

State of Idaho

Department of State

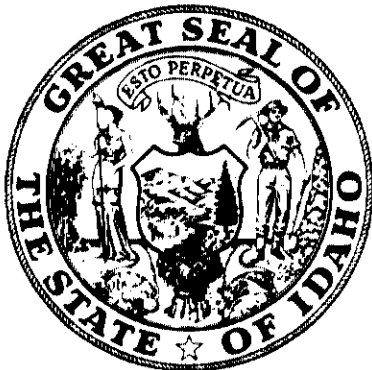
CERTIFICATE OF REGISTRATION OF

DAMSON ENERGY B. LIMITED PARTNERSHIP

I, PETE T. CENARRUSA, Secretary of State of the State of Idaho, hereby certify that duplicate originals of an Application of **DAMSON ENERGY B. LIMITED PARTNERSHIP** for Registration in this State, duly signed and verified pursuant to the provisions of the Idaho Limited Partnership Act, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I issue this Certificate of Registration to **DAMSON ENERGY B. LIMITED PARTNERSHIP** to transact business in this State under the name **DAMSON ENERGY B. LIMITED PARTNERSHIP** and attach hereto a duplicate original of the Application for Registration.

Dated **April 22, 1985**



Pete T. Cenarrusa

SECRETARY OF STATE

by: _____

8. (Continued)

Name	General or Limited	Address
_____	_____	_____
_____	_____	_____
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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 15, 1985.

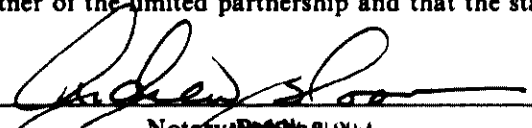
Damson Energy B. T. P.
 By Joel Negrin
 Joel Negrin, Vice President-Law, Securities
~~XXXXXXXXXXXX~~
 Damson Oil Corporation, General Partner

STATE OF New York)
) ss:
 COUNTY OF New York)

I, Andrew Bloom, a notary public, do hereby certify that on this 15 day of April, 1985, personally appeared before me Joel Negrin, who being by me first duly sworn, declared that he is * general partner of _____

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

* Vice President -
 Law, Securities
 Damson Oil Corporation


 Notary Public BLOOM
 Notary Public, State of New York
 No. 41-4775636
 Qualified in Queens County
 Commission Expires March 30, 1986

Subject to the limitations contained herein, the purpose and business of the Partnership shall be to acquire, explore, develop, operate and dispose of Oil and Gas Interests; to sell and market any product from such Oil and Gas Interests; to carry on any business relating to or arising from exploration for or development, production, treatment, processing or marketing of oil, gas and other minerals produced in association therewith that a limited partnership organized under the Texas Act may carry on; to enter into any partnership, joint venture or other similar arrangement to engage in any of the foregoing; and to do anything incidental to the foregoing. It is anticipated that the Partnership will conduct its principal business in the United States of America; however, business may be conducted in any other country or countries in which the General Partner believes it would be to the advantage of the Partnership to do so. The General Partner will make no commitment to conduct business in any state of the United States or any foreign country without having first satisfied itself that the conduct of such business will not result in materially adverse tax consequences to the Limited Partners as a whole but without regard to their individual tax positions. The business and purpose of the Partnership shall include any of the rights and powers of the Partnership and the General Partner described in the Agreement of Limited Partnership of the Partnership ("Agreement") which, to the extent not specifically set forth herein, shall be deemed to be additions to the business and purposes of the Partnership. Without limiting the powers and rights set forth elsewhere herein, the Partnership shall have all such powers as the General Partner deems necessary to carry out the purposes of the Partnership. In addition, and without limiting the powers and rights set forth elsewhere herein, the Partnership shall have all the equivalent powers of a corporation organized under the Texas Business Corporation Act as are set forth in Article 2.02 thereof, except as may be provided otherwise herein (e.g., period of duration), to the extent permitted under the Texas Uniform Limited Partnership Act.

'85 APR 22 PM 1 02

SECRETARY OF STATE



The State of Texas

SECRETARY OF STATE

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:

DAMSON ENERGY B, L.P.

CERTIFICATE/AGREEMENT OF LIMITED PARTNERSHIP

APRIL 10, 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

10 day of APRIL, A. D. 19 85.

Secretary of State

mr

FILED
In the Office of the
Secretary of State of Texas

APR 10 1985

Clerk III-J
Corporations Section

DAMSON ENERGY B, L.P.

AGREEMENT
OF
LIMITED PARTNERSHIP

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**AGREEMENT OF LIMITED PARTNERSHIP
OF
DAMSON ENERGY B, L.P.**

This Agreement of Limited Partnership is dated as of the 30 day of April, 1985 by and between Damson Oil Corporation, a Delaware corporation, as the General Partner, and Damson Energy Company, L.P., a limited partnership formed pursuant to the Texas Uniform Limited Partnership Act, as Initial Limited Partner.

In consideration of the mutual covenants, conditions and agreements herein contained, the parties hereto hereby agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01 Definitions. The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the terms used in this Agreement.

"Adjusted Cash Flow" means, with respect to the applicable period, an amount equal to total revenues (excluding revenues allocated to the General Partner pursuant to Sections 5.02, 5.03 and 5.08, net proceeds from the sale of Partnership Assets, capital contributions and loan proceeds) plus any amount of unutilized reserves established for purposes of this definition for prior periods, less cash expenditures (other than cash expenditures allocated to the General Partner pursuant to Sections 5.02, 5.03 and 5.08), and less such reserves as the General Partner deems advisable to cover anticipated expenditures (including principal payments on borrowings).

"Adjusted Cash Flow From Special Allocations" means the amount of revenues allocated to the General Partner pursuant to Sections 5.02, 5.03 and 5.08, less the cash expenditures taken into account in determining the amounts of such allocations.

"Affiliate" of any person 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.

"Affiliate Properties" means Oil and Gas Interests or other assets (including the Initial Properties) acquired by the Partnership or by the Initial Limited Partner from the General Partner or any of its Affiliates, including Affiliated Partnerships, unless such Oil and Gas Interests or other assets (other than the Initial Properties) were originally acquired by such persons for subsequent conveyance to the Partnership or were conveyed by such persons within one year of acquisition from a non-Affiliate.

"Affiliated Partnership" means any general or limited partnership of which the General Partner or an Affiliate of the General Partner is a general partner.

"Agreed Value" means (a) in the case of Initial Properties, the "Agreed Value" assigned to such properties pursuant to the Energy Partnership Agreement and (b) in the case of any other contributed property, the fair market value of such property as determined by the General Partner using such reasonable method of valuation as it deems appropriate.

"Agreement" means this Agreement of Limited Partnership, as it may be amended or supplemented from time to time.

"Book Depreciation" means depreciation, cost recovery deductions, or amortization with respect to nondepletable assets that would be allowable to the Partnership for federal income tax purposes if the adjusted basis of such assets were its Book Value.

"Book Gain or Book Loss" means the gain or loss that would be recognized by the Partnership for federal income tax purposes as a result of sales or exchanges of its assets if its tax basis in such assets (including depletable assets) were equal to the Book Value of such assets.

"Book Value" means (a) as to property contributed to the Partnership, its Agreed Value, and (b) as to all other Partnership Assets, its value as reflected on the books of the Partnership, in each case adjusted for Simulated Cost Depletion and Book Depreciation.

"Capital Account" means the accounts maintained for each Partner pursuant to Section 5.10.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership, and any and all amendments thereto, filed on behalf of the Partnership as required under the Texas Act.

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

"Consolidation" means the consolidation described in the Prospectus/Proxy Statement.

"Cost" means, (a) when used with respect to property transactions, (i) the sum of the prices paid by the General Partner or its Affiliates, referred to in this definition as "Seller", including the Fair Market Value of any property or securities transferred, assigned, issued or exchanged therefor, lease bonuses and drilling, completion and equipment costs associated therewith; (ii) title insurance and examination costs, downpayments, brokers' commissions and finders' fees, filing fees, recording costs, transfer taxes, if any, and like charges in connection with the acquisition of properties; (iii) a pro rata portion of the Seller's actual necessary and reasonable expenses for seismic and geophysical services; (iv) delay rentals and taxes including, but not limited to, ad valorem, real estate, personal property and income taxes paid, if any; (v) interest on and loan commitment fees and other financing charges actually incurred for funds used to acquire or maintain such property and (vi) except for expenses in connection with the drilling of wells which are not producers of sufficient quantities of oil or gas to make commercially reasonable their continued operations, such portion of the Seller's reasonable, necessary and actual expenses for geological, engineering, drafting, accounting, auditing, legal and other like services allocated to the property in accordance with the allocation procedures used by the General Partner, any of its Affiliates or the Partnership in accordance with accepted industry practice, provided that the portion of the Seller's expenses allocated to the property, as set forth in items (iv), (v) and (vi) shall have been incurred not more than 36 months prior to the property transaction, and (b) when used with reference to services, the reasonable, necessary and actual expense incurred by the Seller, determined in accordance with generally accepted accounting principles.

"Damson" means Damson Oil Corporation, a Delaware corporation, and its successors, if any.

"Energy Partnership Agreement" means the agreement of limited partnership of the Initial Limited Partner, as amended from time to time.

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

"General Partner" means Damson or any successor appointed pursuant to Section 14.01.

"General and Administrative Costs" means all customary and routine accounting, bookkeeping, clerical and other office employee, executive management and legal expenses, travel, telephone, data processing, office rent and other overhead costs, employee compensation and benefits, costs of reporting and similar services for the Partners and the Partnership and other items of a general and administrative nature, whether like or unlike the foregoing, and any other reasonable expenses necessary to the conduct of the business of the Partnership and generated by the General Partner or its Affiliates.

"Initial Contribution" means the exchange of certain partnership interests in Dorchester Master Limited Partnership by Damson and eight partnerships affiliated with the General Partner and the Initial Limited Partner for Units as more fully described in the Initial Contribution Agreement and all other transactions described in the Prospectus/Proxy Statement by which contributions to the capital of the Partnership were made upon or before consummation of the Consolidation Offer.

"Initial Limited Partner" means Damson Energy Company, L.P., a limited partnership formed under the Texas Act.

"Initial Properties" means that portion of the Oil and Gas Interests acquired by the Initial Limited Partner pursuant to the Initial Contribution and the Consolidation Offer which the Initial Limited Partner contributes to the Partnership pursuant to the Energy Partnership Agreement.

"Leases" means oil and gas leases, permits, licenses, options or other interests in real property and contractual rights in or affecting the foregoing, which permit the exploration for or production of oil, gas or related hydrocarbons or the receipt of production or the proceeds therefrom (including, without limitation, subleases and operating rights).

"Limited Partner" means the Initial Limited Partner or its successors, if any.

"Liquidator" means the General Partner, unless dissolution was caused by an event described in Section 15.01(b), in which event it means a person selected pursuant to Section 15.03.

"Net Income or Net Loss" means the Partnership's taxable income or loss under section 703 of the Code (determined at the entity level and taking into account items required to be separately stated, other than items described in paragraph (f) of this definition) computed with the following adjustments:

(a) Such taxable income or loss will be computed without regard to items taken into account in computing Net Income or Net Loss from New Activities.

(b) Tax-exempt income described in section 705(a)(1)(B) of the Code shall be included.

(c) Simulated Cost Depletion shall be treated as a deductible item.

(d) The only deduction for depreciation, cost recovery or amortization of nondepletable assets shall be Book Depreciation.

(e) Book Gain or Book Loss shall be used instead of taxable gain or loss.

(f) Items of income, gain, loss and deduction that are allocated to a Partner pursuant to Sections 5.07 and 5.08 of this Agreement shall not be taken into account.

(g) The Partnership's distributive share of taxable income or loss (computed with the adjustments hereinbefore described) from partnerships of which the Partnership is a member shall be taken into account.

"Net Income or Net Loss from New Activities" means the Partnership's taxable income or loss under section 703 of the Code (determined at the entity level and taking into account items required to be separately stated, other than items described in paragraph (e) of this definition) computed with respect to items attributable to New Activities, with the following adjustments:

(a) Tax-exempt income described in section 705(a)(1)(B) of the Code shall be included.

(b) Simulated Cost Depletion with respect to depletable assets shall be treated as a deductible item.

(c) The only deduction for depreciation, cost recovery or amortization of nondepletable assets shall be Book Depreciation.

(d) Book Gain or Book Loss shall be used instead of taxable gain or loss.

(e) Items of income, gain, loss or deduction that are allocated to a partner pursuant to Sections 5.07 and 5.08 of this Agreement shall not be taken into account.

"New Activities" means the acquisition of, and activities of the Partnership in connection with, any Oil and Gas Interests or other assets (other than Affiliate Properties and Initial Properties).

"Oil and Gas Interests" means direct or indirect interests in (i) properties suitable for, believed by the General Partner to be suitable for or currently the subject of oil and gas exploration, development or production, including, without limitation, domestic or foreign leasehold, operating, nonoperating, production payment, working and royalty interests, licenses, permits or concessions and contract rights relating thereto; (ii) interests in wells, oil field equipment, tanks, pipe, processing or compression plants

or facilities and other items of a similar nature which are used or to be used in connection with any such properties; (iii) interests in any property or equipment used or useful in connection with producing, processing, transporting or marketing hydrocarbons or any other aspect of the oil and gas industry; (iv) contract rights, whether real, personal or mixed, being used or proposed to be used in connection with the exploration, development, operation or maintenance of such properties or being used or proposed to be used in connection with the production, treatment, processing, storage, transportation or marketing of oil and gas and other minerals produced in association therewith that are produced from or allocated to such properties or other ownership rights of a similar nature; (v) interests in partnerships (including both general and limited partner interests and interests as an assignee of general and limited partner interests), corporations and other associations that hold any of the foregoing and other rights of a similar nature and (vi) any tangible or intangible assets or rights incident to the foregoing, whether real, personal or mixed.

"Operating Costs" means all expenditures made and costs incurred for (i) producing and marketing oil or gas from completed wells including labor, fuel, repair, hauling, materials and other costs incident thereto, ad valorem and severance taxes, insurance and casualty loss expense in recompleting, equipping, reworking, plugging and abandoning wells, compensating well operators for conducting operations, (ii) interest, commitment fees and other financing charges and expenses associated with the expenditures, costs, or activities described in clause (i) above, (iii) operation, including maintenance and repair, of processing facilities, pipelines, gas sales facilities, enhanced and supplemental recovery projects and other properties and facilities, necessary to produce efficiently the reserves of oil and gas on all interests, properties and rights of any type owned by the Partnership and (iv) operation, including maintenance and repair, of any other plant, facility or other asset owned by the Partnership.

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

"Partnership" means the limited partnership created by this Agreement and any partnership that continues the business of such partnership.

"Partnership Assets" means any asset or property (real, personal, intangible or other), including without limitation Oil and Gas Interests, owned by the Partnership.

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

"Person" means any individual, corporation, association, partnership, joint venture, trust, estate or other entity or organization.

"Prospectus/Proxy Statement" means the prospectus and proxy statement contained in the Registration Statement (No. 2-) filed by the Initial Limited Partner under the Securities Act of 1933 as first filed pursuant to Rule 424(b) of the Securities and Exchange Commission under such Act, as it may be amended from time to time before the final date on which Units are issued pursuant to the Initial Contribution and the Consolidation.

"Section 754 Election" means an election under Section 754 of the Code relating to the adjustment of the adjusted basis of Partnership Assets as provided in Sections 734 and 743 of the Code.

"Simulated Cost Depletion" means, with respect to oil and gas properties, cost depletion that would be allowable to the Partnership for federal income tax purposes if (a) the Partnership could take depletion under Section 611 of the Code and (b) the adjusted basis of the depletable property for federal income tax purposes were its Book Value.

"Texas Act" means the Texas Uniform Limited Partnership Act, as it may be amended from time to time, and any successor to such Act.

"Unit" means a Class B Unit of a limited partner's partnership interest in the Initial Limited Partner.

ARTICLE II

FORMATION OF THE PARTNERSHIP

SECTION 2.01 *Formation.* The General Partner and the Initial Limited Partner hereby form the Partnership as a limited partnership pursuant to the provisions of the Texas Act.

SECTION 2.02 *Name.* The name of the Partnership shall be "Damson Energy B. L.P.", or such other name as the General Partner may from time to time deem necessary, appropriate or advisable. Any words shall be included in the name, or substituted for any part of the name, where necessary for purposes of complying with the laws of any jurisdiction that so requires. The business of the Partnership may be conducted under any name selected by the General Partner, including the name of the General Partner.

SECTION 2.03 *Names and Addresses of Partners.* The General Partner is Damson Oil Corporation. The principal executive office of the General Partner is 366 Madison Avenue, New York, New York 10017. The General Partner may change its address at any time and from time to time. The name and address of the Limited Partner is Damson Energy Company, L.P., 396 West Greens Road, Houston, Texas 77067.

SECTION 2.04 *Principal Office and Place of Business of the Partnership.* The principal office and place of business of the Partnership shall be located at 396 West Greens Road, Houston, Texas 77067. The General Partner may, at any time and from time to time, change the location of the Partnership's principal place of business and may establish such additional places of business of the Partnership as the General Partner may from time to time determine. The General Partner shall provide the Limited Partner with written notice of any change in the Partnership's principal place of business within 90 days after such change.

SECTION 2.05 *Term.* The Partnership shall commence business on the date of the filing of the Certificate of Limited Partnership and shall continue in existence thereafter until December 31, 2083, unless sooner terminated pursuant to Article XV.

ARTICLE III

PURPOSE

Subject to the limitations contained herein, the purpose and business of the Partnership shall be to acquire, explore, develop, operate and dispose of Oil and Gas Interests; to sell and market any product from such Oil and Gas Interests; to carry on any business relating to or arising from exploration for or development, production, treatment, processing or marketing of oil, gas and other minerals produced in association therewith that a limited partnership organized under the Texas Act may carry on; to enter into any partnership, joint venture or other similar arrangement to engage in any of the foregoing; and to do anything incidental to the foregoing. It is anticipated that the Partnership will conduct its principal business in the United States of America; however, business may be conducted in any other country or countries in which the General Partner believes it would be to the advantage of the Partnership to do so. The General Partner will make no commitment to conduct business in any state of the United States or any foreign country without having first satisfied itself that the conduct of such business will not result in materially adverse tax consequences to the Limited Partners as a whole but without regard to their individual tax positions. The business and purpose of the Partnership shall include any of the rights and powers of the Partnership and the General Partner described in this Agreement which, to the extent not specifically set forth in this Article III, shall be deemed to be additions to the business and purposes of the Partnership. Without limiting the powers and rights set forth elsewhere herein, the Partnership shall have all such powers as the General Partner deems necessary to carry out the purposes of the Partnership. In addition, and without limiting the powers and rights set forth elsewhere herein, the Partnership shall have all of the equivalent powers of a corporation organized under the Texas Business Corporation Act as are set forth in Article 2.02

thereof, except as may be provided otherwise herein (e.g., period of duration), to the extent permitted under the Texas Uniform Limited Partnership Act.

ARTICLE IV CAPITAL CONTRIBUTIONS

SECTION 4.01 *Initial Contributions.* The initial contributions to the Partnership consist of \$1,000, which the Partners shall contribute to the Partnership upon execution of this Agreement in the following percentages: General Partner—1%, with respect to its Partnership Interest as General Partner; and the Initial Limited Partner—99%, with respect to its Partnership Interest as Limited Partner. The contribution of the Initial Limited Partner made pursuant to this Section 4.01 shall be redeemed and returned in cash simultaneously with the first making of contributions pursuant to Section 4.02(a), and thereafter no Limited Partner shall have an interest in the Partnership as a result of contributions made pursuant to this Section 4.01.

SECTION 4.02 *Limited Partner.* (a) On the dates of consummation of the Initial Contribution and the Consolidation, the Initial Limited Partner shall contribute to the Partnership the Initial Properties received by it thereby and the Partnership shall assume (or take the Initial Properties subject to) all liabilities and other indebtedness to be assumed by the Partnership in accordance with the transaction referred to above then being consummated.

(b) The Limited Partner may from time to time contribute to the Partnership Oil and Gas Interests (in addition to those contributed upon each consummation date of the Initial Contribution and the Consolidation), cash or other property and the Partnership may assume, or take such properties subject to, all liabilities attributable thereto.

SECTION 4.03 *General Partner Contributions.* (a) The General Partner's contribution pursuant to Section 4.01 shall be its only required contribution to the Partnership except as otherwise required by law or pursuant to Section 4.03(b).

(b) If upon liquidation of the Partnership the General Partner's Capital Account would have a negative balance upon the distribution of the Partnership's assets in liquidation as provided herein, then the General Partner shall contribute cash to the Partnership in an amount equal to such negative balance of its Capital Account.

SECTION 4.04 *No Preemptive Rights.* No Partner shall have any preemptive, preferential or other right with respect to (i) additional contributions to the capital of the Partnership, (ii) the issuance of any obligations, evidences of indebtedness or other debt or equity securities of the Partnership or securities convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase or subscribe to, any Partnership Interests; (iii) the 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 (iv) the issuance or sale of any other securities that may be issued or sold by the Partnership.

SECTION 4.05 *Capital Accounts.* The General Partner shall maintain for each Partner a separate Capital Account and such other accounts as may be necessary or desirable to comply with the requirements of applicable law and regulations thereunder.

SECTION 4.06 *Interest.* No interest shall be paid by the Partnership on contributions to the capital of the Partnership or on balances in Partners' Capital Accounts.

SECTION 4.07 *No Withdrawal.* A Partner shall not be entitled to withdraw any part of his contribution to the Partnership or his Capital Account or to receive any distribution from the Partnership, except as otherwise provided in this Agreement; provided, however, nothing in this Agreement shall prohibit the Limited Partner from withdrawing contributions (or the Partnership Assets

attributable thereto) for the purpose of contributing such assets to DEA as contemplated by Section 5.02(a) of the Energy Partnership Agreement, all such withdrawals being authorized by this proviso.

SECTION 4.08 *Loans from Partners.* Loans by a Partner to the Partnership shall not be considered contributions to the capital of the Partnership.

ARTICLE V

ALLOCATION OF NET INCOME AND LOSS; SPECIALLY ALLOCATED REVENUES AND OTHER ITEMS

SECTION 5.01 *General Allocation.* Net Income or Net Loss, Net Income or Net Loss from New Activities and Book Gain or Book Loss, for each fiscal year, shall be allocated 1% to the General Partner and 99% to the Limited Partner (subject, however, to reduction of such allocations to the Limited Partner as a result of increased allocations to the General Partner pursuant to Sections 5.02, 5.03, 5.07 and 5.08).

SECTION 5.02 *General Partner's 2% Net Revenue Interest.* For each fiscal year, the General Partner shall be allocated an additional 2% of the Partnership's total revenues (i) from the sale of oil, gas and other hydrocarbons (or anything produced in association therewith) and (ii) from any other operations of the Partnership, net, in each case, of 2% of Operating Costs.

SECTION 5.03 *General Partner's New Activities Interest.* For each fiscal year, the General Partner shall be allocated an additional 6% of the Partnership's total revenues (i) from the sale of oil, gas or other hydrocarbons (or anything produced in association therewith) that is produced in connection with New Activities and (ii) from the operation of any plant, facility or other asset included within the definition of New Activities, net, in each case, of 6% of Operating Costs associated therewith.

SECTION 5.04 *Basis in Depletable Properties.* Depletable basis with respect to the Partnership's oil and gas properties shall be allocated 1% to the General Partner and 99% to the Limited Partner.

SECTION 5.05 *Federal Income Tax Allocations.* For federal income tax purposes, income, gain, loss, deduction or credit (and items thereof) of the Partnership shall be allocated to the Partners in the same proportion as they share Net Income or Net Loss, Net Income or Net Loss from New Activities or specially allocated revenues and other items, as the case may be.

SECTION 5.06 *Adjustment to Basis for Contributed Properties.* Notwithstanding anything in this Article V to the contrary, depreciation, depletion, depletable basis or gain or loss with respect to property contributed to the Partnership by the General Partner or by the Limited Partner shall, to the extent the General Partner determines is required by Section 704(c) of the Code, be allocated for Federal income tax purposes in a manner required to take account of the difference between the basis of such property at the time of its contribution and its initial Book Value.

SECTION 5.07 *Allocation of Book Gain or Loss and Net Revenues from Sale of Oil or Gas Properties and Other Assets; General Partner's Cumulative Shortfall.* With respect to the sale of Partnership Assets:

(a) *General.* The General Partner shall be allocated (i) 1% of net proceeds of sale and 1% of Book Gain or Book Loss resulting from such sale, plus (ii) the additional percentage of net proceeds of sale and Book Gain set forth hereinafter. The Limited Partner shall be allocated (y) 99% of net proceeds of sale and 99% of Book Gain or Book Loss resulting from such sale, less, in the case of Book Gain, (z) amounts of such items allocated to the General Partner pursuant to clause (ii), above.

(b) *Supplemental Allocation.* The General Partner's additional allocation and the corresponding reduction of the Limited Partner's allocation shall be determined as follows:

(1) First, the net proceeds of the applicable sale or exchange (less any costs or expenses incurred by the Partnership in connection therewith) shall be tentatively allocated by increasing the General Partner's share by an additional 8% with respect to sales included within New Activities and an additional 2% with respect to all other sales, the additional amount so allocated to the General Partner being referred to herein as its "tentative share of proceeds."

(2) Second, the General Partner's allocable share of Book Gain recognized as a result of any such sale or exchange (exclusive of Book Gain allocable pursuant to clause (i) of Section 5.07(a)) shall be determined by allocating such Book Gain solely to the General Partner in an amount up to (but not greater than) the sum of (i) the General Partner's tentative share of proceeds and (ii) its Cumulative Shortfall (as defined in Section 5.07(c), below, computed immediately prior to the transaction in question).

(3) Third, the General Partner's actual share of the net proceeds of a sale or exchange (less any costs or expenses incurred by the Partnership in connection with such sale or exchange) shall be an amount (in addition to the amount allocated pursuant to clause (i) of Section 5.07(a)) equal to the amount of Book Gain allocated to the General Partner under paragraph (2), above.

(c) For purposes hereof, from time to time, the General Partner's Cumulative Shortfall shall be an amount equal to the excess of the General Partner's tentative share of the proceeds of all sales or exchanges of Partnership Property provided in Section 5.07(b)(1), above, over the sum of (i) the General Partner's actual share of the proceeds of such sales or exchanges (reduced by the amount allocated pursuant to clause (i) of Section 5.07(a)), and (ii) the cumulative amount of Partnership revenues allocated to the General Partner under Section 5.08.

SECTION 5.08 *Cumulative Shortfall Make-up.* In addition to the allocation of revenues to the General Partner described in Sections 5.02 and 5.03, 100% of total Partnership revenues from the sale of oil, gas or other hydrocarbons (or substances produced in association therewith) shall be allocated to the General Partner to the extent of its Cumulative Shortfall from time to time.

SECTION 5.09 *Capital Accounts.* (a) The Capital Account of the General Partner or of the Limited Partner shall be credited with:

(i) Cash contributed to the Partnership,

(ii) The Book Value of contributed property,

(iii) Such Partner's distributive share of Net Income, Net Income from New Activities, and other income and gain (including income and gain deemed to be recognized as provided elsewhere herein even though not actually recognized) and

(iv) Increases in the basis of Partnership Assets attributable to investment credit recapture.

(b) The Capital Account of the General Partner or of the Limited Partner shall be debited with:

(i) Cash distributions,

(ii) The value of distributed property (determined for purposes of Section 15.03(e)),

(iii) Such Partner's distributive share of Net Loss, Net Loss from New Activities, and other deductions and losses (including deductions and losses deemed to be recognized as provided elsewhere herein even though not actually recognized) and

(iv) Decreases in the basis of the Partnership Assets for investment credit purposes under section 48(q)(6) of the Code.

SECTION 5.10 *Compensation Deduction Allocation.* It is hereby recognized, acknowledged and agreed that each Partner's interest in the profits and losses of the Partnership is attributable solely to

each Partner's contributions to the capital of the Partnership, including, with respect to the General Partner, but without limitation, its personal liability with respect to certain liabilities of the Partnership. In the event, however, that any of the Partners is determined for income tax purposes to have received all or any part of its interest in the profits and losses of the Partnership (as distinguished from its interest in the capital of the Partnership) as compensation for services, and, as a result of such determination, is required to recognize compensation income for federal or state income tax purposes with respect to such interest in the Partnership, any corresponding federal or state income tax benefit inuring to the Partnership as a result of such determination, whether in the form of a deduction for compensation paid, a deduction for depreciation or amortization of any of its assets, or otherwise, shall be allocated for income tax purposes solely to the Partners required to recognize such compensation income in an amount which bears the same ratio to any such income tax benefit as the amount of such compensation income required to be recognized by such Partner bears to the total amount of such compensation income required to be recognized by all of such Partners.

SECTION 5.11 *General Partner's Election to Reduce Its Revenue Interest in Specified Properties.* The General Partner may, if appropriate under the facts and circumstances as determined in its sole discretion, elect to reduce its interest, other than its interest provided for in Section 5.01 and clause (i) of Section 5.07(a), in revenues and distributions in respect of any Partnership Assets to be acquired by the Partnership. Such election shall be effected by delivering a written notice to the Partnership specifying the extent of such reduction and the Partnership Assets subject to the reduction prior to consummation of their acquisition. The General Partner also may adjust allocations hereunder to conform to such reduction.

SECTION 5.12 *Partnership Assets Held in Entities.* If Partnership assets are held in a corporation, distributions (other than liquidating distributions) shall be deemed to be Partnership revenues from the sources giving rise to such distributions. Liquidating distributions may at the General Partner's discretion be deemed proceeds from the sale and exchange of stock, or the distributed assets may be deemed to be purchased from an outside source by the Partnership. The General Partner in its sole discretion shall determine whether a distribution is a liquidating distribution and shall not be bound by the characterization of a distribution for federal income tax purposes. Revenues and other items attributable to Partnership Assets held in partnerships shall generally be deemed to be derived from such Partnership Assets directly.

ARTICLE VI DISTRIBUTIONS

SECTION 6.01 *Distributions.* The General Partner shall, to the extent consistent with applicable law and any loan or other agreements to which the Partnership is a party, make the following distributions in respect of each fiscal quarter:

(a) Adjusted Cash Flow shall be distributed 1% to the General Partner and 99% to the Limited Partner.

(b) Adjusted Cash Flow From Special Allocations shall, at the General Partner's discretion, be distributed 100% to the General Partner. Amounts not distributed to the General Partner may, at the General Partner's discretion, be distributed to the Limited Partner.

(c) Net Proceeds from the sale or exchange of oil and gas properties shall be distributed according to the Partner's shares thereof pursuant to Section 5.07.

SECTION 6.02 *Compensation and Reimbursement.* Amounts payable as compensation or reimbursement to the General Partner, or amounts payable to any person other than in his capacity as a Partner of the Partnership, such as for services rendered, goods purchased or money borrowed, shall not be treated as a distribution for purposes of this Article VI.

SECTION 6.03 *Windfall Profit Taxes.* Amounts paid by or withheld from the Partnership in respect of windfall profit taxes attributable to a Partner shall be deemed to have been distributed to such Partner and the amount of such tax shall be treated as having been paid by such Partner.

SECTION 6.04 *Distributions in Kind.* The General Partner may distribute to the Partners, at any time or from time to time, Oil and Gas Interests or other Partnership Assets in kind. If distributions pursuant to this Article VI are made in kind, the property shall be valued and deemed to be sold for cash in the manner provided in Section 15.03(e). The Partners' respective entitlements to net proceeds from sale, and Book Gain or Book Loss associated therewith, that would result from an actual sale as provided in Sections 5.07 and 5.08 shall be provided for in the case of distributions in kind pursuant to this Section 6.04 through adjustments prescribed by the General Partner at its discretion.

SECTION 6.05 *Distributions of Assets to Limited Partner.* At the request of the General Partner, the Partnership shall distribute to the Limited Partner an undivided interest in a pro rata share of the net assets of the Partnership attributable to Units in respect of which a distribution then is being made pursuant to Section 8.11 of the Energy Partnership Agreement. Notwithstanding anything in the immediately preceding sentence to the contrary, the assets so distributed shall be valued and deemed to be sold for cash in the manner provided in Section 15.03(e), and the Partners' respective entitlements to net proceeds from sale, and Book Gain or Book Loss associated therewith, that would result from an actual sale as provided in Sections 5.07 and 5.08 shall be provided for in the case of distributions pursuant to this Section 6.05 through adjustments prescribed by the General Partner at its discretion. The pro rata share of Partnership net assets attributable to such Units shall include, among other things, a pro rata share of all liens and encumbrances burdening such properties.

SECTION 6.06 *Other Distributions.* The General Partner, in its sole discretion, may from time to time cause the Partnership to make distributions of cash or other Partnership Assets to the Limited Partner in addition to distributions provided for elsewhere in this Agreement. Such distributions shall in all cases be made to the Limited Partner in proportions consistent with the allocations of distributions set forth elsewhere herein as determined by the General Partner.

ARTICLE VII

MANAGEMENT AND OPERATION OF BUSINESS

SECTION 7.01 *Management.* (a) Except as otherwise expressly provided in the Agreement, all decisions respecting any matter set forth herein or otherwise affecting or arising out of the conduct of the business of the Partnership shall be made by the General Partner, and the General Partner shall have the exclusive right and full authority to manage, conduct and operate the Partnership's business and effect the purposes and provisions of this Agreement. Except as otherwise expressly provided in this Agreement, the General Partner shall have full authority to do all things deemed necessary or desirable by it in the conduct of the business of the Partnership, including, without limitation, (i) the determination of the wells and operations in which the Partnership will participate; (ii) 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; (iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all Partnership Assets; (iv) the use of Partnership Assets (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; (v) 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's operations or the implementation of its powers under this Agreement; (vi) the distribution of Partnership cash; (vii) 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; (viii) 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; (ix) the maintenance of such insurance for the benefit of the Partnership and the Partners as it deems necessary; (x) the formation of any further limited or general partnerships, joint ventures or other relationships that it deems desirable; (xi) the control of any matters affecting the rights and obligations of the Partnership, including the conduct of litigation and other incurring of legal expense and the settlement of claims and litigation; (xii) 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 (xiii) the purchase, sale or other acquisition or disposition of Units at such times and on such terms as it deems to be in the best interests of the Partnership and the Partners; provided, the General Partner shall not use or commit any Partnership Assets to participate in drilling in connection with any development or exploration project, as determined by the General Partner, but the General Partner may use or commit such assets to participate in drilling wells designated by the General Partner as replacement, secondary and tertiary recovery, acceleration or other similar wells and in recompleting or reworking existing wells.

(b) Promptly after execution of this Agreement, the General Partner shall cause to be filed the Certificate of Limited Partnership as required by the Texas Act and such other certificates or filings as may be required for the formation and operation of a limited partnership in the State of Texas or any other state in which the Partnership elects to do business. The General Partner shall thereafter file any necessary amendments to the Certificate of Limited Partnership, and shall otherwise use its best efforts to do all things (including the appointment of registered agents of the Partnership and maintenance of registered offices of the Partnership) requisite to the maintenance of the Partnership as a limited partnership under the laws of the State of Texas or any other state in which the Partnership may elect to do business.

SECTION 7.02 *Reliance by Third Parties.* Notwithstanding any other provision of this Agreement to the contrary, no lender, purchaser or other person shall be required to look to the application of proceeds hereunder or to verify any representation by the General Partner as to the extent of the interest in Partnership Assets that the General Partner is entitled to encumber, sell or otherwise use, and any such lender, purchaser or other person shall be entitled to rely exclusively on the representations of the General Partner as to its authority to enter into such financing or sale arrangements and shall be entitled to deal with the General Partner, without the joinder of any other person, as if it were the sole party in interest therein, both legally and beneficially.

SECTION 7.03 *Compensation and Reimbursement of General Partner.* (a) The Partnership shall pay to the General Partner a cash acquisition fee in an amount equal to 2% of the total consideration paid for Oil and Gas Interests (other than Affiliate Properties) containing proved producing reserves acquired by the Partnership (or the Limited Partner, in the event such properties are contributed to the Partnership pursuant to Section 4.02(b)). Subject to the limitations otherwise set forth in this Agreement, the General Partner and its Affiliates may receive compensation for services rendered to the Partnership in capacities other than as General Partner.

(b) The General Partner shall be reimbursed for all costs incurred by the General Partner in connection with the formation of the Partnership and the qualification of the Partnership and the General Partner to do business.

(c) In addition to any reimbursement or payment provided in this Agreement or the Energy Agreement, the General Partner shall be reimbursed on a monthly basis for (i) all direct expenses the General Partner incurs or pays on behalf of the Partnership (including amounts paid to any person to perform services for the Partnership) and (ii) General and Administrative Expenses. The General Partner shall determine such fees and expenses which are allocated to the Partnership in any reasonable manner, but the amount allocated must be reasonable in amount and necessary or desirable to the function of the Partnership and shall be without duplication of any amounts received by the General

Partner from the Partnership or other entity pursuant to the provisions of operating agreements or otherwise in respect of such activities.

SECTION 7.04 *Outside Activities.* No one or more of the General Partner, its Affiliates, or any director, officer or employee of the General Partner or any of its Affiliates shall be expressly or impliedly restricted or proscribed under this Agreement from engaging in other activities for profit, whether in the oil and gas business or otherwise. The General Partner shall not be required under this Agreement to devote its financial, personnel and other resources exclusively for the benefit or on behalf of the Partnership or on activities in which the Partnership is participating or will participate, but only so much of such resources as may be necessary to promote in good faith the business of the Partnership and to exercise its responsibilities in a fiduciary manner. Except as otherwise expressly provided in this Agreement, each of the General Partner, its Affiliates and any director, officer or employee of the General Partner or any of its Affiliates shall have the right to acquire, explore, develop and produce oil, gas and other mineral properties (including interests in the same properties as those in which the Partnership or the Initial Limited Partner owns an interest), develop, manage and operate additional oil, gas and other mineral properties acquired at any time and from time to time, and engage in and possess an interest in other business ventures of any and every type and description, independently or with others, including business interests and activities in direct competition with the Partnership. Except as otherwise provided in this Agreement, neither the General Partner nor any of its Affiliates shall have any obligation to allow the Partnership or the Initial Limited Partner to invest in any property owned or acquired in the future by the General Partner or any of its Affiliates. Neither the Partnership nor any Partners shall by virtue of this Agreement have any right, title or interest in or to such permitted independent activities or ventures.

SECTION 7.05 *Partnership Funds.* The funds of the Partnership shall be deposited in such account or accounts as are designated by the General Partner and shall not be commingled with the funds of, or used as compensating balances on behalf of, the General Partner or any of its Affiliates other than the Partnership; provided, however, that nothing in this Section shall be construed as preventing (i) the General Partner or any of its Affiliates from maintaining deposit and other accounts at the same financial institution at which the Partnership maintains such accounts or (ii) the General Partner from depositing revenues from the Partnership's operations in an agency cash operating bank account maintained for the Partnership, Affiliates of the General Partner, the General Partner and others, so long as such account is settled at least monthly, with the amounts belonging to the Partnership being transferred to its separate account at that time. All withdrawals from or charges against the Partnership's accounts shall be made by the General Partner or by its agents. Temporary surplus funds of the partnership may be invested as determined by the General Partner.

SECTION 7.06 *Loans to or from the General Partner.* The General Partner or any of its Affiliates may lend to the Partnership funds needed by the Partnership for such periods of time as the General Partner may determine; provided, however, that (i) interest on such indebtedness shall not exceed the actual interest cost (including points or other financing charges or fees, if any) that the lending General Partner or Affiliate is required to pay on funds borrowed by it or the highest lawful rate, whichever is less, and (ii) in no event shall such indebtedness be on terms and conditions less favorable than those that the Partnership could obtain from unaffiliated third parties or banks for the same purpose (without reference to the General Partner's financial abilities or guarantees); provided, however, that the assumption of indebtedness and all other obligations or liabilities (including without limitation contingent liabilities, whether arising out of vested or unvested rights or otherwise) by the Partnership pursuant to the Initial Contribution and the Consolidation is hereby ratified by the Partners. The Partnership may make loans to the General Partner or any of its Affiliates on an interest-free basis provided that the proceeds of such loan are used exclusively for the acquisition of Oil and Gas Interests to be transferred or conveyed to the Partnership at the Cost paid therefor by the entity transferring such Oil and Gas Interests to the Partnership.

SECTION 7.07 *Contracts with Affiliates; Joint Ventures.* (a) The General Partner may itself, or may enter into an agreement, including operating agreements, with any of its Affiliates to, render services for the Partnership. Any service rendered to the Partnership by the General Partner or any Affiliate thereof shall be on terms at least competitive with those that the Partnership could obtain from unaffiliated sources in the area rendering comparable services, except that the provisions of Sections 7.03 and 7.07(b) shall apply to the rendering of services described in each such Section.

(b) Neither the General Partner nor any of its Affiliates shall render to the Partnership any field, - equipage or drilling services or sell or lease to the Partnership any equipment or related supplies unless (i) if such person is engaged, independently of the Partnership and as an ordinary ongoing business, in the business of providing such services or selling or leasing such items to a substantial extent to other persons in the oil and gas industry in addition to partnerships in which such person has an interest, the compensation, price or rental therefor is competitive with rates and prices charged by other persons in the area engaged in the business of providing comparable services or items that could reasonably be made available to the Partnership or (ii) if such person is not engaged in such a business, the compensation, price or rental therefor is such person's cost of such services, equipment or supplies or the competitive rate that could be obtained in the area, whichever is less.

(c) The Partnership may transfer Oil and Gas Interests or other Partnership 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 and industry practices as the General Partner deems appropriate.

(d) Neither the General Partner nor any of its Affiliates shall sell, transfer or convey any Lease or related oil and gas property to, or purchase any Lease or related oil and gas property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Limited Partners and then subject to the following conditions:

(i) In the case of a sale, transfer or conveyance to the Partnership of an undeveloped Lease or related oil and gas property (other than oil, gas or liquid production) by the General Partner or any of its Affiliates which has held such Lease or related property for 12 months or less prior to such transfer, the Lease or related property shall be sold, transferred or conveyed to the Partnership at a price that is the lower of the Cost to the seller or the Fair Market Value of such Lease or related property.

(ii) In the case of a sale, transfer or conveyance to the Partnership of an undeveloped Lease or related oil and gas property (other than oil, gas or liquid production) by the General Partner or any of its Affiliates which has held such Lease or related property for more than 12 months, the Lease or related property shall be sold, transferred or conveyed to the Partnership at a price that is the Fair Market Value of such Lease or related property.

(iii) In the case of a sale, transfer or conveyance by the Partnership of an undeveloped Lease or related property (other than oil, gas or liquid production) to the General Partner or any of its Affiliates that has been held by the Partnership for 12 months or less, the Lease or related property shall be sold, transferred or conveyed to such General Partner or Affiliate at the price that is the higher of the Cost to the Partnership or the Fair Market Value of such Lease or related property.

(iv) In the case of a sale, transfer or conveyance by the Partnership of an undeveloped Lease or related property (other than oil, gas or liquid production) to the General Partner or any of its Affiliates that has been held by the Partnership for more than 12 months, the Lease or related property shall be sold, transferred or conveyed to such General Partner or Affiliate at the Fair Market Value of such Lease or related property.

(v) In the case of a sale, transfer or conveyance of a developed Lease or related oil and gas property (other than oil, gas or liquid production) to the Partnership by the General Partner or any of its Affiliates, the Partnership shall pay or receive, as the case may be, a price equal to Cost,

as adjusted for intervening operations, unless the General Partner has reason to believe that such adjusted Cost is materially more than or less than Fair Market Value, in which case such purchase or sale shall be made at Fair Market Value, as determined by an independent petroleum consultant.

(vi) It is intended that the methods and parameters used to determine the Fair Market Value of any undeveloped or developed Leases and related oil and gas property acquired by the Partnership from the General Partner or an Affiliate shall be consistent with the methods and parameters used at such time by the General Partner in its acquisition of such interests from unaffiliated third parties, or if the General Partner is not engaged in such acquisitions, upon methods and parameters then commonly used in the oil and gas industry for the acquisition of such interests. Any such acquisition constituting more than 5% of the Fair Market Value of the Partnership's assets as determined by the General Partner shall be subject to the Partnership obtaining from a reputable investment banking firm an opinion that such acquisition is fair to the Partnership from a financial point of view.

(e) Except as provided in this Section, (i) a sale, transfer or conveyance to the Partnership of less than all of the ownership of the General Partner and its Affiliates in any Lease is prohibited unless the interest retained by such persons is a working interest, the respective obligations of such persons and the Partnership to pay costs with respect to the Lease are proportionate to the respective working interests after such transfer and such persons' revenue interest in the Lease does not exceed the amount proportionate to its retained working interest and (ii) the General Partner and its Affiliates may not retain any overrides or other burdens on any Lease conveyed to the Partnership (except burdens on Initial Properties at the time they are acquired by the Partnership). The foregoing provisions of this Section 7.07(e) shall not apply to (x) transactions between the Partnership and, or in which the Partnership participates with, one or more Affiliated Partnerships, (y) farmout or farmin agreements between the Partnership and the General Partner or its Affiliates or (z) in connection with the acquisition of Oil and Gas Interests by the Partnership, overriding royalty, net profits or similar interests in such Oil and Gas Interests retained by the General Partner or its Affiliates for the benefit of one or more officers or employees of such person, if, in each case, the General Partner determines that the transaction, farmout or farmin agreement or acquisition is in the best interests of the Partnership and that the terms of such transaction, farmout or farmin agreement or retained interest are, in the context thereof, consistent with, and no less favorable than, those used in the geographic area for similar arrangements. Any interest retained by the General Partner or its Affiliates may be disposed of by the General Partner or its Affiliates on such terms as they may deem appropriate, and all gains realized therefrom shall belong to the General Partner or its Affiliates.

(f) Notwithstanding any other provision of this Agreement or the Energy Partnership Agreement, the General Partner or any of its Affiliates shall be free to purchase, and the Partnership shall be free to sell, any oil, gas or 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) Nothing in this Section 7.07 shall be deemed to prohibit the General Partner or any of its Affiliates from selling, transferring or conveying any Oil and Gas Interests to the Partnership, directly or indirectly, pursuant to an exchange offer or other similar plan of consolidation made by the Limited Partner or the Partnership and involving the transfer of Oil and Gas Interests from the General Partner or any of its Affiliates and persons who are not Affiliates of the Limited Partner or the Partnership, where the consideration received by the General Partner or any of its Affiliates is determined on the same basis as that utilized to determine consideration paid to persons who are not Affiliates of the Limited Partner or the Partnership in such exchange offer or plan of consolidation.

(h) Each of the Partners hereby approves, ratifies and confirms the agreements, acts, transactions or matters described in the Prospectus/Proxy Statement and authorizes, ratifies and confirms the execution, delivery and performance of such agreements by the 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 Energy Partnership Agreement.

SECTION 7.08 *Liability to Partnership and Limited Partners.* The General Partner, its Affiliates and any director, officer or employee of the General Partner or its Affiliates shall not be liable to the Partnership or to the Limited Partner for losses sustained or liabilities incurred as a result of any act or omission if (i) the General Partner, such Affiliate or such other Person acted in good faith and in a manner it reasonably believed to be in, or not opposed to, the best interests of the Partnership, and (ii) its conduct did not constitute gross negligence or willful or wanton misconduct.

SECTION 7.09 *Indemnification of General Partner.* (a) The General Partner, its Affiliates and any director, officer or employee of the General Partner or its Affiliates (individually, an "Indemnitee") shall each, to the fullest extent permitted by law, be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint and several, expenses (including legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, costs, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, in which the Indemnitee may be involved, or threatened to be involved, as a party or otherwise by reason of its status as the General Partner, an Affiliate of the General Partner or a director, officer or employee of the General Partner or one or more of its Affiliates, regardless of whether the Indemnitee continues to be the General Partner, an Affiliate of the General Partner or a director, officer or employee of the General Partner or one or more of its Affiliates at the time any such liability or expense is paid or incurred, and regardless of whether any such action, suit or proceeding is brought by a third party, a Partner by or in the right of the Partnership, unless (i) the Indemnitee did not act in good faith or in a manner it believed to be in, or not opposed to, the best interests of the Partnership, or, with respect to any criminal proceeding, had reasonable cause to believe its conduct was unlawful, or (ii) the Indemnitee's conduct constituted gross negligence or willful or wanton misconduct. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that the Indemnitee acted in a manner contrary to that specified in the immediately preceding sentence. Expenses incurred by an Indemnitee in defending any action, suit or proceeding subject to this Section 7.09 shall, from time to time, be advanced by the Partnership prior to the final disposition of such action, suit or proceeding upon receipt by the Partnership of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that such person is not entitled to be indemnified as authorized in this Section 7.09.

(b) The indemnification provided by this Section 7.09 shall be in addition to any other rights to which those indemnified may be entitled under any agreement, vote of the Partners, as a matter of law or otherwise, both as to action in the Indemnitee's capacity as the General Partner, its Affiliate or as a director, officer or employee of the General Partner or one or more of its Affiliates and to action in another capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(c) To the extent commercially reasonable, the Partnership shall purchase and maintain insurance on behalf of the General Partner and such other persons as the General Partner shall determine against any liability that may be asserted against or expense that may be incurred by such person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such person against such liability under the provisions of this Agreement.

(d) In no event may an Indemnitee subject the Limited Partner to personal liability by reason of these indemnification provisions.

(e) An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.09 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

SECTION 7.10 *Limitation on Sale of Partnership Assets.* Without the prior written consent of the Limited Partner, the General Partner shall not sell or otherwise dispose of all or substantially all of the Partnership's assets outside the ordinary course of business of the Partnership (provided, however, that this provision shall not be interpreted to preclude or limit the periodic sale by the Partnership of certain properties and retention of its remaining properties until substantially depleted, or to preclude or limit the mortgage, pledge, hypothecation or grant of a security interest in all or substantially all of the Partnership Assets, and shall not apply to any forced sale of any or all of the Partnership Assets pursuant to the foreclosure of, or other realization upon, any such encumbrance).

SECTION 7.11 *Other Matters Concerning the General Partner.* (a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it and any opinion of any such person as to matters that the General Partner reasonably believes to be within its professional or expert competence shall be full and complete authorization and protection in respect to any action taken or suffered or omitted by the General Partner hereunder in good faith and in accordance with such opinion.

(i) The General Partner shall not permit any person who makes a nonrecourse loan to the Partnership to acquire, at any time as a result of making the loan, any direct or indirect interest in the profits, capital or property of the Partnership, other than as a secured creditor.

(ii) The General Partner shall not provide any Limited Partner with any mandatory or discretionary right to purchase any type of security of the General Partner or its Affiliates in connection with such Limited Partner's Partnership Interest.

SECTION 7.12 *Title to Partnership Assets.* All Partnership Assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership, as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership Assets or any portion thereof. To the fullest extent practicable, the Partnership shall hold all material Partnership Assets in its own name; provided, however, that record title to (i) Partnership Assets may be taken temporarily in the name of the General Partner to facilitate the acquisition of such assets; (ii) an immaterial portion of Partnership Assets may be vested in the General Partner; and (iii) Partnership Assets may be vested in the name of a nominee partnership or other entity formed for such purpose, which shall hold such Partnership Assets for the benefit of the Partnership.

ARTICLE VIII

RIGHTS AND OBLIGATIONS OF LIMITED PARTNER

SECTION 8.01 *Limitation of Liability.* The Limited Partner shall have no liability under this Agreement except as provided by the Texas Act.

SECTION 8.02 *Management of Business.* The Limited Partner shall not take part in the operation, management or control 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.

SECTION 8.03 *Return of Capital.* The Limited Partner shall not be entitled to the withdrawal or return of his contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement.

SECTION 8.04 Access to Information. (a) The Limited Partner and the Limited Partner's duly authorized representatives shall have the right at reasonable times and at the Limited Partner's own expense, but only upon their written request and for a valid business purpose related to the conduct of the Partnership's business, (i) to have true and full information regarding the state of the business and financial condition of the Partnership, (ii) to inspect and make a written copy of the books of the Partnership and other reasonably available records and information concerning the operation of the Partnership, including copies of the Partnership's federal, state and local income tax returns, and (iii) to have on demand a written copy of the Certificate of Limited Partnership and all certificates of amendment thereto.

(b) Anything in Section 8.04(a) to the contrary notwithstanding, the General Partner may refuse access to confidential information such as logs, well reports and other drilling data and confidential information.

ARTICLE IX

BOOKS, RECORDS, ACCOUNTING AND REPORTS

SECTION 9.01 Records, Accounting and Reports. The General Partner shall keep or cause to be kept complete and accurate books with respect to the Partnership's business, which books shall at all times be kept at the principal place of business of the Partnership. The books of the Partnership shall be kept on a cash or accrual basis as determined by the General Partner for tax and other Partnership purposes.

SECTION 9.02 Fiscal Year. The fiscal year of the Partnership shall be the calendar year unless otherwise required by law.

SECTION 9.03 Reports. The General Partner shall deliver such reports and other information to the Limited Partner as are required for the Limited Partner to prepare and deliver the reports and other information required by the Energy Partnership Agreement.

ARTICLE X

TAX MATTERS

SECTION 10.01 Preparation of Tax Returns. The General Partner shall arrange for the preparation and timely filing of all returns of the Partnership income, gains, losses, deductions and credits necessary for federal and state income tax purposes and shall furnish to the Limited Partner within 90 days of the close of the taxable year the tax information reasonably required for federal and state income tax reporting purposes. The classification, realization and recognition of income, gains, losses, deductions, credits and other items shall be on the cash or accrual method of accounting for federal income tax purposes, as the General Partner shall determine in its discretion. The taxable year of the Partnership shall be the calendar year.

SECTION 10.02 Tax Elections. (a) The Partnership shall make the Section 754 Election in accordance with applicable regulations thereunder, subject to the reservation of the right to seek to revoke any such election upon the General Partner's determination that such revocation is in the best interest of the Limited Partner.

(b) 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.

(c) The Partnership shall elect to deduct intangible drilling and development costs on its federal income tax return in accordance with the option granted in section 263(c) of the Code.

(d) Except as otherwise provided herein, the General Partner shall determine whether to make any other available elections (including the elections provided for in sections 48(q)(4) and 168 of the Code) on behalf of the Partnership under the Code.

SECTION 10.03 Tax Matters Partner. The General Partner shall be the tax matters partner (within the meaning of section 6231(a)(7)) and shall be authorized to take all action regarding the determination, assessment, and collection of tax on account of Partnership items, including, without limitation, Partnership items under Code Section 6232. The Limited Partner agrees that (a) it will not file a statement under Code Section 6224(c)(3)(B) prohibiting the tax matters partner from entering into a settlement on its behalf with respect to Partnership items; (b) it will not form or become a member of a group of Partners and Assignees having a 5% or greater interest in the profits of the Partnership under Code Section 6223(b)(2); and (c) it will not file an election under Code Section 6232(c) to preclude the Partnership from being authorized to act for each Partner and Assignee with respect to the determination, assessment, or collection of Windfall Profit Tax and (d) the General Partner is authorized to file a copy of this Agreement with the Internal Revenue Service pursuant to Code Section 6224(b) if necessary to perfect the waiver of the Limited Partner's rights hereunder.

SECTION 10.04 Information for Adjusted Basis. To the extent the General Partner is required to determine the adjusted basis of any Partnership Assets with respect to which the Code requires that records of such adjusted basis be kept and maintained by the Limited Partner, the General Partner may request information regarding such adjusted basis from the Limited Partner in writing, and the Limited Partner shall furnish such information to the General Partner within 90 calendar days after such request is mailed by the General Partner.

ARTICLE XI

POWER OF ATTORNEY

The Limited Partner hereby constitutes and appoints the General Partner (and any successor by merger, transfer, 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:

(a) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (i) all certificates and other instruments (including, at the option of the General Partner, this Agreement) and all amendments thereof that the 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 Partner has limited liability) in all jurisdictions in which the Partnership may conduct business or own property; (ii) all instruments that the General Partner deems appropriate or necessary to reflect any amendment, change or modification of this Agreement in accordance with its terms; (iii) all conveyances and other instruments or documents that the General Partner deems appropriate or necessary to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement; and (iv) instruments relating to the admission of any Partner pursuant to Article XIII; and

(b) 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 (i) 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 that provides for the leasing thereof; (ii) all statements of interest and holdings on behalf of the Partnership or the Partners; (iii) any other statement, 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; (iv) 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 and (v) any other documents or instruments that the General Partner in its sole discretion determines should be filed.

Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XVI.

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 the Limited Partner and shall extend to the Limited Partner's heirs, successors and assigns. The Limited Partner hereby agrees to be bound by any representations made by the General Partner, acting in good faith hereby pursuant to such power of attorney. The Limited Partner hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner, taken in good faith under such power of attorney. The Limited Partner shall execute and deliver to the General Partner, within 15 days after receipt of the General Partner's request therefor, such further designations, powers of attorney and other instrument as the General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

ARTICLE XII

TRANSFER OF PARTNERSHIP INTERESTS

SECTION 12.01 *Transfer.* (a) The term "transfer", when used in this Article with respect to a Partnership Interest, includes a sale, assignment, gift, exchange or any other disposition and (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.

SECTION 12.02 *Transfer of Partnership Interest of General Partner.* The General Partner may not transfer any portion of its Partnership Interest as a General Partner, except that (a) if the general partner of the Limited Partner transfers to any person any portion of its partnership interest as the general partner of the Limited Partner (being for this purpose the General Partner's 1% Interest as defined in the Energy Partnership Agreement) in accordance with the terms of the Energy Partnership Agreement, the General Partner shall transfer an equivalent portion of its Partnership Interest as the General Partner of the Partnership (being for this purpose its overall 1% interest) to such person, or to a corporation, general or limited partnership, trust or other entity, all of the common stock, partnership interests or other ownership interests of which are owned directly or indirectly by such person and (b) the General Partner may transfer all or a portion of its Partnership Interest as General Partner to any corporation, general or limited partnership, trust or other entity, all the common stock, partnership interests or other ownership interests of which are owned directly or indirectly by the General Partner. The Limited Partner hereby consents to any such transfer. Nothing contained in this Agreement shall be construed to prevent (and each Partner hereby expressly consents to) the General Partner's mortgaging, pledging, hypothecating or granting a security interest in all or any of its Partnership Interest as collateral for a loan or loans and such secured party's assertion of its interest in such collateral.

SECTION 12.03 *Transfer of Partnership 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. Nothing contained in this Agreement shall be construed to prevent (and each Partner hereby expressly consents to) the Limited Partner's mortgaging, pledging, hypothecating or granting a security interest in all or any of its Partnership Interest as collateral for a loan or loans and such secured party's assertion of its interest in such collateral.

ARTICLE XIII

ADMISSION OF SUBSTITUTED PARTNERS

SECTION 13.01 *Admission of Successor Limited Partner.* The successor of the Limited Partner shall be admitted to the Partnership as a Limited Partner upon furnishing to the General Partner (i) acceptance in form satisfactory to the General Partner of all the terms and conditions of this Agreement and (ii) such other documents or instruments as may be required in order to effect its admission as a Limited Partner.

Section 13.02 *Admission of Successor General Partner.* A successor General Partner selected pursuant to Section 14.01 or the transferee of all or any portion of the Partnership Interest of the General Partner pursuant to Section 12.02 shall be admitted to the Partnership as a General Partner (in the place, in whole or in part, of the transferor General Partner), effective as of the date an amendment of the Certificate of Limited Partnership, adding its name and other required information, is recorded pursuant to Section 7.01(b), and upon receipt by the General Partner of all of the following:

- (a) Acceptance in form and substance satisfactory to the General Partner of all of the terms and provisions of this Agreement;
- (b) Written agreement of such proposed general partner to continue the business of the Partnership; and
- (c) Such other documents or instruments as may be required in order to effect its admission as a general partner under this Agreement.

ARTICLE XIV

WITHDRAWAL OR REMOVAL OF THE GENERAL PARTNER

SECTION 14.01 *Withdrawal or Removal of the General Partner.* The General Partner shall automatically withdraw from the Partnership or be removed as General Partner if, and only if, the general partner of the Limited Partner withdraws from, or is removed as the general partner of, the Limited Partner. Such withdrawal or removal shall be effective at the same time as is the withdrawal or removal of the general partner of the Limited Partner. The Limited Partner agrees that the selection of a successor general partner of the Limited Partner shall constitute selection by the Limited Partner of such successor as the successor General Partner of the Partnership. If no successor General Partner is selected, the Partnership shall be dissolved pursuant to Section 15.01. In the case of the General Partner's withdrawal, if a successor General Partner is selected and the Partnership is not dissolved, the General Partner shall forfeit all of its interest in the Partnership other than its overall 1% interest. For purposes of the remainder of this Article XIV, the term "Departing Partner" shall mean the General Partner, as of the effective date of withdrawal or removal.

SECTION 14.02 *Interest of Departing Partner.* (a) In the event a Departing Partner departs as a result of withdrawal or removal pursuant to Section 13.01 of the Energy Partnership Agreement, and the successor General Partner exercises its option to purchase certain Partnership Interests of the Departing Partner pursuant to Section 13.02(a) of the Energy Partnership Agreement, the Departing Partner shall promptly receive from its successor General Partner in exchange for its Partnership Interest as General Partner (being for this purpose its overall 1% interest, and, if not forfeited, the remainder of its Partnership Interest) 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. The amount that shall be paid to the Departing Partner in exchange for its Partnership Interest as General Partner shall be equal to the fair market value of such Partnership Interest, as determined by the same method specified in, and actually used pursuant to, the Energy Partnership Agreement.

(b) If the successor to a Departing Partner does not exercise the option described in Section 14.02(a) above, the Partnership Interest of the Departing Partner (being for this purpose its overall 1%

interest, and, if not forfeited, the remainder of its Partnership Interest) shall be purchased by the Limited Partner pursuant to Section 13.02(b) of the Energy Partnership Agreement.

(c) The Agreement and Certificate of Limited Partnership shall be amended to reflect the events described in Sections 14.02(a) and 14.02(b).

(d) If the Partnership is indebted to the Departing Partner at the effective time of its departure for funds advanced, properties sold or services rendered to the Partnership by the Departing Partner, the Partnership shall, within 60 days after the effective time of such departure, pay to the Departing Partner the full amount of such indebtedness. The successor to a Departing Partner shall assume all obligations theretofore incurred by the General Partner, as general partner of the Partnership, and the Partnership and such successor shall take all such reasonable action as shall be necessary to terminate any guarantees of the General Partner and any of its Affiliates of any obligations of the Partnership.

ARTICLE XV

DISSOLUTION AND LIQUIDATION

SECTION 15.01 *Dissolution.* The Partnership shall be dissolved upon:

(a) the expiration of its term as provided in Section 2.05;

(b) notice of withdrawal or bankruptcy, assignment for the benefit of creditors or dissolution of the General Partner, or any other event that results in such person's ceasing to be the General Partner (other than by reason of a transfer pursuant to Section 12.02 or withdrawal occurring after, or removal effective upon or after, selection by the Limited Partner of a successor pursuant to Section 14.01), unless the Limited Partner elects to continue the Partnership pursuant to Section 15.02;

(c) a written determination by the General Partner that projected future revenues of the Partnership will be insufficient to enable payment of projected Partnership costs and expenses or, if sufficient, will be such that continued operation of the Partnership is not in the best interests of the Partners;

(d) an election to dissolve the Partnership given to the General Partner by the Limited Partner;

(e) dissolution of the Limited Partner, unless the Limited Partner is continued thereafter in accordance with Section 14.02 of the Energy Partnership Agreement or

(f) any other event that, under the laws of Texas, would cause its dissolution.

For purposes of this Section 15.01, bankruptcy of the General Partner shall be deemed to have occurred when a final and nonappealable order for relief is entered against it under the federal bankruptcy laws as now or hereinafter in effect, or it executes and delivers a general assignment for the benefit of its creditors.

SECTION 15.02 *Continuation of the Partnership.* Upon an event of dissolution described in Section 15.01(b) or (e), the Partnership shall thereafter be terminated unless the Limited Partner elects in writing to reconstitute and continue the Partnership. Unless an election to continue the Partnership is made within 90 days of the event of dissolution, the Partnership shall conduct only activities necessary to wind up its affairs. If such election to continue the Partnership is made, then:

(a) within such 90-day period, a successor 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 General Partner (so long as the former General Partner shall not have been selected successor General Partner of the reconstituted Partnership) shall be purchased by the successor General Partner in the manner provided in Section 14.02(b) and

(d) all necessary steps shall be taken to amend the Agreement and Certificate of Limited Partnership, and the successor General Partner may for this purpose exercise the powers of attorney granted pursuant to Article XI.

SECTION 15.03 Liquidation. Upon dissolution of the Partnership, unless an election to continue the Partnership is made pursuant to Section 15.02, the General Partner, or, in the event the dissolution was caused by an event described in Section 15.01(b), a person selected by the Limited Partner, shall be the Liquidator. The Liquidator (if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by a vote of the Limited Partner. The Liquidator shall agree not to resign at any time without 15 days prior written notice and (if other than the 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) will, within 30 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 Article XV, 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 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 other than the limitations on sale set forth in Section 7.10) 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 Partnership Assets and apply and distribute the proceeds of such liquidation in the following manner and order or 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;

(c) in connection with the satisfaction of the Partnership's debts and liabilities or otherwise, the Liquidator may, but shall not be required to, sell all or any portion of the Partnership Assets as more fully provided in Section 15.04;

(d) the revenues, income, gains, losses, costs and deductions arising from the sale of Partnership Assets in connection with the liquidation of the Partnership shall be allocated to the Partners in accordance with Article V above, and each Partner's Capital Account shall be adjusted accordingly;

(e) the Liquidator shall ascertain the fair market value of all Partnership Assets remaining unsold by appraisal or other reasonable means, and each Partner's Capital Account shall be adjusted as if such remaining Partnership Assets were sold at such fair market value, and the revenues, income, gain, losses, costs and deductions realized thereby had been allocated to the Partners in accordance with Article V above;

(f) the assets of the Partnership remaining after satisfaction of all debts and liabilities of the Partnership as provided in Sections 15.03(a) and 15.03(b) shall be distributed to the Partners in proportion to the balances in their respective Capital Accounts, as adjusted pursuant to Sections 15.03(d) and 15.03(e); and

(g) if any Partner has a deficit in its Capital Account by reason of the foregoing adjustments, it shall be required, subject to the limitations of Section 8.01, to restore such account to a zero balance. Each Partner shall receive its share (determined by applying Section 15.03(f)) of the remaining assets in cash or in kind, as determined by the Liquidator;

provided, however, that the General Partner shall not be entitled to any liquidating distribution in respect of its interest in the Partnership as General Partner other than with respect to its overall 1% interest if dissolution of the Partnership was caused by events described in Section 15.01(b) or (d), or Section 14.01(b) of the Energy Partnership Agreement.

SECTION 15.04 *Distribution in Kind.* Notwithstanding the provisions of Section 15.03 which require the liquidation of the Partnership Assets, 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 Partnership Assets except those necessary to satisfy liabilities of the Partnership and may, in its absolute discretion, distribute to the Partners, in lieu of cash, as tenants in common, 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 Partnership Assets distributed in kind using such reasonable method of valuation as it may adopt and such Partnership Assets shall be distributed to the Partners in accordance with Sections 15.03(f) and (g).

SECTION 15.05 *Return of Contributions.* The General Partner shall not be personally liable for the return of the contributions of the Limited Partners, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership Assets.

SECTION 15.06 *Waiver of Partition.* Each Partner hereby waives until termination of the Partnership any and all rights that he may have to maintain an action for partition of the Partnership's assets.

ARTICLE XVI

AMENDMENT OF PARTNERSHIP AGREEMENT

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

(b) Notwithstanding paragraph (a) of this Article XVI, amendments to this Agreement that are (i) necessary to qualify the Partnership as a limited partnership under the laws of any state, (ii) necessary or advisable in the opinion of the General Partner to insure that the Partnership will not be treated as an association taxable as a corporation for federal income tax purposes, (iii) necessary to achieve any material tax benefit to the Partnership which the General Partner deems to be in the best interests of the Partnership and the Limited Partner, (iv) necessary to reflect accurately the reference to any statute, rule or regulation set forth in this Agreement which has been redesignated or replaced after the date hereof, (v) necessary or desirable to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with the provisions of this Agreement and which will not be adverse to the interests of the Limited Partner, (vi) an addition to the representations, duties or obligations of the General Partner or a reduction or surrender of any power or right granted to the General Partner herein, for the benefit of the Limited Partner, (vii) of an inconsequential nature and do not adversely affect the Limited Partner in any material respect, (viii) necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or

regulation of any federal or state agency or contained in any federal or state statute, (ix) necessary or desirable to facilitate the trading of Units or comply with any rule, regulation, guidelines or requirement of any securities exchange on which the Units are or will be listed for trading, compliance with any of which the General Partner deems to be in the best interest of the Partnership and the Partners. (x) required or contemplated by this Agreement necessary to adjust equitably for any "split" or "reverse split" of a class of Units made pursuant to the Energy Agreement (xi) necessary to conform this Agreement to any amendments made to the Energy Partnership Agreement or (xii) similar to any of the foregoing, may be made by the General Partner without the consent of the Limited Partner.

(c) Unless approved by all Partners, no amendment to this Agreement shall be permitted unless the Partnership has received an opinion of independent counsel that such amendment (i) would not cause the loss of limited liability of the Partnership under this Agreement or of the limited partners under the Energy Partnership Agreement and (ii) would not cause the Partnership or the Limited Partner to be treated as an association taxable as a corporation for federal income tax purposes. In addition, no amendment that would increase the duties or liabilities, or decrease the rights, of the General Partner, change the General Partner's allocations provided in Article V or the General Partner's rights to distributions provided in Article VI or, in the opinion of independent counsel, have material adverse consequences to the General Partner may be made without the General Partner's consent.

ARTICLE XVII

GENERAL PROVISIONS

SECTION 17.01 *Addresses and Notices.* The address of each Partner for all purposes shall be 396 West Greens Road, Houston, Texas 77067 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.

SECTION 17.02 *Titles and Captions.* All article 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.

SECTION 17.03 *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.

SECTION 17.04 *Further Action.* The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purpose of this Agreement.

SECTION 17.05 *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.

SECTION 17.06 *Force Majeure.* If the General Partner is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Partnership Agreement, other than the obligation to make money payments, the obligations of the General Partner, so far as they are affected by such force majeure, shall be suspended during, but no longer than, the continuance of such force majeure. The General Partner shall use all reasonable diligence to remedy such force majeure as quickly as possible. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other labor difficulty by the General Partner, contrary to its wishes, and all such difficulties shall be handled entirely at the discretion of the General Partner.

The term "force majeure" as used herein shall mean an act of God, strike, lockout or other industrial disturbance, act of public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental restraint, unavailability of equipment and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the General Partner.

SECTION 17.07 *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.

SECTION 17.08 *Creditors.* Except for the provisions of Section 7.02, none of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Partnership.

SECTION 17.09 *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.

SECTION 17.10 *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.

SECTION 17.11 *Applicable Law.* Notwithstanding the place where this Agreement may be executed by any of the parties hereto, the parties expressly agree that all of the terms and provisions hereof shall be construed under the substantive laws of the State of Texas as now adopted or as may hereafter be amended, and such laws shall govern the limited partnership aspects of this Agreement.

SECTION 17.12 *Invalidity of Provisions.* Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, such provision shall be interpreted to be so broad as is enforceable.

IN WITNESS WHEREOF, this Agreement has been duly executed by the General Partner and the Initial Limited Partner as of the date first above written.

GENERAL PARTNER:

DAMSON OIL CORPORATION

Attest:

Ben A. Fiegel
.....
(Assistant) Secretary

By: *Monte E. Wetzler*
.....
(Executive)(Vice) President
Monte E. Wetzler

[SEAL]

COUNTY OF NEW YORK }
STATE OF NEW YORK } ss.:

Subscribed to and sworn before me this 3rd day of April, 1985.

Andrew Bloom
.....
Notary Public

ANDREW BLOOM
Notary Public, State of New York
No. 41-4775686
Qualified in Queens County

INITIAL LIMITED PARTNER: Commission Expires March 30, 1986

DAMSON ENERGY COMPANY, L. P.

Attest:

Ben A. Fiegel
.....
(Assistant) Secretary

By: DAMSON OIL CORPORATION
General Partner

By: *Daniel A. Burack*
.....
(Executive)(Vice) President
Daniel A. Burack

[SEAL]

COUNTY OF NEW YORK }
STATE OF NEW YORK } ss.:

Subscribed to and sworn before me this 3rd day of April, 1985.

Andrew Bloom
.....
Notary Public

ANDREW BLOOM
Notary Public, State of New York
No. 41-4775686
Qualified in Queens County
Commission Expires March 30, 1986