of the Code which theoretically could apply to less than all Partners), whichever results in the greatest depletion allowance. For purposes of computing the Simulated Depletion Allowance with respect to any property, the adjusted basis of such property shall be deemed to be the Simulated Basis in such property and, in no event shall such allowance, in the aggregate, exceed such Simulated Basis.

"Special General Partner" means ENSERCH or its successors.

"Texas Act" means the Texas Uniform Limited Partnership Act, Article 6132a of the Revised Civil Statutes of the State of Texas, as it may be amended from time to time, and any successor to such Act.

"Underwriters" means those underwriting firms listed in the Underwriting Agreement or an exhibit or schedule thereto that agree to purchase EP Units from the Limited Partner.

"Underwriting Agreement" means that agreement to be entered into prior to the Commencement Date between the Limited Partner and the Underwriters with respect to the purchase of certain EP Units by the Underwriters.

"Unit Price" has the meaning specified in the EP Partnership Agreement.

"Unrealized Gain" attributable to a Partnership property means, as of any date of determination, the excess, if any, of the fair market value of such property as of such date of determination over the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.4(d) as of such date).

"Unrealized Loss" attributable to a Partnership property means, as of any date of determination, the excess, if any, of the Carrying Value of such property as of such date of determination (prior to any adjustment to be made pursuant to Section 4.4(d) as of such date) over the fair market value of such property as of such date of determination.

ARTICLE III

PURPOSE

The purpose and business of the Partnership shall be the acquisition, exploration, development, operation and disposition of Oil and Gas Interests; the sale and marketing of any product from such Oil and Gas Interests; the carrying on of any business relating to or arising from exploration for or development, production, treatment, processing or marketing of oil and gas and other minerals produced in association therewith that a limited partnership organized under the Texas Act may carry on; the entering into any partnership, joint venture or other similar arrangement to engage in any of the foregoing and anything incidental to the foregoing.

ARTICLE IV

CAPITAL CONTRIBUTIONS

4.1 *Managing General Partner.* (a) On the Commencement Date, the Managing General Partner shall contribute to the Partnership cash in an amount equal to .99% of the total Capital Contributions (based on the amounts credited to Capital Accounts on account thereof) to the Partnership then being made pursuant to this Section and Sections 4.2(a) and 4.3(a).

(b) Following the Commencement Date, whenever the Limited Partner makes a Capital Contribution to the Partnership pursuant to Section 4.3(b), the Managing General Partner shall contribute to the Partnership cash in an amount, or property having a Net Agreed Value, such that its Capital Contribution then being made as Managing General Partner shall be equal to .99% of the total Capital Contributions (based on the amounts credited to Capital Accounts on account thereof) to the Partnership then being made pursuant to this Section and Sections 4.2(b) and 4.3(b).

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4.2 *Special General Partner.* (a) On the Commencement Date, the Special General Partner shall contribute to the Partnership cash in an amount equal to .01% of the total Capital Contributions (based on the amounts credited to Capital Accounts on account thereof) to the Partnership then being made pursuant to this Section and Sections 4.1(a) and 4.3(a).

(b) Following the Commencement Date, whenever the Limited Partner makes a Capital Contribution to the Partnership pursuant to Section 4.3(b), the Special General Partner shall contribute to the Partnership cash in an amount, or property having a Net Agreed Value, such that its Capital Contribution then being made shall be equal to .01% of the total Capital Contributions (based on the amounts credited to Capital Accounts on account thereof) to the Partnership then being made pursuant to this Section and Sections 4.1(b) and 4.3(b).

4.3 *Limited Partner's Contributions.* (a) On the Commencement Date, the Limited Partner shall contribute the Original Properties to the Partnership and the Partnership shall assume (or take the Original Properties subject to) all liabilities and other indebtedness to be assumed by the Partnership in accordance with the Conveyance Agreement in exchange for its Partnership Interest.

(b) Following the Commencement Date, the Limited Partner may contribute additional capital, whether in the form of Oil and Gas Interests, cash or other property, to the Partnership and the Partnership shall assume, or take subject to, all liabilities attributable to any such contributed property.

4.4 *Capital Accounts.* (a) The Partnership shall maintain for each Partner a separate Capital Account. Such Capital Account shall be *increased* by (i) the cash amount or Net Agreed Value of all Capital Contributions made by such Partner to the Partnership pursuant to this Agreement and (ii) all items of Partnership income and gain computed in accordance with Section 4.4(b) and allocated to such Partner pursuant to Section 5.1 and *decreased* by (iii) the cash amount or Net Agreed Value of all actual and deemed distributions of cash or property made to such Partner pursuant to this Agreement and (iv) all items of Partnership deduction and loss computed in accordance with Section 4.4(b) and allocated to such Partner pursuant to Section 5.1.

(b) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of such items shall be the same as its determination, recognition and classification for federal income tax purposes; provided, that:

(i) Solely for purposes of the application of the provisions hereof, the Partnership shall be treated as owing directly its proportionate share (as determined by the Managing General Partner based upon the provisions of the Affiliated Partnership Agreements) of all property owned by all Affiliated Partnerships.

(ii) Any deductions for depreciation, cost recovery or amortization (other than depletion under Section 611 of the Code) attributable to a Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership was equal to the Agreed Value of such Property. Upon an adjustment pursuant to Section 4.4(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization (other than depletion under Section 611 of the Code), any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined as if the adjusted basis of such property was equal to the Carrying Value of such property immediately following such adjustment.

(iii) Any depletion deductions attributable to a separate oil and gas property (as defined in Section 614 of the Code) shall be computed by the Partnership using the cost or percentage method of depletion (without regard to limitations imposed on the percentage method under Section 613A of the Code which theoretically could apply to less than all of the Partners), whichever results in the greatest deduction. For purposes hereof, any cost depletion determined with respect to an oil and gas property shall be determined as if the adjusted basis of such property on the date of such determination was equal in amount to the Partnership's Carrying Value with respect to such property as of such date. Depletion deductions determined with respect to an oil and gas property shall, in the aggregate, reduce the Capital

Accounts of the Partners only to the extent of the Partnership's Carrying Value with respect to such property. The allocations of basis and amount realized (and all items of income, gain, deduction or loss computed with respect thereto) required by Section 613A(c)(7)(D) of the Code shall not affect the Capital Accounts of the Partners.

(iv) Any income, gain or loss attributable to the taxable disposition of any property (including any property subject to depletion under Section 611 of the Code) shall be determined by the Partnership as if the adjusted basis of such property as of such date of disposition was equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v) If the Partnership's adjusted basis in a depreciable or cost recovery property is reduced for federal income tax purposes pursuant to Section 48(q)(1) of the Code, the amount of such reduction shall, solely for purposes hereof, be deemed to be an additional depreciation or cost recovery deduction in the year such property is placed in service and shall be allocated among the Partners pursuant to Section 5.1. Any restoration of such basis pursuant to Section 48(q)(2) of the Code shall be allocated in the same manner to the Partners to whom such deemed deduction was allocated.

(vi) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code shall, for purposes of capital account maintenance, be treated as an item of deduction and shall be allocated among the Partners pursuant to Section 5.1.

(vii) The computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or Section 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income or are neither currently deductible nor capitalizable for federal income tax purposes.

(c) Generally, a transferee of a Partnership Interest will succeed to the Capital Account relating to the Partnership Interest transferred. However, if the transfer causes a termination of the Partnership under Section 708(b)(1)(B) of the Code, the Partnership properties shall be deemed to have been distributed in liquidation of the Partnership to the Partners (including the transferee of a Partnership Interest) pursuant to Sections 13.3 and 13.4 and recontributed by such Partners and transferees in the reconstitution of the Partnership. The Capital Accounts of such reconstituted Partnership shall be maintained in accordance with the principles of this Section 4.4.

(d) (i) Upon the Limited Partner's contribution to the Partnership of cash or properties received by the Limited Partner in exchange for additional EP Units pursuant to Section 4.4 of the EP Partnership Agreement, the Managing General Partner shall make appropriate adjustments to the Capital Accounts (and to the Carrying Values of Partnership properties) as necessary to reflect any adjustments made by the Managing General Partner pursuant to Section 4.6(d) of the EP Partnership Agreement.

(ii) In addition, immediately prior to the distribution of any Partnership property in liquidation of the Partnership pursuant to Sections 13.3 and 13.4, the Capital Accounts of all Partners (and the Carrying Values of all Partnership properties) shall, immediately prior to any such distribution, be adjusted (consistent with the provisions hereof and of Section 704 of the Code) upwards or downwards to reflect any Unrealized Gain or Unrealized Loss attributable to all Partnership properties (as if such Unrealized Gain or Unrealized Loss had been recognized upon an actual sale of such properties, immediately prior to such distribution, and was allocated to the Partners, at such time, pursuant to Section 5.1). In determining such Unrealized Gain or Unrealized Loss attributable to the properties, the fair market value of Partnership properties shall be determined by the Managing General Partner using such reasonable methods of valuation as it may adopt.

4.5 Interest. No interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.6 *No Withdrawal.* A Partner shall not be entitled to withdraw any part of its contribution or its Capital Account or to receive any distribution from the Partnership, except as provided in Section 5.3 and Articles XII and XIII.

4.7 *Loans from Partners.* Loans by a Partner to the Partnership shall not be considered Capital Contributions.

4.8 *No Preemptive Rights.* No Partner shall have any preemptive, preferential or other right with respect to (a) additional Capital Contributions; (b) issuance or sale of EP Units, whether unissued or held in the treasury; (c) issuance of any obligations, evidences of indebtedness or other securities of the Partnership convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase or subscribe to, any such unissued or EP Units held in the treasury; (d) issuance of any right of, subscription to or right to receive, or any warrant or option for the purchase of, any of the foregoing securities; or (e) issuance or sale of any other securities that may be issued or sold by the Partnership.

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

5.1 *Capital Accounts and Allocations.* For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, each item of income, gain, loss and deduction (computed in accordance with Section 4.4(b)) shall be allocated to the Partners in accordance with their respective Percentage Interests.

5.2 *Tax Allocations.* (a) For federal income tax purposes, except as otherwise provided in Section 5.2(b), each item of amount realized, income, gain, loss, deduction and credit of the Partnership shall be allocated among the Partners in accordance with their respective Percentage Interests.

(b) The deduction for depletion with respect to each separate oil and gas property (as defined in Section 614 of the Code) shall be computed for federal income tax purposes separately by the Partners rather than the Partnership in accordance with Section 613A(c)(7)(D) of the Code. For purposes of such computation, the proportionate share of the adjusted basis (before taking into account any adjustments resulting from an election made by the Partnership on behalf of such Partner under Section 754 of the Code) of each oil and gas property (as defined in Section 614 of the Code) allocated to each Partner shall be determined in accordance with the following principles:

(i) In the case of a Contributed Property, the adjusted basis of such property shall be allocated to the Partners in a manner consistent with Section 704(c) of the Code.

(ii) In the case of an Adjusted Property, the adjusted basis of such property shall be allocated (1) first, among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account all Unrealized Gain or Unrealized Loss attributable to such property and the prior allocations thereof pursuant to Section 4.6(d)(i) and (2) second, in the event such property was originally a Contributed Property, among the Partners in a manner consistent with Section 704(c) of the Code.

(iii) In the case of all other oil and gas properties, the adjusted basis of such properties shall be allocated to the Partners in accordance with their respective Percentage Interests.

Each Partner shall separately keep records of his share of the adjusted basis in each oil and gas property, adjust such share of the adjusted basis for any cost or percentage depletion allowable on such property and use such adjusted basis in the computation of his cost depletion or in the computation of his gain or loss on the disposition of such property by the Partnership.

(c) For the purpose of the separate computation of gain or loss by each Partner on the sale or disposition of each separate oil and gas property (as defined in Section 614 of the Code), the Partnership's

allocable share of the "amount realized" (as such term is defined in Section 1001(b) of the Code) from such sale shall be allocated for federal income tax purposes to the Partners as follows:

(i) In the case of a Contributed Property, such "amount realized" shall be allocated (1) first, to the Partners in an amount equal to the Simulated Basis in such property in the same proportion as such Partners were allocated adjusted basis in such property (as determined in accordance with Section 5.2(b)), (2) second, to the Contributing Partners with respect to such property, in a manner consistent with Section 704(c) of the Code and (3) third, the balance to the Partners in accordance with their respective Percentage Interests.

(ii) In the case of an Adjusted Property, such "amount realized" shall be allocated (1) first, to the Partners in an amount equal to the Simulated Basis in such property in the same proportion as such Partners were allocated adjusted basis in (or attributable to) such property (as determined in accordance with Section 5.2(b)), (2) second, among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Section 4.4(d)(i), (3) third, in the event such property was originally a Contributed Property, to the Contributing Partners with respect to such property, in a manner consistent with Section 704(c) of the Code and (4) fourth, the balance to the Partners in accordance with their respective Percentage Interests.

(iii) In the case of all other oil and gas properties, the "amount realized" shall be allocated (1) first, to the Partners in an amount equal to the Simulated Basis in each such property in the same proportion as such Partners were allocated adjusted basis in (or attributable to) such property (as determined in accordance with Section 5.2(b)) and (2) second, the balance to the Partners in accordance with their respective Percentage Interests.

(d) Each item of depreciation and cost recovery deduction attributable to, and each item of gain or loss from the sale of, any property which is not an oil and gas property, as defined in Section 614 of the Code, shall be allocated for federal income tax purposes to the Partners as follows:

(i) In the case of a Contributed Property, gain, loss, depreciation, and cost recovery deductions attributable to such property shall (1) first, be allocated among the Contributing Partners in a manner permitted by Section 704(c) of the Code and (2) second, any such items remaining shall be allocated among the Partners in accordance with their respective Percentage Interests.

(ii) In the case of an Adjusted Property, gain, loss, depreciation and cost recovery deductions attributable to such property shall (1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Section 4.4(d)(i), and (2) second, in the event such property was originally a Contributed Property, be allocated among the Contributing Partners with respect to such property, in a manner consistent with Section 704(c) of the Code and (3) third, any such items remaining shall be allocated among the Partners in accordance with their respective Percentage Interests.

(iii) In the case of all other properties that do not constitute an oil and gas property, as defined in Section 614 of the Code, gain, loss, depreciation and cost recovery deductions attributable to such property shall be allocated among the Partners in accordance with their Percentage Interests.

(e) It is intended that the allocations in Paragraphs (b)(i), (b)(ii), (c)(i), (c)(ii), (d)(i) and (d)(ii) hereof effect an allocation for federal income tax purposes in a manner permitted by Section 704 of the Code and comply with any limitations or restrictions therein. The Managing General Partner shall have complete discretion to make the allocations pursuant to this Section 5.2 and the allocations and adjustments to Capital Accounts in any manner consistent with Section 704 of the Code. The Managing General Partner may amend the provisions of this Agreement as appropriate as a result of the promulgation of final Treasury Regulations under Section 704 of the Code, if in the opinion of counsel such an amendment is advisable to reflect allocations among the Partners consistent with those Regulations.

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(f) All items of income, gain, loss, deduction, credit and basis allocation recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, such allocations, once made, shall be adjusted as necessary or appropriate to take into account those adjustments permitted by Sections 734 and 743 of the Code and, where appropriate, to provide only Partners recognizing gain on Partnership distributions covered by Section 734 of the Code with the federal income tax benefits attributable to the increased basis in Partnership property resulting from any election under Section 754 of the Code.

(g) To the extent of any Recapture Income resulting from the sale or other taxable disposition of a Partnership asset, the amount of any gain from such disposition allocated to (or recognized by) a Partner (or its successor in interest) for federal income tax purposes pursuant to the above provisions shall be deemed to be Recapture Income to the extent such Partner has been allocated or has claimed any deduction directly or indirectly giving rise to the treatment of such gain as Recapture Income.

(h) In the event of the transfer of a Partnership Interest during a year, each item of Partnership amount realized, income, gain, loss, deduction and credit attributable to the transferred Partnership Interest shall for federal income tax purposes be prorated between the transferor and transferee on a daily or other reasonable basis, as required by Section 706 of the Code; provided however, that gain or loss on a sale or other disposition of all or a substantial portion of the assets of the Partnership shall be allocated to the holder of the Partnership Interest on the date of sale.

(i) If the Percentage Interest of the Limited Partner is changed during a taxable year for any reason other than the transfer of a Partnership Interest to another Person, the Limited Partner's share of taxable income or loss shall be determined for federal income tax purposes by prorating all items of taxable income or loss on a daily or other reasonable basis and allocating such items among the Partners taking into account each such Partner's varying Percentage Interests in the Partnership on each such day (or other reasonable period) as required or permitted by Section 706 of the Code.

5.3 Current Distributions. (a) From time to time, and not less often than quarterly, the Managing General Partner shall review the Partnership's accounts to determine whether distributions are appropriate. At any time the Managing General Partner may make such distributions as it, in its discretion may determine, without being limited to current or accumulated income or gains. Such distributions may be made from Partnership revenues, Capital Contributions or Partnership borrowings. The Managing General Partner may in its sole discretion distribute to Partners other Partnership property. All such distributions shall be made concurrently to all Partners and in accordance with the Percentage Interests of the Partners.

(b) For the purpose of this Agreement the amount of windfall profits tax attributable to a Partner shall be treated as follows:

(i) The cash proceeds that are offset by the withholding of such tax will be deemed to have been distributed to the Partner. The amount of such tax shall be treated as paid by the Partner.

(ii) If any Partner is subject to a higher rate of windfall profits tax on any oil production of the Partnership than the rate imposed on any other Partner, the Managing General Partner is authorized to appropriately adjust actual cash distributions in order to reflect accurately the varying rates of windfall profits tax imposed upon the various Partners.

(c) Any amounts paid pursuant to Section 6.4 shall not be deemed distributions for purposes of this Agreement.

ARTICLE VI

MANAGEMENT AND OPERATION OF BUSINESS

6.1 Duties of the Managing General Partner. (a) The Managing General Partner shall have the exclusive management and control of the business of the Partnership. Except as otherwise expressly provided

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in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the Managing General Partner, and neither the Special General Partner nor any Limited Partner shall have any right of control or management power over the business and affairs of the Partnership.

(b) The Managing General Partner shall cause a Certificate of Limited Partnership of the Partnership to be filed with the Secretary of State of the State of Texas, as required by the Texas Act, and shall cause to be filed such other certificates or documents as may be required for the formation and operation of a limited partnership in Texas or any other state in which the Partnership may elect to do business.

6.2 Authority of the Managing General Partner. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted the Managing General Partner under any other provisions of this Agreement, the Managing General Partner shall have full power and authority to do all things deemed necessary or desirable by it to conduct the business of the Partnership, including without limitation, (a) the determination of the wells and operations in which the Partnership will participate; (b) the making of any expenditures, the borrowing of money and the incurring of any obligations it deems necessary for the conduct of the activities of the Partnership; (c) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership; (d) the use of the assets of the Partnership (including, without limitation, cash on hand) for any purpose and on any terms it sees fit, including, without limitation, the financing of the conduct of the drilling activities and other operations of the Partnership, the repayment of obligations of the Partnership, the conduct of additional Partnership operations and the purchase of Oil and Gas Interests; (e) the negotiation and execution on any terms deemed desirable in its sole discretion of any contracts, conveyances or other instruments that it considers useful or necessary to the conduct of the Partnership operations or the implementation of its powers under this Agreement; (f) the distribution of Partnership cash; (g) the selection and dismissal of employees and outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring; (h) the making of all decisions concerning the desirability of payment, and the payment or supervision of the payment, of all delay rentals and shut-in royalty payments; (i) the maintenance of such insurance for the benefit of the Partnership and the Partners as it deems necessary; (j) the formation of any further limited or general partnerships, joint ventures or other relationships that it deems desirable; (k) the control of any matters affecting the rights and obligations of the Partnership, including the conduct of litigation and other incurring of legal expenses and the settlement of claims and litigation; (l) the operation of producing wells drilled on Leases acquired by the Partnership or on a regulatory unit that includes any part of such a Lease; and (m) the purchase, sale or other acquisition or disposition of EP Units and depository units representing EP Units at such times and on such terms as it deems to be in the best interests of the Partnership and the Partners.

6.3 Reliance by Third Parties. Notwithstanding any other provision of this Agreement to the contrary, no lender or purchaser, including any purchaser of property from the Partnership or any other Person dealing with the Partnership, including any purchaser of production, shall be required to look to the application of proceeds hereunder or to verify any representation by the Managing General Partner as to the extent of the interest in the assets of the Partnership that the Managing General Partner is entitled to encumber, sell or otherwise use, and any such lender or purchaser shall be entitled to rely exclusively on the representations of the Managing General Partner as to its authority to enter into such financing or sale arrangements and shall be entitled to deal with the Managing General Partner as if it were the sole party in interest therein, both legally and beneficially. The Limited Partner hereby waives any and all defenses or other remedies that may be available against such lender, purchaser or other Person to contest, negate or disaffirm any action of the Managing General Partner in connection with any such sale or financing.

In no event shall any Person dealing with the Managing General Partner or the Managing General Partner's representative with respect to any business or property of the Partnership be obligated to ascertain that the terms of this Agreement have been complied with, or be obligated to inquire into the necessity or expedience of any act or action of the Managing General Partner or the Managing General Partner's representative; and every contract, agreement, deed, mortgage, security agreement, promissory note or other instrument or document executed by the Managing General Partner or the Managing General Partner's representative with respect to any business or property of the Partnership shall be conclusive evidence in

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favor of any and every Person relying thereon or claiming thereunder that (i) at the time of the execution and/or delivery thereof this Agreement was in full force and effect, (ii) such instrument or document was duly executed in accordance with the terms and provisions of this agreement and is binding upon the Partnership, and (iii) the Managing General Partner or the Managing General Partner's representative was duly authorized and empowered to execute and deliver any and every such instrument or document for and on behalf of the Partnership.

6.4 Compensation and Reimbursement of General Partners. (a) The General Partners shall not be compensated for their services as General Partners to the Partnership.

(b) Each of the General Partners shall be reimbursed for all expenses, disbursements, and advances incurred or made in connection with the organization of the Partnership, the Initial Offering, and the qualification of the Partnership and the General Partners to do business.

(c) Each General Partner shall be reimbursed on a monthly basis for all direct expenses it incurs or makes on behalf of the Partnership (including amounts paid to any Person to perform services to the Partnership) and for that portion of each General Partner's legal, accounting, geological, engineering, well supervision, telephone, secretarial, aircraft, travel and entertainment fees and expenses, office rent and other office expenses, salaries and other compensation expenses of employees, officers and directors, other administrative expenses and other expenses necessary or appropriate to the conduct of the Partnership's business which are incurred by such General Partner in operating the Partnership's business (including, without limitation, expenses, indirect or otherwise allocated to a General Partner by its affiliates) which is allocated to the Partnership, in addition to any reimbursement as a result of indemnification pursuant to Section 6.8. The Managing General Partner shall determine such fees and expenses which are allocated to the Partnership in any reasonable manner. All expenses that have been or would otherwise be incurred by or charged to the Limited Partner shall constitute expenses of, and shall be paid by (either by direct payment by the Partnership or by payment to the Limited Partner for payment of such expense), the Partnership.

6.5 Outside Activities. Except as provided in Section 6.6 of the EP Partnership Agreement, the Special General Partner, any Affiliate thereof and any director, officer, partner or employee of either General Partner or any Affiliate of a General Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, may engage in the ownership, operation and management of working, nonparticipating or other interests or royalties in oil and gas properties, and any other businesses and activities, including business interests and activities in direct competition with the Partnership and the Limited Partner, for their own account and for the account of others, and may own interests in the same properties as those in which the Partnership or the Limited Partner owns an interest, without having or incurring any obligation to offer any interest in such properties, businesses or activities to the Partnership, the Limited Partner or any other Partner, and no other provision of this Agreement shall be deemed to prohibit the General Partners or any such Person from conducting such other businesses and activities. Neither the Partnership nor the Limited Partner shall have any rights by virtue of this Agreement in any independent business venture of the Special General Partner, any Affiliate of a General Partner or any director, officer, partner or employee of either General Partner or an Affiliate of a General Partner.

6.6 Partnership Funds. The funds of the Partnership shall be deposited in such accounts as are designated by the Managing General Partner. The Managing General Partner may, in its sole discretion, deposit funds of the Partnership in a central disbursing account maintained by or in the name of the Managing General Partner or the Limited Partner in which funds of the Limited Partner and other Persons are also deposited, provided that at all times books of account are maintained which show the amount of funds of the Partnership on deposit in such account. All withdrawals from or charges against such accounts shall be made by the Managing General Partner or by its agents. Funds of the Partnership may be invested as determined by the Managing General Partner, except in connection with acts otherwise prohibited by this Agreement.

6.7 Contracts with Affiliates; Loans to or from General Partners; Joint Ventures. (a) The Managing General Partner may itself, or may enter into an agreement with the Special General Partner or an Affiliate of a General Partner to render services for the Partnership. Any service rendered to the Partnership by a

General Partner or any Affiliate thereof shall be on terms that are fair and reasonable to the Limited Partner. The provisions of Section 6.4 shall apply to the rendering of services described in such Section.

(b) A General Partner or any Affiliate of a General Partner may lend to the Partnership funds needed by the Partnership for such period of time as the Managing General Partner may determine, provided, however, that such General Partner or Affiliate may not charge the Partnership interest at a rate greater than the lesser of (i) the General Partner's or Affiliate's actual average interest cost (including points or other financing charges or fees, if any), or (ii) the rate (including points or other financing charges or fees) that would be charged the Partnership (without reference to the Managing General Partner's or Special General Partner's financial abilities or guaranties) by unrelated lenders on comparable loans. The Partnership shall reimburse a General Partner or its Affiliate, as the case may be, for any costs incurred by such General Partner or Affiliate in connection with the borrowing of funds obtained by such General Partner or Affiliate and loaned to the Partnership; provided, however, that assumption of indebtedness by the Partnership pursuant to the Conveyance Agreement is hereby ratified by all Partners.

(c) The Partnership may lend or contribute funds to the Limited Partner on terms and conditions established in the sole discretion of the Managing General Partner, provided that such loans or contributions are made in connection with the conduct of the business of the Partnership. The foregoing authority shall be exercised by the Managing General Partner in its sole discretion and shall not create any right or benefit in favor of the Limited Partner or any other Person. The Partnership may lend funds to a General Partner or any Affiliate thereof (including the Limited Partner as permitted in this Section 6.8(c)) provided, however, that the Partnership may not charge interest at a rate greater than the rate (including points or other financing charges or fees) that would be charged to the General Partner or such Affiliate (without reference to the Partnership's financial abilities or guaranties) by unrelated lenders on comparable loans.

(d) The Partnership may transfer Oil and Gas Interests or other assets to joint ventures or other partnerships in which it is or thereby becomes a participant upon such terms and subject to such conditions consistent with applicable law as the Managing General Partner deems appropriate.

(e) Neither a General Partner nor any Affiliate of a General Partner shall sell, transfer or convey any Lease or other property to, or purchase any Lease or other property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Limited Partner and then subject to the following conditions:

(i) In the case of a sale, transfer or conveyance to the Partnership of a Lease or other property (other than oil, gas or liquid production) by a General Partner or an Affiliate of a General Partner who has held such Lease or other property for twelve months or less prior to such transfer, the Lease or other property shall be sold, transferred or conveyed to the Partnership at a price which is the lower of the Cost of such Lease or other property to such General Partner or its Affiliate or the Fair Market Value of such Lease or other property.

(ii) In the case of a sale, transfer or conveyance to the Partnership of a Lease or other property (other than oil, gas or liquid production) by a General Partner or an Affiliate of a General Partner who has held such Lease or other property for more than twelve months, the Lease or other property shall be sold, transferred or conveyed to the Partnership at a price which is the fair Market Value of such Lease or other property.

(iii) In the case of a sale, transfer or conveyance by the Partnership to a General Partner or any of its Affiliates, of a Lease or other property (other than oil, gas or liquid production) that has been held by the Partnership for twelve months, the Lease or other property shall be sold, transferred or conveyed to such General Partner or Affiliate at the price which is the higher of the Cost of such Lease or other property to the Partnership or the Fair Market Value of such Lease or other property.

(iv) In the case of a sale, transfer or conveyance by the Partnership to a General Partner or any of its Affiliates, of a Lease or other property (other than oil, gas or liquid production) that has been held by the Partnership for more than twelve months, the Lease or other property shall be sold, transferred or conveyed to such General Partner or Affiliate at the Fair Market Value of such Lease or other property.

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(f) Notwithstanding any other provision of this Agreement or the EP Partnership Agreement, a General Partner or any Affiliate of a General Partner shall be free to purchase, and the Partnership shall be free to sell, any oil, gas and other liquids produced by the Partnership upon such other terms and conditions as are mutually agreeable to the Partnership and such General Partner or Affiliate.

(g) Each of the Partners hereby approves, ratifies and confirms the execution, delivery and performance of the Conveyance Agreement and any other agreements, acts, transactions or matters described in the Registration Statement and authorizes, ratifies and confirms the execution, delivery and performance of such agreements by the Managing General Partner or the taking of such action on behalf of the Partnership without any further act, approval or vote of the Partners of the Partnership, notwithstanding any other provision of this Agreement or the EP Partnership Agreement.

6.8 Indemnification of General Partners. The Partnership shall indemnify and hold harmless the General Partners and their directors and officers (individually, an "Indemnitee") as follows:

(a) In any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, to which an Indemnitee was or is a party or is threatened to be made a party by reason of the fact that it is or was a General Partner of the Partnership or a director or officer of a General Partner of the Partnership (other than an action by or in the right of the Partnership), involving an alleged cause of action arising from the activities of such General Partner under this Agreement or the management of the affairs of the Partnership, or which relate to the Partnership, its property, business or affairs, the Partnership shall indemnify such Indemnitee against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by such Indemnitee in connection with such action, suit or proceeding, if such Indemnitee acted in good faith and in a manner he or it reasonably believed to be in or not opposed to the best interests of the Partnership and provided that the Indemnitee's conduct does not constitute gross negligence or willful or wanton misconduct. The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that an Indemnitee did not act in good faith and in a manner that he or it reasonably believed to be in, or not opposed to, the best interests of the Partnership.

(b) In any threatened, pending or completed action, suit or proceeding by or in the right of the Partnership to procure a judgment in its favor, to which an Indemnitee was or is a party or is threatened to be made a party by reason of the fact that it is or was a General Partner of the Partnership or a director or officer of a General Partner of the Partnership, involving an alleged cause of action arising from the activities of a General Partner under this Agreement or the management of the affairs of the Partnership, or which relates to the Partnership, its property, business or affairs, the Partnership shall indemnify such Indemnitee against expenses, including attorneys' fees, judgments and amounts paid in settlement, actually and reasonably incurred by such Indemnitee in connection with the defense and settlement of such action, suit or proceeding, if such Indemnitee acted in good faith and in a manner it reasonably believed to be in or not opposed to the best interests of the Partnership, except that no indemnification may be made with respect to any claim, issue or matter as to which such Indemnitee shall have been adjudged to be liable for gross negligence or willful or wanton misconduct, unless and only to the extent that the court in which such action, suit or proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such Indemnitee is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(c) Expenses (including legal fees and expenses) incurred in defending any proceeding shall be paid by the Partnership in advance of the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall ultimately be determined, by a court of competent jurisdiction or otherwise, that the Indemnitee is not entitled to be indemnified by the Partnership as authorized hereunder.

(d) Any indemnification under Section 6.8(a) or (b) above, unless ordered by a court, shall be made by the Partnership only as authorized in the specific case and only upon a determination, (i) by a majority vote of a quorum of directors of the Managing General Partner who at the time of the vote are not named defendants or respondents in the proceeding, or (ii) if such a quorum cannot be obtained, by a majority vote

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ARTICLE VII

RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

7.1 *Limitation of Liability.* The Limited Partner shall have no liability under this Agreement except as provided by the Texas Act.

7.2 *Management of Business.* The Limited Partner shall not take part in the operation, management or control (within the meaning of the Texas Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by an employee or agent of a General Partner in his capacity as such shall not affect, impair or eliminate the limitations on the liability of the Limited Partner under this Agreement.

ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS

8.1 *Records, Accounting and Reports.* The Managing General Partner shall keep or cause to be kept appropriate books with respect to the Partnership's business, which books shall at all times be kept at the principal office of the Partnership. Any records maintained by the Partnership in the regular course of its business, including the record of the holders of EP Units or Depositary Units, books of account, and records of Partnership proceedings may be kept on, or be in the form of, punch cards, magnetic tape, photographs, micrographics or any other information storage device, provided that the records so kept are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained for financial reporting purposes on the accrual basis or on a cash basis as the Managing General Partner shall determine in its sole discretion, and adjusted periodically to an accrual basis, in accordance with generally accepted accounting principles.

8.2 *Fiscal Year.* The fiscal year of the Partnership shall be the calendar year.

8.3 *Annual Reports.* As soon as practicable, but in no event later than ninety days after the close of each fiscal year, the Managing General Partner shall deliver to the Limited Partner reports containing financial statements of the Partnership for the fiscal year, presented in accordance with generally accepted accounting principles, including a balance sheet, statement of income, a statement of Partners' equity and a statement of changes in financial position, such statements to be audited by a nationally recognized firm of independent public accountants selected by the Managing General Partner.

8.4 *Other Reports.* As soon as practicable, but in no event later than forty-five days after the close of each calendar quarter, except the last calendar quarter of each fiscal year, the Managing General Partner shall furnish to the Limited Partner a quarterly report for the calendar quarter containing such financial and other information as the Managing General Partner deems appropriate.

8.5 *Other Information.* The Managing General Partner may release such information concerning the operations of the Partnership to such sources as is customary in the industry or required by law or regulation of any regulatory body. The Managing General Partner shall furnish the Limited Partner or its representatives, at its request, any further nonconfidential information in such form as it may reasonably request relative to any phase of the operations of the Partnership. The Limited Partner and its representatives shall have free access during normal business hours to all nonconfidential records relative to the operations of the Partnership. For the term of the Partnership and for a period of five years thereafter, the Managing General Partner shall maintain and preserve all books of account and other relevant documents. Notwithstanding the provisions of this section, any seismic data, any logs, well reports or other drilling data may be kept confidential for a reasonable period of time.

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ARTICLE IX

INCOME TAX MATTERS

9.1 *Preparation of Tax Returns.* The Managing General Partner shall arrange for the preparation and timely filing of all returns of Partnership income, gains, deductions and losses necessary for Federal and state income tax purposes and shall use its best efforts to furnish to Partners and Assignees within ninety days of the close of the taxable year the tax information reasonably required for Federal and state income tax reporting purposes. A copy of the Partnership's federal income tax return will be furnished to any Partner upon request at such Partner's own expense. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the cash or accrual method of accounting for federal income tax purposes, as the Managing General Partner shall determine in its discretion. The taxable year of the Partnership shall be the calendar year.

9.2 *Tax Election.* Except as otherwise provided herein, the Managing General Partner shall, in its sole discretion, determine whether to make any available election (including the elections provided for in sections 48(q)(4) and 168 of the Code). The Managing General Partner shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder to cause the basis of Partnership property to be adjusted for federal income tax purposes as provided by Sections 734 and 743 of the Code, subject to the reservation of the right to seek to revoke any such election upon the Managing General Partner's determination that such revocation is in the best interests of the Limited Partner, provided that the Managing General Partner shall not seek to revoke any such election unless it receives an opinion of independent counsel that such revocation would not result in the loss of limited liability of the Limited Partner in the Partnership or cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes (unless the Partnership is already treated as an association taxable as a corporation due to changes in federal income tax laws).

9.3 *Tax Controversies.* Subject to the provisions hereof, the Managing General Partner is designated as the Tax Matters Partner (as defined in Section 6231 of the Code), and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the Managing General Partner and to do or refrain from doing any or all things reasonably required by the Managing General Partner to conduct such proceedings.

9.4 *Organizational Expenses.* The Partnership shall elect to deduct expenses incurred in organizing the Partnership ratably over a sixty-month period as provided in Section 709 of the Code.

9.5 *Intangible Drilling Costs.* The Partnership shall make an election to deduct intangible drilling and development costs on its federal income tax return in accordance with the option granted by Section 263(c) of the Code.

9.6 *Taxation as a Partnership.* No election shall be made by the Partnership, or any Partner for the Partnership to be excluded from the application of any of the provisions of Subchapter K, Chapter 1 of Subtitle A of the Code or from any similar provisions of any state tax laws.

ARTICLE X

TRANSFER OF INTERESTS

10.1 *Transfer.* (a) The term "transfer", when used in this Article with respect to a Partnership Interest, includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition.

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article. Any transfer or purported transfer of any Partnership Interest not made in accordance with this article shall be null and void.

10.2 *Transfer of Interests of General Partners.* A General Partner may not transfer all or any part of its Partnership Interest as a General Partner, except that if a General Partner transfers to any Person its partnership interest as a general partner of the Limited Partner, such General Partner shall transfer its Partnership Interest as a General Partner of the Partnership to such person. The Limited Partner hereby consents to any such transfer.

10.3 *Transfer of Interest of Limited Partner.* The Limited Partner may not transfer all or any part of its Partnership Interest as the Limited Partner except that a successor of the Limited Partner may succeed to its Partnership Interest as the Limited Partner in the Partnership.

ARTICLE XI

ADMISSION OF SUBSTITUTED PARTNERS

11.1 *Admission of Successor Limited Partner.* The successor of the Partnership Interest of the Limited Partner shall be admitted to the Partnership as a Limited Partner upon furnishing to the Managing General Partner (a) acceptance in form satisfactory to the Managing General Partner of all the terms and conditions of this Agreement and (b) such other documents or instruments as may be required in order to effect its admission as a Limited Partner.

11.2 *Admission of Successor Managing General Partner.* A successor Managing General Partner selected pursuant to Section 12.1 or the transferee of the entire Partnership Interest of the Managing General Partner pursuant to Section 10.2 shall be admitted to the Partnership as a substitute Managing General Partner.

11.3 *Admission of Successor Special General Partner.* A successor Special General Partner selected pursuant to Section 12.2 or the transferee of the entire Partnership Interest of the Special General Partner pursuant to Section 10.2 shall be admitted to the Partnership as a Special General Partner upon furnishing to the Managing General Partner (a) acceptance in form satisfactory to the Managing General Partner of all the terms of this Agreement and (b) such other documents as the Managing General Partner shall require.

11.4 *Amendment of Agreement.* For the admission to the Partnership of any Partner, the Managing General Partner shall take all steps necessary and appropriate to prepare and record an amendment of the Agreement and the Certificate of Limited Partnership.

ARTICLE XII

WITHDRAWAL OR REMOVAL OF THE GENERAL PARTNERS

12.1 *Withdrawal or Removal of Managing General Partner.* The Managing General Partner shall automatically withdraw from the Partnership or be removed as Managing General Partner if, and only if, it withdraws from, or is removed as the managing general partner of, the Limited Partner. Such withdrawal or removal shall be effective at the same time as is its withdrawal or removal as managing general partner of the Limited Partner. The Partners agree that the selection of a successor managing general partner of the Limited Partner shall constitute selection by each Partner of such successor as the successor Managing General Partner of the Partnership. If no successor Managing General Partner is selected, the Partnership shall be dissolved pursuant to Section 13.1.

12.2 *Withdrawal or Removal of Special General Partner.* The Special General Partner shall automatically withdraw from the Partnership or be removed as Special General Partner if, and only if, it withdraws from, or is removed as special general partner of, the Limited Partner. Such withdrawal or removal shall be effective at the same time as is its withdrawal or removal as special general partner of the Limited Partner. In such event, the successor Special General Partner shall be the same person, if any, as is the successor special general partner of the Limited Partner. The Partners agree that the selection of a successor special general partner of the Limited Partner shall constitute selection by each Partner of such successor as the successor Special General Partner of the Partnership. If, as provided in the EP Partnership

Agreement, a successor Special General Partner is not selected, the Managing General Partner shall have the rights, and be subject to the obligations, of a successor to the Special General Partner under Section 12.3.

12.3 *Interest of Departing Partner.* (a) A Departing Partner departing as a result of withdrawal or removal pursuant to Section 13.1 or 13.2 of the EP Partnership Agreement shall, at the option of its successor, exercisable prior to the effective date of the departure of the Departing Partner, promptly receive in exchange for its Partnership Interest as General Partner from its successor an amount in cash equal to the fair market value of the Departing Partner's Partnership Interest as General Partner hereunder determined as of the effective date of its departure in the manner specified in the EP Partnership Agreement. If the option is exercised, the Departing Partner shall, as of the effective date of its departure, cease to share in any allocations or distributions with respect to its Partnership Interest as General Partner under this Agreement.

(b) If the successor to a Departing Partner does not exercise the option described in subsection (a), the Departing Partner shall become a limited partner with respect to its Partnership Interest as a General Partner hereunder and shall be entitled to such allocations and distributions (including liquidating distributions) as are herein provided with respect to its Partnership Interest as a General Partner (subject to proportionate dilution by reason of the admission of its successor), but otherwise shall be entitled to such rights and subject to such obligations as is a limited partner hereunder. The Departing Partner's interest in the Partnership will be transferred to the Limited Partner in exchange for interests in the Limited Partner pursuant to Section 13.3(b)(iii) of the EP Partnership Agreement. The Agreement will be amended to reflect such change.

(c) If the successor to a Departing Partner does not exercise the option described in subsection (a), the successor shall at the effective date of its admission to the Partnership contribute to the Partnership cash or property having a Net Agreed Value such that its Capital Account, after giving effect to such contribution, shall be equal to that percentage of the Capital Accounts of all Partners that is equal to its Percentage Interest as Managing General Partner, in the case of a successor Managing General Partner, or its Percentage Interest as Special General Partner, in the case of a successor Special General Partner, of the Capital Accounts of all Partners. In such event, such successor shall be entitled to such Percentage Interest, as the case may be, of all Partnership allocations and distributions.

ARTICLE XIII

DISSOLUTION AND LIQUIDATION

13.1 *Dissolution.* The Partnership shall be dissolved upon

- (a) the expiration of its term as provided in Section 1.4;
- (b) notice of withdrawal, bankruptcy or dissolution of the Managing General Partner, or any other event that results in its ceasing to be the Managing General Partner (other than by reason of a transfer pursuant to Section 10.2 or withdrawal occurring after, or removal effective upon or after, selection of a successor pursuant to Section 12.1);
- (c) an election to dissolve the Partnership given to the Managing General Partner by the Limited Partner;
- (d) the bankruptcy of the Special General Partner; provided, however, the Managing General Partner and the successor Special General Partner selected pursuant to Section 12.2 shall continue the operations and business of the Partnership until the end of the term for which it was formed unless earlier dissolved in accordance with this Article;
- (e) any other event that, under the Texas Act, would cause its dissolution, except as provided below in this Section 13.1; or
- (f) dissolution of the Limited Partner, unless the Limited Partner is continued thereafter in accordance with the terms of Article XIV of the EP Partnership Agreement.

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For purposes of this section, bankruptcy of the Managing General Partner shall be deemed to have occurred when (i) it commences a voluntary proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law now or hereinafter in effect, (ii) a final and nonappealable order for relief is entered against it under the Federal bankruptcy laws as now or hereinafter in effect, or (iii) it executes and delivers a general assignment for the benefit of its creditors. The withdrawal or dissolution of the Special General Partner will not dissolve the Partnership (or if as a matter of law the Partnership is deemed dissolved, then the Partnership shall be deemed dissolved and reconstituted), and in such event the Managing General Partner and the successor Special General Partner selected pursuant to Section 12.2, if any, shall continue the operations and business of the Partnership.

13.2 Continuation of the Partnership. Upon an event of dissolution described in Section 13.1(b), the Partnership shall thereafter be terminated unless the Limited Partner elects in writing to continue the Partnership. Unless an election to continue the Partnership is made within ninety days of the event of dissolution, the Partnership shall conduct only activities necessary to wind up its affairs. If, upon an event of dissolution described in Section 13.1(b), an election to continue the Partnership is made, then:

- (a) within such ninety-day period a successor Managing General Partner shall be selected by the Limited Partner;
- (b) the Partnership shall continue until the end of the term for which it is formed unless earlier dissolved in accordance with this Article;
- (c) the interest of the former Managing General Partner shall be treated thenceforth as the interest of a limited partner; and
- (d) all necessary steps shall be taken to amend the Agreement.

13.3 Liquidation. Upon dissolution of the Partnership, unless the Partnership is continued under Section 13.1(d) or an election to continue the Partnership is made pursuant to Section 13.2, the Managing General Partner, or in the event the Managing General Partner has been dissolved or removed, become bankrupt or withdrawn, a liquidator or liquidating committee selected by the Limited Partner, shall be the Liquidator. The Liquidator (if other than the Managing General Partner) shall be entitled to receive such compensation for its services as may be approved by the Limited Partner. The Liquidator shall agree not to resign at any time without fifteen days prior written notice and (if other than the Managing General Partner) may be removed at any time, with or without cause, by written notice of removal signed by the Limited Partner. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall, within thirty days thereafter, be selected by the Limited Partner. The right to appoint a successor or substitute Liquidator in the manner provided herein shall be recurring and continuing for so long as the functions and services of the Liquidator are authorized to continue under the provisions hereof, and every reference herein to the Liquidator will be deemed to refer also to any such successor or substitute Liquidator appointed in the manner herein provided. Except as expressly provided in this Section 13, the Liquidator appointed in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the Managing General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers), to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding-up and liquidation of the Partnership as provided for herein. The Liquidator shall liquidate the assets of the Partnership and apply and distribute the proceeds of such liquidation in the following order of priority, unless otherwise required by mandatory provisions of applicable law:

- (a) the payment to creditors of the Partnership, other than Partners, in order of priority provided by law;
- (b) pro rata payment to Partners for loans made by them to the Partnership;

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(c) to the Partners, in proportion to and to the extent of the positive balances in their respective Capital Accounts; and

(d) to the Partners in accordance with their respective Percentage Interests;

provided, however, that the Liquidator may place in escrow a reserve of cash or other assets of the Partnership for contingent liabilities in an amount determined by the Liquidator as appropriate for such purposes.

13.4 Distribution in Kind. Notwithstanding the provisions of Section 13.3 which require the liquidation of the assets of the Partnership, but subject to the order of priorities set forth therein, if on dissolution of the Partnership the Liquidator determines that an immediate sale of part or all of the Partnership's assets would be impractical or would cause undue loss to the Partners, the Liquidator may, in its absolute discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy liabilities of the Partnership (other than those to Partners) and may, in its absolute discretion, distribute to the Partners, in lieu of cash, as tenants in common and in accordance with the provisions of Sections 13.3(c) and 13.3(d), undivided interests in such Partnership assets as the Liquidator deems not suitable for liquidation. Any distributions in kind shall be subject to such conditions relating to the disposition and management thereof as the Liquidator deems reasonable and equitable and to any joint operating agreements or other agreements governing the operation of such properties at such time. The Liquidator shall determine the fair market value of any property distributed in kind using such reasonable method of valuation as it may adopt.

13.5 Return of Capital. The General Partners shall not be personally liable for the return of the capital contributions of the Limited Partners or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

13.6 Waiver of Partition. Each Partner hereby waives any rights to partition of the Partnership property.

ARTICLE XIV

AMENDMENT OF PARTNERSHIP AGREEMENT

14.1 Amendments. (a) Amendments to this Agreement may be proposed by the Managing General Partner or by the Limited Partner. Any such amendment shall be proposed by submitting to the Managing General Partner and the Limited Partner in writing the proposed amendment. Subject to Sections 14.1(b), (c), (d) and (e) any such amendment shall become effective only upon the consent of the Limited Partner.

(b) Notwithstanding Section 14.1(a), amendments to this Agreement that (i) do not adversely affect the Limited Partner in any material respect or (ii) are necessary or desirable to satisfy any requirement, condition or guideline contained in any opinion, directive, order, ruling or regulation of any Federal or state agency or contained in any Federal or state statute or that are necessary or desirable in order to implement the provisions of the last sentence of Section 5.2(e), or that are necessary or desirable to facilitate the trading of EP Units (or depositary units representing EP Units) or comply with any rule, regulation, guideline or requirement of any securities exchange on which the EP Units (or depositary units representing EP Units) are or will be listed for trading, compliance with any of which the Managing General Partner deems to be in the best interests of the Partners, (iii) are required or contemplated by this Agreement, or (iv) are necessary to qualify the Partnership as a limited partnership or a partnership in which the Limited Partner has limited liability under the laws of any state or that is advisable in the opinion of the Managing General Partner to ensure that the Partnership will not be treated as an association taxable as a corporation for federal income tax purposes, may be made by the Managing General Partner without the consent of the Limited Partner.

(c) Notwithstanding Section 14.1(a), amendments to this Agreement that are necessary to conform this Agreement to any amendments made in the EP Partnership Agreement may be made by the Managing General Partner without the consent of the Limited Partner.

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(d) Notwithstanding Section 14.1(a), an amendment that is necessary, in the opinion of counsel to the Partnership, to prevent the Partnership or the Managing General Partner or Special General Partner or their respective directors or officers from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor, may be made by the Managing General Partner without the consent of the Limited Partner.

(e) Unless approved by all Partners, no amendment to this Agreement shall be permitted unless the Partnership has received an Opinion of Counsel that such amendment would not result in the loss of limited liability of the Limited Partner under this Agreement or cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes (unless the Partnership is already treated as an association taxable as a corporation due to changes in federal income tax law). In addition, no amendment that would increase the duties or liabilities of a General Partner or change such General Partner's Percentage Interest may be made without its consent, and no amendment that would increase the duties or liabilities, or decrease the rights, of the Managing General Partner, in its separate capacity, may be made without the consent of the Managing General Partner.

ARTICLE XV

LIMITATIONS

15.1 *Sale of Substantially All Assets.* Except in connection with the termination of the Partnership pursuant to Article XIII hereof, the Managing General Partner may not sell or exchange all or substantially all of the assets of the Partnership without the consent of the Limited Partner. The foregoing limitation on the Managing General Partner's ability to sell or exchange all or substantially all of the Partnership's assets shall not affect the right of the Managing General Partner to encumber any or all of the assets of the Partnership for Partnership obligations, and shall not apply to any forced sale of any or all of the assets of the Partnership pursuant to foreclosure of, or other realization upon, any such encumbrance.

ARTICLE XVI

GENERAL PROVISIONS

16.1 *Addresses and Notices.* The address of each Partner for all purposes shall be the address as set forth on the signature page of this Agreement or such other address of which each other Partner has received written notice. Any notice, demand, request or report required or permitted to be given or made to a Partner under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent to the Partner at such address by first class mail or by other means of written communication.

16.2 *Titles and Captions.* All articles or section titles or captions in this Agreement are for convenience only. They shall not be deemed part of this Agreement and in no way define, limit, extend or describe the scope or intent of any provisions hereof.

16.3 *Pronouns and Plurals.* Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

16.4 *Further Action.* The parties shall execute and deliver all documents, provide all information and take or refrain from taking any action as may be necessary or appropriate to achieve the purpose of this Agreement.

16.5 *Binding Effect.* This Agreement shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

16.6 *Integration.* This Agreement constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

16.7 *Creditors.* None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Partnership.

16.8 *Waiver.* No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

16.9 *Counterparts.* This Agreement may be executed in counterparts, all of which together shall constitute one agreement binding on all the parties notwithstanding that all the parties are not signatories to the original or the same counterpart. Each party shall become bound by the Agreement immediately upon affixing its signature hereto, independently of the signature of any other party.

16.10 *Applicable Law.* This Agreement shall be construed in accordance with and governed by the laws of the State of Texas without regard to the principles of conflicts of law.

16.11 *Invalidity of Provisions.* If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

IN WITNESS WHEREOF, this Agreement has been duly executed by the Managing General Partner,
Special General Partner and the Limited Partner on this the 7th day of March, 1985.

MANAGING GENERAL PARTNER:

New Enserch Exploration, Inc.
300 South St. Paul Street
Dallas, Texas 75201

By: 

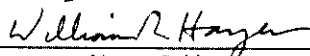
Title: President

Attest: 

Title: Assistant Corporate Secretary

STATE OF TEXAS
COUNTY OF DALLAS }

Subscribed to and sworn before me this 7th day of March, 1985.



Notary Public

William R. Hayes

My commission expires 1-14-89

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SPECIAL GENERAL PARTNER:

Enserch Corporation
300 South St. Paul Street
Dallas, Texas 75201

By: W. J. Enserch

Title: Senior Vice President

Attest: [Signature]

Title: ASST. CORPORATE SECRETARY

STATE OF TEXAS }
COUNTY OF DALLAS }

Subscribed to and sworn before me this 7th day of March, 1985.

[Signature]
Notary Public

J. F. STEPHENS, JR., Notary Public
In and for the State of Texas
My Commission Expires

3/21/88

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LIMITED PARTNER:

ENSERCH EXPLORATION
PARTNERS, LTD.,
a Texas limited partnership
1817 Wood Street
Dallas, Texas 75201

By: ENSERCH Corporation
Special General Partner

By: W.D. Sullivan

Title: Senior Vice President

Attest: R. F. Hayes

Title: ASST. CORPORATE SECRETARY

STATE OF TEXAS
COUNTY OF DALLAS

} ss:

Subscribed and sworn before me this 7th day of March, 1985.

J. F. Hayes
Notary Public

By: New Enserch Exploration, Inc.
Managing General Partner

By: W.D. Sullivan

Title: President

Attest: J. F. Hayes

Title: Assistant Corporate Secretary

STATE OF TEXAS
COUNTY OF DALLAS

} ss:

Subscribed and sworn before me this 7th day of March, 1985.

William R. Hayes
Notary Public

William R. Hayes
My commission expires 1-14-89

CERTIFICATE
for
LIMITED PARTNERSHIP INTEREST
in
EP OPERATING COMPANY

New Enserch Exploration, Inc., as the Managing General Partner of EP Operating Company, a Texas limited partnership ("EPO"), hereby certifies that Enserch Exploration Partners, Ltd., a Texas limited partnership, is the Limited Partner of EPO, as set forth in the Agreement of Limited Partnership (the "Limited Partnership Agreement") under which EPO was organized and is existing and in the Amended and Restated Certificate of Limited Partnership filed for record in the Office of the Secretary of State of the State of Texas (copies of which are on file at EPO's principal office in Dallas, Texas) and is the owner of its Percentage Interest (as that term is defined in the Limited Partnership Agreement) as Limited Partner in EPO.

This Certificate is not negotiable or transferable except as specified in Article X of the Limited Partnership Agreement and except by operation of law.

NEW ENSERCH EXPLORATION, INC.

Managing General Partner of
EP Operating Company

DATED: _____

By: _____

EXHIBIT B
TO
CERTIFICATE OF LIMITED PARTNERSHIP
OF
EP OPERATING COMPANY

<u>Limited Partner:</u>	<u>Capital Contribution:</u>	<u>Agreed Value (or amount of cash)</u>
Enserch Exploration Partners, Ltd., a Texas limited partnership 1817 Wood Street Dallas, Texas 75201	Cash	\$1,000.00