

**MEMORANDUM OF PROGRAM AGREEMENT
AND FINANCING STATEMENT**

This Memorandum of Program Agreement and Financing Statement made and entered into as of the 25th day of July, 1991, by and between **McKENZIE METHANE CORPORATION** (herein called "McKenzie"), a Texas corporation, whose address is 7880 San Felipe, Suite 100, Houston, Texas 77063, and **MISSION ENERGY METHANE COMPANY** (herein called "Mission:), a California corporation, whose address is 18872 MacArthur Boulevard, Suite 400, Irvine, California 92715-1448.

W I T N E S S E T H:

I.

McKenzie and Mission have entered into that certain Phase IV Program Agreement (herein called the "Program Agreement") dated as of July 25, 1991, providing for the development and production of coalbed gas and occluded gas from coal seams, together with other minerals as provided therein, from the lands (herein called the "Contract Area") described in Exhibit "A" attached hereto and made a part hereof. McKenzie is the present owner of, or has the contractual rights to acquire, certain leasehold interests in the Contract Area; and the Program Agreement designates McKenzie as operator to conduct operations on the Contract Area for the development and production of such coalbed gas and occluded gas and other minerals on behalf of itself and Mission in accordance with and subject to the terms of the Program Agreement and an operating agreement (herein called the "Operating Agreement") referred to therein.

II.

Both the Program Agreement and the Operating Agreement provide, among other matters, that Mission is entitled to own, and share in the manner and percentages provided therein, the

development and production of coalbed gas and occluded gas and other minerals from the Contract Area. Mission's percentage leasehold or working interest in and to the respective leases and other contracts described in Exhibit "A" hereto in the Contract Area is as set out under the heading "Mission Interest" in said Exhibit.

Both the Program Agreement and the Operating Agreement also provide, among other matters, that McKenzie and Mission thereby grant to each other mutual liens and security interests covering their interests in the Contract Area, the leasehold equipment thereon and the production therefrom to secure the payment of each party's share of such costs and expenses. In addition, pursuant to the Program Agreement, McKenzie thereby grants to Mission a perpetual right and easement appurtenant to or connected with the leases and other rights described in Exhibit "A" hereto to use the gathering lines, flow lines and other facilities of McKenzie and such other McKenzie easements and servitudes as are reasonably requested by Mission so as to enable Mission to gather and transport its production to the purchaser thereof.

The purposes of this Memorandum of Program Agreement and Financing Statement are to afford notice to third parties of the existence of the Program Agreement and to secure and perfect the mutual liens and security interests granted by McKenzie and Mission to each other. This Memorandum of Program Agreement and Financing Statement incorporates by reference all of the terms, covenants and conditions of the Program Agreement and the Operating Agreement, including but not limited to the lien and security interest provisions therein. Among other matters, the Program Agreement and the Operating Agreement together specifically provide as follows:

1. The party designated as Operator thereunder shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, the Program Agreement and the Operating Agreement;

2. The liability of the parties shall be several, not joint or collective, and each party shall be responsible only for its share of obligations thereunder and shall be liable only for its proportionate share of the costs and expenses incurred in developing and operating the Contract Area as provided in the Program Agreement and the Operating Agreement;
3. Mission thereby grants to McKenzie a lien upon its coalbed gas, occluded gas and other mineral rights in the Contract Area, and a security interest in its share of coalbed gas, occluded gas and other minerals when extracted and in its interest in all equipment on the Contract Area, to secure the payment by Mission of its share of costs and expenses, together with interest thereon at the rate provided in the Accounting Procedure attached to the Operating Agreement;
4. To the extent that McKenzie has a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated and with respect to which default has occurred, McKenzie shall be entitled to exercise the rights and remedies of a secured party under the Uniform Commercial Code, and the bringing of a suit and obtaining of judgment by McKenzie for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interests for the payment thereof;
5. McKenzie has also thereby granted to Mission a lien upon its coalbed gas, occluded gas and other mineral rights in the Contract Area, and security interest in its share of coalbed gas, occluded gas and other minerals when extracted and its interest in all equipment on the Contract Area, to secure the payment by McKenzie of its share of the costs and expenses, together with interest thereon at the rate provided in the Accounting Procedure attached to the Operating Agreement;
6. To the extent that Mission has a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated and with respect to which default has occurred, Mission shall be entitled to exercise the rights and remedies of a secured party under the Uniform Commercial Code, and the bringing of a suit and obtaining of judgment by Mission for the secured indebtedness shall not be deemed an election of remedies or otherwise affect their rights or security interest for the payment thereof; and
7. McKenzie has granted to Mission pursuant to the Program Agreement a perpetual right and easement appurtenant to or connected with the leases and other rights described in the Exhibit hereto to use the gathering lines, flow lines or other facilities of McKenzie and such other McKenzie easements and servitudes as are reasonably requested by Mission so as to enable Mission to gather and transport its production to the purchaser thereof.

III.

Executed copies of the Program Agreement are in the possession of McKenzie and Mission. To the extent that the

Program Agreement and the Operating Agreement expire, terminate or do not continue in force and effect as to lands, or portions thereof, covered by the leases and contracts described in Exhibit "A" attached hereto so that the provisions thereof and the liens and security interests referenced herein are no longer applicable to such lands or portions thereof, the parties hereto, upon the request of either, shall execute a recordable release hereof which describes such lands or portions thereof to which the Program Agreement and the Operating Agreement have expired or terminated or are no longer in effect.

IV.

It is understood between McKenzie and Mission that, as to certain of the leases and contracts described in Exhibit "A" attached hereto, prior consent or approval of assignments thereof and/or mortgages or pledges encumbering McKenzie's interests in such leases and contracts is required from the lessors of those leases or from the parties with whom McKenzie or its predecessor in interest has contracted. The parties agree for themselves and their respective successors and assigns that no such assignment or assignments of such leases or contracts shall be made, and in no event shall either the Program Agreement or this Memorandum of Program Agreement and Financing Statement constitute or be deemed to constitute an assignment or encumbrance of, or an agreement to assign or encumber, any interest of McKenzie thereunder, until the requisite consent has been obtained from the lessors of such respective leases, from the respective parties with whom McKenzie has contracted or from their respective successors in interest.

V.

This Memorandum of Program Agreement and Financing Statement is a declaration of the parties rights under the Program Agreement and the Operating Agreement and shall never be construed to affect, prejudice, enlarge, diminish or disturb the effect or validity of any section, paragraph or provision of the Program Agreement or the Operating Agreement.

VI.

This Memorandum of Program Agreement and Financing Statement is executed on the date first shown above.

WITNESSES:

J. Doyle Hunt
Tomnie Nelson

MCKENZIE METHANE CORPORATION

BY:

Michael McKenzie
President

WITNESSES:

J. Doyle Hunt
Tomnie Nelson

MISSION ENERGY METHANE COMPANY

BY:

Michael J. McGill
Michael J. McGill
Vice President and
General Manager

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STATE OF TEXAS X
COUNTY OF HARRIS X

This instrument was acknowledged before me on the 25th day of July, 1991, by Michael McKenzie, President of McKenzie Methane Corporation, a Texas corporation, on behalf of said corporation.

My Commission Expires:

6-28-93

STATE OF TEXAS X
COUNTY OF HARRIS X

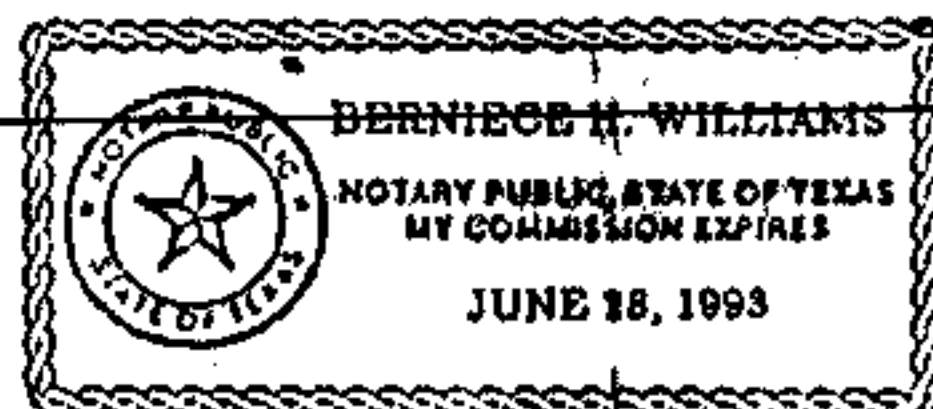
This instrument was acknowledged before me on the 25th day of July, 1991, by Michael J. McGill, Vice President and General Manager of Mission Energy Methane Company, a California corporation, on behalf of said corporation.

My Commission Expires:

6-28-93

Berniece H. Williams
Notary Public in and for the
State of TEXAS

Notary's Printed Name:



Berniece H. Williams
Notary Public in and for the
State of TEXAS

Notary's Printed Name:

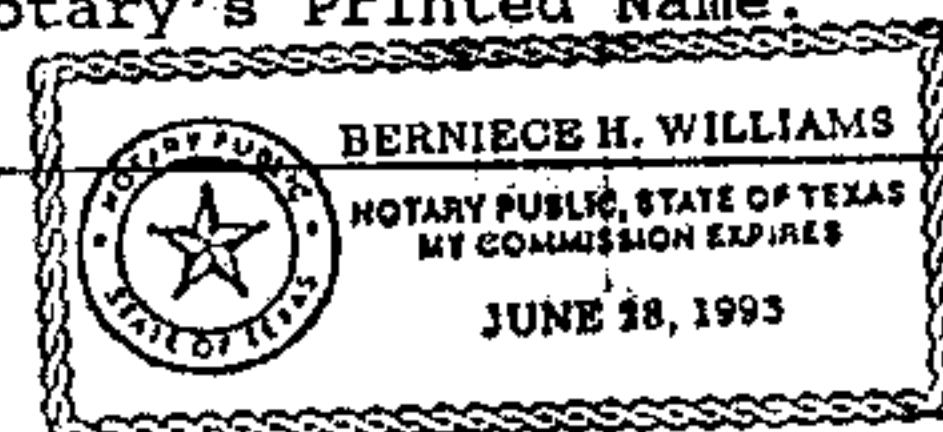


EXHIBIT "A"

Attached to and made a part of that certain Memorandum of Program Agreement and Financing Statement dated effective July 25, 1991 between McKenzie Methane Corporation and Mission Energy Methane Company.

Coal Seam Gas Agreement and Option dated September 30, 1988, between USX CORPORATION, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, recorded by a Memorandum of Lease dated November 30, 1988 in Book 222, Page 386, Shelby County, Alabama, and Amendment to Memorandum of Lease dated February 19, 1989, in Book 280, Page 47, Shelby County, Alabama; and Amendment to Memorandum of Lease dated February 19, 1989 in Book 128, page 953, Bibb County, Alabama.
(AL2 001)

Oil, Gas and Mineral Lease dated January 20, 1989, between JUNE D. JONES, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 236, Page 167 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 005A)

Oil, Gas and Mineral Lease dated January 20, 1989, between VIRGINIA J. MOEBES, ET VIR, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 236, Page 170 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 005B)

Oil, Gas and Mineral Lease dated January 20, 1989, between NELLIE B. CUNNINGHAM, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 236, Page 173 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 005C)

Oil, Gas and Mineral Lease dated January 20, 1989, between THOMAS J. MEMOLI, ET UX, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 60 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 005D)

Oil, Gas and Mineral Lease dated January 20, 1989, between PHILLIP E. MEMOLI, ET UX, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 51 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 005E)

Oil, Gas and Mineral Lease dated February 10, 1989, between F. FRANK JONES, ET UX, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 47 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 006)

Oil, Gas and Mineral Lease dated February 23, 1989, between FRANK GRIFFIN, ET UX, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 44 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 007A)

Oil, Gas and Mineral Lease dated February 23, 1989, between FRANK ALAN GRIFFIN, ET UX, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 41 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 007B)

Oil, Gas and Mineral Lease dated February 23, 1989, between DANNY C. GRIFFIN, ET UX, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 38 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 007C)

Oil, Gas and Mineral Lease dated February 23, 1989, between JOHN O. GRIFFIN, ET UX, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 57 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 007D)

Oil, Gas and Mineral Lease dated March 27, 1989, between MARTHA B. LUKER, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, as recorded in Book 246, Page 54 in the Office of Judge of Probate of Shelby County, Alabama.
(AL2 0078)

Coalbed Methane Gas Lease dated June 1, 1989, between SOUTHERN ELECTRIC GENERATING COMPANY AND KIMBERLY-CLARK CORPORATION, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, recorded by a Memorandum of Lease dated June 1, 1989, in Book 254, Page 568 in the Office of the Judge of Probate of Shelby County, Alabama; and recorded by a Memorandum of Lease dated June 1, 1989, in Book 128, Page 116 in the Office of the Judge of Probate of Bibb County, Alabama. (AL2 013)

Coalbed Methane Gas Lease dated June 1, 1989, between SOUTHERN ELECTRIC GENERATING COMPANY, as Lessor, and MCKENZIE METHANE CORPORATION, as Lessee, recorded by a Memorandum of Lease dated June 1, 1989, in Book 254, Page 559 in the Office of the Judge of Probate of Shelby County, Alabama; and recorded by a Memorandum of Lease dated June 1, 1989, in Book 128, Page 116 in the Office of the Judge of Probate of Bibb County, Alabama. (AL2 014)

INSOFAR AND ONLY INSOFAR as the acreage described in the above leases is included in the tracts described below.

All of said tracts are located in Shelby and Bibb Counties, Alabama and contain 40 acres, more or less, and the "Mission Interest" is 45%.

TOWNSHIP 20 SOUTH - RANGE 3 WEST

Section 16

TRACT 1
SE/4 of SW/4

Section 20

TRACT 2
SE/4 of SE/4

Section 21

TRACT 3
NW/4 of NW/4

TRACT 4
NW/4 OF SW/4

TRACT 5
SE/4 of SW/4

Section 28

TRACT 6
NW/4 of NW/4

TRACT 7
SW/4 of NW/4

TRACT 8
SE/4 of NW/4

TRACT 9
NW/4 of SW/4

TRACT 10
SE/4 of SW/4

Section 29

TRACT 11
NW/4 of NE/4

TRACT 12
NW/4 of NW/4

TRACT 13
SE/4 of NW/4

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TOWNSHIP 20 SOUTH - RANGE 3 WEST - CONT'D

Section 29 - Cont'd

TRACT 14
NW/4 of SE/4

TRACT 15
NW/4 of SW/4

TRACT 16
SE/4 of SW/4

TRACT 17
SE/4 of SE/4

Section 30

TRACT 18
SE/4 of NE/4

TRACT 19
SE/4 of SE/4

Section 31

TRACT 20
NW/4 of NW/4

TRACT 21
SE/4 of NW/4

Section 32

TRACT 22
NW/4 of NE/4

TRACT 23
NW/4 of NW/4

Section 33

TRACT 24
NW/4 of NW/4

TRACT 25
SW/4 of NW/4

TRACT 26
SE/4 of NW/4

TOWNSHIP 20 SOUTH - RANGE 4 WEST

Section 36

TRACT 27
SE/4 of NE/4

TRACT 28
NW/4 of SE/4

TRACT 29
SE/4 of SW/4

TRACT 30
SE/4 of SE/4

TOWNSHIP 21 SOUTH - RANGE 3 WEST

Section 6

TRACT 31
NW/4 of SE/4

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TOWNSHIP 21 SOUTH - RANGE 3 WEST - CONT'D

Section 17

TRACT 32
NW/4 of NW/4

Section 18

TRACT 33
NW/4 of NW/4

TRACT 34
SE/4 of NW/4

Section 20

TRACT 35
NE/4 of SE/4

TOWNSHIP 21 SOUTH - RANGE 4 WEST

Section 2

TRACT 36
SE/4 of SE/4

Section 3

TRACT 37
NE/4 of SE/4

TRACT 38
SE/4 of SW/4

TRACT 39
SE/4 of SE/4

Section 13

TRACT 40
NW/4 of NW/4

TRACT 41
NW/4 of SE/4

Section 14

TRACT 42
NW/4 of SE/4

Section 21

TRACT 43
NW/4 of SE/4

TRACT 44
NW/4 of SW/4

Section 25

TRACT 45
NW/4 of NW/4

Section 29

TRACT 46
SE/4 of NW/4

Section 31

TRACT 47
NW/4 of NW/4

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TOWNSHIP 21 SOUTH - RANGE 4 WEST - CONT'D

Section 31 - Cont'd

TRACT 48
NW/4 of SE/4

TRACT 49
SE/4 of SW/4

TRACT 50
SE/4 of SE/4

Section 33

TRACT 51
NE/4 of SW/4

TOWNSHIP 21 SOUTH - RANGE 5 WEST

Section 36

TRACT 52
SE/4 of NW/4

TRACT 53
SE/4 of NE/4

TRACT 54
NW/4 of SE/4

TRACT 55
SE/4 of SW/4

TOWNSHIP 22 SOUTH - RANGE 3 WEST

Section 7

TRACT 56
NW/4 of NE/4

TOWNSHIP 22 SOUTH - RANGE 4 WEST

Section 6

TRACT 57
SE/4 of NW/4

TRACT 58
SE/4 of SW/4

Section 7

TRACT 59
NW/4 of NW/4

TRACT 60
NW/4 of SW/4

Section 11

TRACT 61
SE/4 of SW/4

Section 19

TRACT 62
NE/4 of SE/4

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TOWNSHIP 22 SOUTH - RANGE 5 WEST

Section 1

TRACT 63
NW/4 of SW/4

TRACT 64
SE/4 of SW/4

Section 2

TRACT 65
NW/4 of NE/4

TRACT 66
SE/4 of NW/4

TRACT 67
SE/4 of NE/4

TRACT 68
SE/4 of SE/4

Section 5

TRACT 69
NE/4 of NE/4

TRACT 70
NE/4 of NW/4

TRACT 71
SW/4 of NW/4

TRACT 72
SW/4 of NE/4

TRACT 73
NE/4 of SE/4

TRACT 74
NE/4 of SW/4

TRACT 75
SW/4 of SW/4

TRACT 76
SW/4 of SE/4

Section 8

TRACT 77
SW/4 of SW/4

Section 9

TRACT 78
NE/4 of NE/4

TRACT 79
NE/4 of NW/4

TRACT 80
SW/4 of NW/4

Section 11

TRACT 81
NW/4 of NW/4

TRACT 82
SE/4 of NW/4

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TOWNSHIP 22 SOUTH - RANGE 5 WEST - CONT'D

Section 11 - Cont'd

TRACT 83
NW/4 of SW/4

TRACT 84
SE/4 of SW/4

Section 12

TRACT 85
SW/4 of SW/4

Section 14

TRACT 86
NE/4 of SE/4

TRACT 87
SW/4 of SE/4

Section 15

TRACT 88
NW/4 of NE/4

TRACT 89
NW/4 of NW/4

TRACT 90
NW/4 of SW/4

Section 21

TRACT 91
SW/4 of SW/4

Section 23

TRACT 92
NE/4 of SE/4

TRACT 93
SW/4 of SE/4

TOWNSHIP 24 NORTH - RANGE 12 EAST

Section 6

TRACT 94
SE/4 of NW/4

TOWNSHIP 24 NORTH - RANGE 11 EAST

Section 4

TRACT 95
NE/4 of SW/4

Section 5

TRACT 96
NE/4 of SW/4

TOWNSHIP 24 NORTH - RANGE 10 EAST

Section 3

TRACT 97
NW/4 of NE/4

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TOWNSHIP 24 NORTH - RANGE 10 EAST - CONT'D

Section 3 - Cont'd

TRACT 98
NW/4 of NW/4

TRACT 99
SE/4 of NW/4

TRACT 100
NW/4 of SW/4

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STATE OF ALABAMA
I CERTIFY THIS
INSTRUMENT WAS FILED

91 AUG -6 AM 10: 37

JUDGE OF PROBATE

1. Land Tax	_____
2. Mtg. Tax	_____
3. Recording Fee	92.50
4. Indexing Fee	2.00
5. No Tax Fee	_____
6. Certified Fee	7.00
Total	101.50

sm/land/assignment/mission/mission.mmc