

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)
For the fiscal year ended December 31, 1995

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the transaction period from _____ to _____
COMMISSION FILE NUMBER 0-9592

LOMAK PETROLEUM, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

34-1312571
(I.R.S. Employer
Identification No.)
76102
(Zip Code)

500 THROCKMORTON STREET, FT. WORTH, TEXAS
(Address of principal executive offices)

Registrant's telephone number, including area code: (817) 870-2601

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, \$.01 PAR VALUE
PREFERRED STOCK, \$1 PAR VALUE
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. {X}

The aggregate market value of voting stock of the Registrant held by non-affiliates (excluding voting shares held by officers and directors) was \$124,818,700 on March 11, 1996.

Indicate the number of shares outstanding of each of the Registrant's classes of stock on March 11, 1996: Common Stock \$.01 par value: 13,429,111; Preferred Stock \$1 par value: 1,150,000.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III of this report incorporates by reference the Registrant's Proxy Statement relating to the Registrant's 1996 Annual Meeting of Stockholders.

LOMAK PETROLEUM, INC.

ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 1995

PART I

ITEM 1. BUSINESS

GENERAL

Lomak Petroleum, Inc. ("Lomak" or the "Company") is an independent oil and gas company engaged in the acquisition, development, exploration and enhancement of oil and gas properties in the United States. Lomak's core areas of operation are located in Texas, Oklahoma and Appalachia. The Company has grown through a combination of acquisition, development, exploration and enhancement activities. Since January 1, 1990, 60 acquisitions have been consummated at a total cost of approximately \$200 million and \$24 million has been expended on development and exploration activities. As a result, proved reserves and production have each grown during this period at a rate in excess of 80% per annum. At December 31, 1995, proved reserves totaled 298 Bcfe, having a pre-tax present value at constant prices of \$229 million and a reserve life of nearly 12 years.

Lomak's acquisition effort is focused on properties with prices of less than \$30 million within its core areas of operation. Management believes these purchases are less competitive than those involving larger property interests. To the extent purchases continue to be made primarily within existing core areas, efficiencies in operations, drilling, gas marketing and administration should be realized. In 1993, Lomak initiated a program to exploit its growing inventory of development projects. In the future, Lomak expects its growth to be driven principally by a combination of acquisitions and development and, to a lesser extent, exploration.

At December 31, 1995, Lomak held interests in 6,596 gross (4,965 net) productive oil and gas wells. The Company currently operates over 6,200 wells which account for more than 93% of its developed reserves. In addition, the Company owns and operates approximately 1,900 miles of gas gathering systems in proximity to its principal gas properties. The Company also provides oil field services, including brine disposal and various well services primarily for certain of its own properties. The operations of the Company are considered to fall within a single industry segment; the exploration for, development and production of crude oil and natural gas.

The Company's common stock is listed on the Nasdaq National Market ("Nasdaq") under the symbol "LOMK". During 1995, trading volume averaged 82,000 shares per day. The Company maintains its corporate headquarters at 500 Throckmorton Street, Fort Worth, Texas 76102 and its telephone number is (817) 870-2601.

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DESCRIPTION OF THE BUSINESS

Strategy

The Company's objective is to continue to increase its asset base, cash flow and earnings through a balanced strategy of acquisitions, development, exploration and enhancement activities in core operating areas. In each core area, the Company establishes separate acquisition, engineering, operating, geological and other technical expertise. The Company currently has core operating areas in Texas, Oklahoma and Appalachia. Through its strategy, the Company does not depend solely on any one region or activity to grow its asset base. In addition, by operating in three core areas, the Company has expanded its acquisition, development and exploration opportunities.

Acquisitions. Since 1990, 60 acquisitions have been completed for a total consideration of \$200 million. Over 295 Bcfe of proved reserves have been acquired at an average cost of \$.63 per Mcfe. The Company's acquisition strategy is based on: (i) Size: targeting smaller, less competitive transactions having a cost below \$30 million; (ii) Locale: focusing in areas containing many small oil and gas operators and where larger companies are no longer active; (iii) Efficiency: targeting acquisitions in which operating and cost efficiencies can be obtained; (iv) Reserve Potential: pursuing properties with the potential for reserve increases through recompletions and drilling; (v) Incremental Purchases: seeking acquisitions where opportunities for

purchasing additional interests in the same or adjoining properties exist; and (vi) Complexity: pursuing more complex but less competitive corporate or partnership acquisitions.

Development. The Company's development activities include recompletions of existing wells, infield and step-out drilling and installation of secondary recovery projects. Development projects are generated within core operating areas where the Company has significant operational and technical experience. At December 31, 1995, over 750 proven development projects were in inventory. These projects are located in eight different fields, vary between oil and gas, and are balanced between low and medium risk. Approximately 100 of these projects are expected to be initiated in 1996 at a total cost of approximately \$13 million. Based on the number of projects currently in inventory, development expenditures are currently projected to approximate \$45 million over the three year period 1996 through 1998.

Exploration. To date, the Company has concentrated on its acquisition and development activities while building its asset base and cash flow. In the future, exploration activities are expected to be expanded within the Company's core operating areas. These activities are expected to be an extension of the Company's development activities and will be initiated by its in-house technical staff.

Enhancements. The Company's enhancement activities include all activities other than acquisitions, development and exploration which maximize the value of its assets. Enhancements include: reducing overhead, operating and development costs; concentrating operations to increase efficiency; the rapid disposal of non-strategic properties; expanding marketing options; and applying new technology to exploit additional reserves. Enhancements increase margins and help maintain profitability during downward phases of energy price cycles.

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Acquisition Activities

Since 1990, the Company has completed 60 acquisitions for \$200 million of consideration. During 1995, \$71.1 million of purchases were completed. The Company's acquisition strategy is to concentrate on smaller transactions that offer higher expected returns. The Company believes that it can continue to implement its acquisition strategy based on the following:

SIZE: The Company believes that smaller transactions (less than \$30 million in cost) provide the opportunity for higher returns due to the limited number of buyers that have the interest, financial capabilities and the operational efficiencies necessary to consummate such transactions. Smaller companies generally do not have sufficient capital or the requisite expertise to engage in such transactions while the larger companies are focusing on other areas, such as overseas operations, or larger transactions. Additionally, because of the continuing restructuring of the domestic oil and gas industry, many small oil and gas entities are for sale and many larger companies are selling their smaller or non-strategic properties. As the Company grows, it may review acquisitions in excess of \$30 million, however, the significant portion of its acquisitions are still expected to be \$30 million or below.

LOCALE: Focusing on areas containing many small, less capitalized operators. These typically are areas in which many of the major and larger independent companies are no longer active and where, in some cases, they are divesting their remaining assets. The potential for reserve increases in these areas exists through the application of new operating and technical advances.

EFFICIENCY: Targeting acquisitions in which operating and cost efficiencies can be obtained. The Company concentrates on acquiring oil and gas assets in areas in which it already operates and seeks to subsequently merge into its existing infrastructure the overhead functions of companies, partnerships and direct property interests it acquires. Not only does the increased efficiency result in increased profitability, but it also enables the Company to be an aggressive buyer while still generating an attractive return.

RESERVE POTENTIAL: Pursuing properties with the potential for reserve increases through workovers, recompletions, drilling and secondary recovery operations.

INCREMENTAL PURCHASES: Seeking acquisitions where opportunities for purchasing incremental interests in the same or adjoining properties exist. Properties in which the Company currently owns an interest contain over \$100 million of estimated value attributable to the reserves for interests held by third parties. The purchase of incremental interests results in only minor increases in overhead cost.

COMPLEXITY: A number of companies and partnerships which own oil and gas assets have been acquired at attractive prices. Due to the added complexity involved in acquiring and integrating these entities and their assets, many buyers do not have the expertise or desire to compete for such acquisitions.

The following table sets forth information pertaining to acquisitions completed during the past six years.

| Period | Number of Transactions | Purchase Price (1) | MMcfe Acquired | Cost per Mcfe Acquired (2) |
|------------|------------------------|--------------------|----------------|----------------------------|
| 1990..... | 6 | \$ 6,520 | 6,369 | \$ 0.93 |
| 1991..... | 9 | 11,189 | 14,602 | 0.75 |
| 1992..... | 7 | 6,884 | 12,513 | 0.41 |
| 1993..... | 12 | 40,527 | 64,552 | 0.59 |
| 1994..... | 17 | 63,354 | 92,851 | 0.67 |
| 1995..... | 9 | 71,074 | 103,849 | 0.61 |
| Total..... | 60 | \$ 199,548 | 294,736 | \$ 0.63 |

(1) Includes purchase price for proved reserves as well as other acquired assets, including gas gathering lines, undeveloped leasehold and field service assets.

(2) Includes purchase price for proved reserves only.

Development Activities

Development activities include recompletions of existing wells, the drilling of infield and step-out wells and secondary recovery projects. Approximately \$3.7, \$9.5 and \$11.1 million was expended on these activities during 1993, 1994 and 1995, respectively. The Company estimates that it will spend up to \$15 million on development activities in 1996. Based on over 750 proven development projects currently in inventory, capital expenditures are currently estimated to be approximately \$45 million over the three year period 1996 through 1998.

The Company's development strategy is to own as large an interest as possible in more established, lower risk development projects. Conversely, in development activities that are less established and therefore deemed to be of higher risk, the Company generally seeks to participate for no more than a 50% interest. As more confidence is gained in regard to the higher risk development activities, the Company may increase its ownership percentage.

Texas. At December 31, 1995, Texas accounted for 182 proved development projects. The majority of these projects include recompletions and infield drilling locations in the Big Lake Area of west Texas and the Laura LaVelle Field of east Texas. The production from these two fields is predominantly oil. The Company has performed 29 recompletions and drilled 40 wells in these two fields. As a result of development and additional acquisitions, gross production from the two fields has increased from 500 Boe per day to over 1,850 Boe per day. In 1996, the Company expects to recomplete 12 wells and drill 18 new wells in the two fields at a cost of approximately \$2.5 million.

Oklahoma. Essentially all of the 207 Oklahoma proved development projects are in the Okeene Field located in the northwestern portion of the Anadarko Basin. These projects include 133 recompletions and 74 drilling locations. The Company's primary producing area is situated in a four township area that straddles the Blaine-Major County line, with over 250 Company operated wells. The majority of the reserves are gas and are produced from six geologic horizons at depths ranging from 7,000 to 9,000 feet. The Company

acquired its interests in the field during the fourth quarter of 1994. In 1996, the Company estimates it will undertake 24 recompletions and drill 9 new wells for approximately \$4.0 million. An extensive geologic study of the area has been initiated to further identify additional development opportunities.

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Appalachia. In Ohio, Pennsylvania and West Virginia 392 proved development projects have been identified in the shallow Clinton, Medina and Upper Devonian Sandstone formations. These projects are located on 448,000 gross (341,000 net) acres under lease and range in depth from 2,000 to 6,000 feet. The reserves are characterized by initial flush production, followed by extremely gradual decline rates resulting in a projected life of over twenty years. During 1996 the Company estimates that it will recomplete 10 wells and drill 30 new wells at a cost of approximately \$4.0 million. The Company currently has a sufficient inventory of proved infield drilling locations to drill over 75 wells per year over the next five years.

In addition to the shallow formations discussed above, the Appalachian Basin has less developed formations including the Rose Run-Beekmantown and Trempealeau which range in depths from 4,000 to 8,000 feet. The geological boundaries of these formations lie approximately 2,500 feet below the shallower Clinton and Medina Sandstone formations. While the industry has drilled over 100,000 Clinton and Medina Sandstone wells, fewer than 1,700 wells have been drilled to the Rose Run-Beekmantown and 5,000 wells to the Trempealeau. The industry's initial results were poor because the wells were based strictly upon regional geology and limited seismic data was utilized. However, more recent activities using modern seismic technologies have significantly improved the returns from these deeper zones. Since 1993, the Company has participated in 29 deeper wells with an average working interest of 11%, of which, 16 were productive and 13 were dry. Currently, the Company owns leases covering 318,000 gross (237,000 net) acres in the deeper "Rose Run Trend." The Company's 1996 budget allocates approximately \$2 million to acquire acreage and seismic and to drill wells in this area.

Enhancement Activities

The Company defines enhancements as those activities, other than acquisitions or drilling, which maximize the value of its asset base. Enhancements include: reducing overhead, operating and development costs on a per Mcfe basis; concentrating operations to increase efficiency; disposing non-strategic properties rapidly; expanding marketing options; and applying new technology to exploit additional reserves. Enhancements create higher margins and help maintain profitability during the downward phase of energy price cycles. Despite low oil and gas prices in recent years, the Company posted increased cash flow and profits, partly due to enhancements. Primarily as a result of its enhancement activities during the past five years the Company has: (i) decreased overhead costs per Mcfe by 89%; (ii) cut operating costs per Mcfe by 30%; (iii) reduced development costs per Mcfe by 31%; (iv) now operates properties representing more than 93% of its reserves; (v) sold over 1,000 non-strategic properties; (vi) expanded gas marketing to nearly 90 MMcf per day through 1,900 miles of Company-owned gas gathering systems; and (vii) improved seismic and completion techniques by applying new technology.

Production

Production revenue is generated through the sale of oil and gas from properties held directly and through partnerships and joint ventures. Additional revenue is received from royalties. While oil and gas production is sold to a limited number of purchasers, it is believed that the loss of any one of them would not have a material adverse effect on the business. Proximity to local markets, availability of competitive fuels and overall supply and demand are factors affecting the ability to market production. There has been a worldwide surplus of oil and gas for more than a decade which has weakened oil prices and depressed the price of natural gas. While the Company anticipates an upward trend in energy prices, factors outside its control such as political developments in the Middle East, overall energy supply, weather conditions and economic growth rates have had, and may continue to have, an unpredictable effect on energy prices.

The following table sets forth historical revenue and expense information for the periods indicated (in thousands, except average sales price and operating cost data).

| | Year Ended December 31, | | | | |
|------------------------|-------------------------|----------|-----------|-----------|-----------|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| Production | | | | | |
| Oil (Bbl)..... | 129 | 199 | 318 | 640 | 913 |
| Gas (Mcf)..... | 1,334 | 1,796 | 2,590 | 6,996 | 12,471 |
| Mcfe (a)..... | 2,108 | 2,990 | 4,498 | 10,836 | 17,949 |
| Revenues | | | | | |
| Oil..... | \$ 2,438 | \$ 3,660 | \$ 5,118 | \$ 9,743 | \$ 15,133 |
| Gas..... | 2,946 | 4,043 | 6,014 | 14,718 | 22,284 |
| Total..... | \$ 5,384 | \$ 7,703 | \$ 11,132 | \$ 24,461 | \$ 37,417 |
| Average Sales Price | | | | | |
| Oil (Bbl)..... | \$ 18.91 | \$ 18.40 | \$ 16.07 | \$ 15.23 | \$ 16.57 |
| Gas (Mcf)..... | \$ 2.21 | \$ 2.25 | \$ 2.32 | \$ 2.10 | \$ 1.79 |
| Mcfe (a)..... | \$ 2.56 | \$ 2.58 | \$ 2.47 | \$ 2.26 | \$ 2.08 |
| Average Operating Cost | | | | | |
| Per Mcfe..... | \$ 1.03 | \$ 0.99 | \$ 0.98 | \$ 0.93 | \$ 0.83 |

(a) Oil is converted to Mcfe at a rate of 6 Mcf per barrel.

On a Mcfe basis, approximately 69% of 1995 production was natural gas. Gas production was sold to utilities, brokers or directly to industrial users. Gas sales are made pursuant to various arrangements ranging from month-to-month contracts, one year contracts at fixed or variable prices and contracts at fixed prices for the life of the well. All contracts other than the fixed price contracts contain provisions for price adjustment, termination and other terms customary in the industry. A number of the Appalachian gas contracts hold favorable sales prices when compared to spot market prices. Oil is sold on a basis such that the purchaser can be changed on 30 days notice. The price received is generally equal to a posted price set by the major purchasers in the area. Oil purchasers are selected on the basis of price and service. In 1995, revenues from oil and gas production amounted to \$37.4 million, representing 72% of revenues. Oil and gas revenues for 1995 increased 53% over 1994.

Field Services

The field services area is comprised of three components -- well operations, brine disposal and well servicing. As of December 31, 1995, Lomak acted as operator of, or provided pumping services for, over 6,200 wells. Lomak performs virtually all day-to-day services required by these operations, rather than subcontracting them. For its services, Lomak receives a monthly fee plus reimbursement of third party charges.

Prior to 1995, Lomak conducted brine disposal and well servicing operations on its properties as well as for third parties primarily in Ohio and to a lesser extent in Pennsylvania and Texas. In 1994, Lomak sold substantially all of brine disposal and well servicing assets located in Ohio. Through an acquisition completed in early 1995, the Company began conducting brine disposal and well services in Oklahoma.

Gas Transportation and Marketing

The gas transportation and marketing revenues are comprised of fees for the transportation of production through gathering lines and, to a lesser extent, income from marketing of oil and gas. In 1994, the Company began to take a more active role in marketing both its oil and gas production. As a

result, at year end 1995, the Company was marketing approximately 90 MMcfe per day, including its production and the production of third parties. Gas transportation and marketing revenues were \$2.2 and \$3.3 million for 1994 and 1995, respectively.

The Company has currently hedged through the financial markets less than 3% of its monthly production through September 1996. These hedges involve fixed price arrangements and other price arrangements at a variety of prices, floors and caps. Although these hedging activities provide the Company some protection against falling prices, these activities also reduce the potential benefits to the Company of price increases above the levels of the hedges. In the future, the Company may increase the percentage of its production covered by hedging arrangements, however, it currently anticipates that such percentage would not exceed 50%.

The Company prefers to hedge its gas production through fixed price gas contracts. At December 31, 1995, approximately 42% of the Company's gas production was under fixed priced arrangements. These contracts vary in length from one year to the life-of-the-well. A majority of the contracts are for three years or less. Essentially all these contracts are with industrial end-users and utilities.

In total, field services provided revenues of \$10.1 million in 1995, representing 19% of total revenues. Field service revenues for 1995 increased 32% over the prior year.

Interest and Other

The Company earns interest on its cash and investment accounts, as well as on various notes receivable. Other income in 1995 was comprised principally of gains on sales of non-strategic properties and various fees charged to third parties. The Company expects to continue to sell assets which have no strategic benefit. Interest and other income in 1995 amounted to \$1.3 million, representing 3% of total revenues. Revenues from interest and other for 1995 increased 180% from the 1994 level.

COMPETITION

The Company encounters substantial competition in acquiring properties, marketing oil and gas, securing personnel and conducting its field services operations. Many competitors have financial and other resources which substantially exceed those of the Company. The competitors in acquisitions, development, exploration and production include the major oil companies in addition to numerous independents, individual proprietors and others. Therefore, competitors may be able to pay more for desirable leases and to evaluate, bid for and purchase a greater number of properties or prospects than the financial or personnel resources of the Company permit. The ability of the Company to replace and expand its reserve base in the future will be dependent upon its ability to select and acquire suitable producing properties and prospects for future drilling.

The Company's acquisitions have been partially financed through issuances of equity and debt securities and internally generated cash flow. The competition for capital to finance oil and gas acquisitions and drilling is intense. The ability of the Company to obtain such financing is uncertain and can be affected by numerous factors beyond its control. The inability of the Company to raise capital in the future could have an adverse effect on certain areas of its business.

EMPLOYEES

As of December 31, 1995, the Company had 281 full time employees, 198 of whom were field personnel. None are covered by a collective bargaining agreement and management believes that its relationship with its employees is good.

SUBSEQUENT EVENTS

In February 1996, the Company completed three oil and gas property

acquisitions for \$17.5 million of consideration. The properties are located in Lomak's core operating areas of Appalachia and Texas. In aggregate, the acquisitions are estimated to contain proved reserves of 20.2 Bcf of gas and 240,000 barrels of oil, or 21.6 Bcfe in total.

ITEM 2. PROPERTIES

On December 31, 1995, the Company's properties included working interests in 6,596 gross (4,965 net) productive oil and gas wells and royalty interests in 614 additional wells. The properties contained, net to the Company's interest, estimated proved reserves of 10.9 million barrels of oil and 232.9 Bcf of gas or a total of 298 Bcfe. The Company also held interests in 311,200 gross (225,100 net) undeveloped acres at year end.

PROVED RESERVES

The following table sets forth as of December 31 estimated proved reserves for the preceding five years.

| | 1991 | 1992 | 1993 | 1994 | 1995 |
|-------------------------------------|--------|--------|---------|---------|---------|
| Crude oil (MBbl) | | | | | |
| Developed..... | 1,609 | 1,643 | 3,344 | 6,430 | 8,880 |
| Undeveloped..... | 245 | 337 | 1,195 | 2,019 | 1,983 |
| Total..... | 1,854 | 1,980 | 4,539 | 8,449 | 10,863 |
| Natural gas (MMcf) | | | | | |
| Developed..... | 8,318 | 13,171 | 38,373 | 97,251 | 174,958 |
| Undeveloped..... | 221 | 4,444 | 36,190 | 52,119 | 57,929 |
| Total..... | 8,539 | 17,615 | 74,563 | 149,370 | 232,887 |
| Total equivalent units (MMcfe)..... | 19,663 | 29,495 | 101,797 | 200,064 | 298,068 |

Proved developed reserves are expected to be recovered from existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from new wells drilled to known reservoirs on undrilled acreage for which the existence and recoverability of such reserves can be estimated with reasonable certainty. On a Mcfe basis, approximately 77% of the Company's proved reserves were developed at December 31, 1995. Approximately 93% of the proved reserves set forth above were engineered by independent petroleum consultants, while the remaining 7% was evaluated by the Company's engineering staff.

The following table sets forth as of December 31, 1995 the estimated future net cash flow from and the present value of the proved reserves. Future net cash flow represents future gross cash flow from the production and sale of proved reserves, net of production costs (including production taxes, ad valorem taxes and operating expenses) and future development costs. Such calculations, which are prepared in accordance with the Statement of Financial Accounting Standards No. 69 "Disclosures about Oil and Gas Producing Activities" are based on cost and price factors on December 31, 1995. Average product prices in effect at December 31, 1995 were \$18.14 per barrel of oil and \$2.28 per Mcf of gas. There can be no assurance that the proved reserves will be developed within the periods indicated or that prices and costs will remain constant. There are numerous uncertainties inherent in estimating reserves and related information and different reservoir engineers often arrive at different estimates for the same properties. No estimates of reserves have been filed with or included in reports to another federal authority or agency since December 31, 1995.

| Developed | Undeveloped | Total |
|----------------|-------------|-------|
| ----- | ----- | ----- |
| (in thousands) | | |

| | | | |
|---|------------|-------------|------------|
| Future net cash flow from estimated production of proved reserves | | | |
| 1996..... | \$ 40,215 | \$ (10,815) | \$ 29,400 |
| 1997..... | 35,979 | (4,394) | 31,585 |
| 1998..... | 33,161 | 7,663 | 40,824 |
| Remainder..... | 219,126 | 91,703 | 310,829 |
| | ----- | ----- | ----- |
| Total..... | \$ 328,481 | \$ 84,157 | \$ 412,638 |
| | ===== | ===== | ===== |
| Present value | | | |
| Pre-tax..... | \$ 195,554 | \$ 33,684 | \$ 229,238 |
| | ===== | ===== | ===== |
| After-tax..... | \$ 148,475 | \$ 25,575 | \$ 174,050 |
| | ===== | ===== | ===== |

SIGNIFICANT PROPERTIES

Until 1990, virtually all of the Company's properties were located in Ohio. Since that time, properties have been acquired in Texas and Oklahoma and other areas of Appalachia. At December 31, 1995, on a pre-tax present value basis, 49% of the reserves were located in Appalachia, 25% were in Texas and 22% were in Oklahoma. The Company also held interests in 272,200 gross (211,200 net) undeveloped acres at December 31, 1995. The following table sets forth information with respect to the Company's estimated proved oil and gas reserves as of December 31, 1995.

| | Present Value | | Crude Oil | Natural Gas | Equiv. |
|------------|---------------|-------|-----------|-------------|---------|
| | Amount | % | | | |
| | ----- | ----- | ----- | ----- | ----- |
| | | | (MBbl) | (Bcf) | (Bcfe) |
| Appalachia | \$111,165 | 49% | 1,160 | 156,937 | 163,896 |
| Texas | 58,068 | 25 | 6,574 | 19,607 | 59,053 |
| Oklahoma | 51,346 | 22 | 1,851 | 55,906 | 67,013 |
| Other | 8,659 | 4 | 1,278 | 437 | 8,106 |
| | ----- | --- | ----- | ----- | ----- |
| Total | \$229,238 | 100% | 10,863 | 232,887 | 298,068 |
| | ===== | === | ===== | ===== | ===== |

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The largest concentration of reserves is in Appalachia with 49% of total present value. On an Mcfe basis, gas accounts for approximately 96% of these reserves. These reserves are ascribed to over 5,200 wells located in Pennsylvania, Ohio, West Virginia and New York. The Company operates nearly all of these wells. The reserves produce principally from the Medina, Clinton, Upper Devonian and Rose Run formations at depths of 3,000 to 7,000 feet. After initial flush production, these properties are characterized by extremely gradual decline rates and often have a projected life of more than twenty years. Gas production is transported through Company-owned gas gathering systems and is sold primarily to utilities and industrial end-users.

The second largest concentration of reserves is in Texas, totaling 25% of present value. On an Mcfe basis, oil makes up 67% of the reserves. The largest portion of these reserves is ascribed to 354 operated wells in the Big Lake Area of west Texas. These wells produce from the San Andres/Grayburg formation at a depth of approximately 2,500 feet. The properties have a projected remaining life of over 25 years. Over 80% of these reserves are oil. Oil production is sold to Scurlock Permian and gas to J.L. Davis Company. The second largest portion of these reserves are ascribed to 93 operated wells in the Laura LaVelle Field in east Texas. These wells produce from the shallow Carrizo section of the Wilcox formation at a depth of approximately 1,600 feet. These properties have a projected remaining life of twenty years. All of the reserves are oil and production is sold to Texaco. The third largest portion is in Hagist Ranch Field in south Texas. The Company operates 62 wells in this field which produces primarily from the Wilcox at approximately 8,000 feet. Arco purchases the gas production from the Hagist Ranch Field.

The third largest concentration of reserves is in Oklahoma, totaling 22% of present value. On an Mcfe basis, gas makes up 83% of these reserves. The largest portion of these reserves is ascribed to over 257 operated wells in and

around the Okeene Field of the Anadarko Basin. These wells produce from numerous formations ranging in depth from approximately 6,000 to 9,000 feet. The properties have a projected remaining life of over fifteen years. Gas production is sold primarily to Phillips Petroleum and Natural Gas Clearinghouse on an index or percent of plant proceeds basis.

PRODUCTION

The following table sets forth production information for the preceding five years (in thousands, except average sales price and operating cost data).

| | Year Ended December 31, | | | | |
|--------------------------------|-------------------------|----------|-----------|-----------|-----------|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| Production | | | | | |
| Oil (Bbl)..... | 129 | 199 | 318 | 640 | 913 |
| Gas (Mcf)..... | 1,334 | 1,796 | 2,590 | 6,996 | 12,471 |
| Mcfe (a)..... | 2,108 | 2,990 | 4,498 | 10,836 | 17,949 |
| Revenues | | | | | |
| Oil..... | \$ 2,438 | \$ 3,660 | \$ 5,118 | \$ 9,743 | \$ 15,133 |
| Gas..... | 2,946 | 4,043 | 6,014 | 14,718 | 22,284 |
| Total..... | \$ 5,384 | \$ 7,703 | \$ 11,132 | \$ 24,461 | \$ 37,417 |
| Direct operating expenses..... | 2,170 | 3,019 | 4,438 | 10,019 | 14,930 |
| Gross margin..... | \$ 3,214 | \$ 4,684 | \$ 6,694 | \$ 14,442 | \$ 22,487 |
| Average sales price | | | | | |
| Oil (Bbl)..... | \$ 18.91 | \$ 18.40 | \$ 16.07 | \$ 15.23 | \$ 16.57 |
| Gas (Mcf)..... | \$ 2.21 | \$ 2.25 | \$ 2.32 | \$ 2.10 | \$ 1.79 |
| Mcfe (a)..... | \$ 2.56 | \$ 2.58 | \$ 2.47 | \$ 2.26 | \$ 2.08 |
| Average operating expense | | | | | |
| per Mcfe..... | \$ 1.03 | \$ 0.99 | \$ 0.98 | \$ 0.93 | \$ 0.83 |

(a) Oil is converted to Mcfe at a rate of 6 Mcf per barrel.

PRODUCING WELLS

The following table sets forth certain information relating to productive wells at December 31, 1995. The Company owns royalty interests in an additional 614 wells. Wells are classified as oil or gas according to their predominant production stream.

| Principal Product Stream | Gross Wells | Net Wells | Average Working Interest |
|--------------------------|-------------|-----------|--------------------------|
| Crude oil..... | 1,427 | 637 | 45% |
| Natural gas..... | 5,169 | 4,328 | 84% |
| Total..... | 6,596 | 4,965 | 75% |

ACREAGE

The following table sets forth the developed and undeveloped acreage

held at December 31, 1995.

| | Gross | Net | Average Working Interest |
|------------------|---------|---------|--------------------------------|
| | ----- | ----- | ----- |
| Developed..... | 478,700 | 340,300 | 71% |
| Undeveloped..... | 272,200 | 211,200 | 78% |
| | ----- | ----- | |
| Total..... | 750,900 | 551,500 | 73% |
| | ===== | ===== | |

DRILLING RESULTS

The following table summarizes drilling activities for the preceding three years.

| | Year Ended December 31, | | |
|--------------------|-------------------------|-------|-------|
| | ----- | ----- | ----- |
| | 1993 | 1994 | 1995 |
| | ----- | ----- | ----- |
| Drilling: | | | |
| Development wells: | | | |
| Gross..... | 24.0 | 62.0 | 55.0 |
| Net..... | 17.4 | 56.6 | 39.0 |
| Exploratory wells: | | | |
| Gross..... | 6.0 | 9.0 | 7.0 |
| Net..... | 1.0 | 1.6 | 0.6 |
| Total: | | | |
| Gross..... | 30.0 | 71.0 | 62.0 |
| Net..... | 18.4 | 58.2 | 39.6 |
| Drilling Results: | | | |
| Productive wells: | | | |
| Gross..... | 25.0 | 64.0 | 58.0 |
| Net..... | 16.5 | 56.4 | 39.2 |
| Dry holes: | | | |
| Gross..... | 5.0 | 7.0 | 4.0 |
| Net..... | 1.9 | 1.8 | 0.4 |

REAL PROPERTY

The Company's primary office facilities are located in Ft. Worth, Texas, Hartsville, Ohio and Oklahoma City, Oklahoma. These offices total approximately 40,000 square feet of which 60% is owned with the remainder leased. The Company also owns a number of smaller field offices in proximity to its areas of operations. The office leases are standard arrangements expiring at various times through September 1996. All facilities are adequate to meet the Company's existing needs and can be expanded with minimal expense.

The Company owns various rolling stock and other equipment which is used in its field operations. Such equipment is believed to be in good repair and, while such equipment is important to its operations, it can be readily replaced as necessary.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims will be resolved without material adverse effect on the Company's financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. MARKET FOR THE COMMON STOCK AND RELATED MATTERS

The Company's Common Stock is listed on Nasdaq under the symbol "LOMK". During 1995, trading volume averaged 82,200 shares per day. The stock prices below are based on the last trade price.

| | High | Low | Common Stock Dividends | Average Daily Volume (shares) |
|---------------------|---------|---------|------------------------------|--|
| 1994 | | | | |
| ---- | | | | |
| First Quarter..... | \$8.625 | \$7.125 | \$ - | 52,100 |
| Second Quarter..... | 8.250 | 6.750 | - | 28,800 |
| Third Quarter..... | 9.250 | 8.000 | - | 27,500 |
| Fourth Quarter..... | 8.250 | 6.750 | - | 19,900 |
| 1995 | | | | |
| ---- | | | | |
| First Quarter..... | \$7.375 | \$5.500 | \$ - | 57,800 |
| Second Quarter..... | 8.188 | 7.250 | - | 111,500 |
| Third Quarter..... | 9.250 | 7.250 | - | 80,700 |
| Fourth Quarter..... | 9.750 | 7.500 | .01 | 92,000 |

DIVIDENDS

Dividends of \$.01 per share were initiated on the Common Stock in December 1995. The 7-1/2% Convertible Preferred Stock receives cumulative quarterly dividends at the annual rate of \$1.875 per share. The \$2.03 Convertible Preferred Stock receives cumulative quarterly dividends at the annual rate of \$2.03 per share.

The Company currently retains substantially all of its earnings to support the development of its business. Any future determination as to the payment of dividends will be at the discretion of the Board of Directors of the Company, and will depend on the Company's financial condition, results of operations and capital requirements, and such other factors as the Board of Directors deems relevant. In addition, the Company's bank credit facility limits the amount of cash dividends that can be paid in one year to 75% of the Company's net income, plus the cumulative net proceeds from all equity offerings completed after January 1, 1996.

HOLDERS OF RECORD

At December 31, 1995, the number of holders of record of the Common Stock, 7-1/2% Convertible Preferred Stock and \$2.03 Convertible Preferred Stock were 5,062, 48 and 17, respectively.

On March 11, 1996, the closing price of the Common Stock was \$10.50. To date in 1996, trading volume has averaged 154,000 shares per day.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial information covering the preceding five years.

| (In thousands, except per share data) | As of or for the Year Ended December 31, | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| OPERATIONS | | | | | |
| Revenues..... | \$ 10,568 | \$ 13,895 | \$ 19,075 | \$ 34,794 | \$ 52,115 |
| Net income..... | 427 | 686 | 1,391 | 2,619 | 4,390 |
| Earnings per common share..... | .01 | .08 | .18 | .25 | .31 |

BALANCE SHEET

| | | | | | |
|----------------------------------|--------|--------|----------|----------|----------|
| Working capital..... | \$ 72 | \$ 167 | \$ 1,350 | \$ 1,002 | \$ 4,439 |
| Oil and gas properties, net..... | 16,261 | 18,599 | 55,310 | 112,964 | 176,702 |
| Total assets..... | 24,332 | 28,328 | 76,333 | 141,768 | 214,664 |
| Long-term debt..... | 11,689 | 12,679 | 30,689 | 61,885 | 83,035 |
| Stockholders' equity..... | 7,962 | 9,504 | 32,263 | 43,248 | 99,243 |

The following table sets forth summary unaudited financial information on a quarterly basis for the past two years (in thousands, except per share data).

| | 1994 | | | |
|--------------------------------|----------|----------|----------|----------|
| | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| Revenues..... | \$ 7,706 | \$ 9,275 | \$ 9,061 | \$ 8,752 |
| Net income..... | 420 | 747 | 722 | 730 |
| Earnings per common share..... | .04 | .07 | .07 | .07 |
| Total assets..... | 93,459 | 101,231 | 104,027 | 141,768 |
| Long-term debt..... | 45,319 | 51,119 | 52,670 | 61,885 |
| Stockholders' equity..... | 36,764 | 38,073 | 39,077 | 43,248 |

| | 1995 | | | |
|--------------------------------|-----------|-----------|-----------|-----------|
| | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| Revenues..... | \$ 10,903 | \$ 11,588 | \$ 12,136 | \$ 17,488 |
| Net income..... | 795 | 1,026 | 897 | 1,672 |
| Earnings per common share..... | .07 | .08 | .07 | .10 |
| Total assets..... | 151,801 | 157,222 | 203,305 | 214,664 |
| Long-term debt..... | 66,245 | 71,132 | 112,839 | 83,035 |
| Stockholders' equity..... | 57,701 | 58,884 | 60,554 | 99,243 |

The total of the earnings per share for each quarter does not equal the earnings per share for the full year, either because the calculations are based on the weighted average shares outstanding during each of the individual periods, or due to rounding.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FACTORS EFFECTING FINANCIAL CONDITION AND LIQUIDITY

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position continues to strengthen. The Company had working capital of \$4.4 million at December 31, 1995 compared to \$1.0 million at December 31, 1994. The Company had cash and cash equivalents of \$3.0 million at year end 1995. The Company's primary sources of cash in 1995 consisted of (i) operating cash flow of \$21.5 million (net income plus deferred taxes, depreciation, depletion and amortization and exploration expense); (ii) proceeds from the sale of preferred stock of \$27.8 million; (iii) proceeds from the sale of common stock of \$10.6 million; and, (iv) proceeds from the issuance of long-term debt of \$21.3 million. The Company's primary uses of cash in 1995 consisted of (i) acquisitions of oil and gas properties of \$67.1; (ii) capital expenditures for development and exploration activities of \$10.2; (iii) payments on long-term debt of \$808,000 and (iv) dividend payments of \$859,000.

The Company has three principal operating sources of cash: (i) sales of oil and gas, (ii) revenues from field services and (iii) revenues from gas transportation and marketing. The Company's cash flow is highly dependent upon oil and gas prices. Decreases in the market price of oil or gas could result in reductions of both cash flow and estimated reserves that would result in decreased funds available, including funds intended for planned capital expenditures.

Virtually all oil and gas properties are subject to production declines over time. Through acquisitions, the Company has increased its reserves in each of the last six years. It is anticipated that the Company will continue to build reserves primarily through acquisitions and development over the next several years. The profitability of production and, to a lesser extent, other areas of the Company's business are influenced by energy prices.

The Company funds its short-term working capital requirements through cash flow provided by operations and borrowings under its bank credit facility. The bank credit facility provides for a maximum capacity of \$250 million and has a borrowing base which is subject to semi-annual redeterminations. At December 31, 1995, the borrowing base on the credit facility was \$105 million and \$22 million was available under the facility. The Company's ratio of total debt to total capitalization was 45.6% at December 31, 1995, down from 56.3% at December 31, 1994. Total capitalization is defined by the Company as the sum of long-term debt, minority interest and stockholders' equity. The increase in the Company's long-term debt in recent years is due to acquisition and development activities. As of December 31, 1995, only \$53,000 of long-term debt matures within one year.

During 1995, the Company sold 1,150,000 shares of preferred stock and 1,319,000 shares of common stock for total net proceeds of \$38.4 million. In addition, 2.3 million shares of common stock were issued in completion of the acquisition of the Company's Oklahoma operating unit. The proceeds from the sale of stock were used to repay the bank credit facility.

Management believes that, in addition to current financial resources, adequate financial resources are available to satisfy the Company's acquisition, development and enhancement programs. Such sources of capital would include, but not be limited to, bank borrowings and the issuance of equity and debt securities.

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CAPITAL EXPENDITURES

During 1995, the Company acquired oil and gas properties, gas transportation and field service assets for \$71.1 million. Additionally, the Company incurred capital expenditures for development and exploration activities of \$10.2 million. In total, \$79.4 million of capital expenditures were incurred in 1995, versus \$69.2 million in 1994. The Company currently estimates that capital expenditures for acquisition and development activities will range from \$50 million to \$75 million in 1996. All of these expenditures are discretionary and could increase or decrease based upon the level of activity and the availability of capital.

The only material requirements for capital during the next twelve months are \$2.7 million of preferred stock dividends, interest payments on the Company's credit facility and \$53,000 of debt payments. Working capital and cash flow from operations will be more than sufficient to fund these expenditures. Excess funds will be used to help fund acquisitions and development activities.

In March 1996, the Company's Board of Directors approved resolutions authorizing the Company to repurchase shares of its Common Stock from odd-lot holders. The Company will acquire any and all shares from stockholders owning 99 or fewer shares for cash at market prices. Additionally, the Board of Directors approved a dividend of \$.01 per share to holders of its Common Stock to be paid on March 29, 1996.

INFLATION AND CHANGES IN PRICES

The Company's revenues and the value of its oil and gas properties have been and will be affected by changes in oil and gas prices. The Company's ability to maintain current borrowing capacity and to obtain additional capital on attractive terms is also substantially dependent on oil and gas prices. Oil and gas prices are subject to significant seasonal and other fluctuations that are beyond the Company's ability to control or predict. During 1995, the Company received an average of \$16.57 per barrel of oil and \$1.79 per Mcf of gas. Although certain of the Company's costs and expenses are affected by the level of inflation, inflation did not have a significant effect in 1995. Should conditions in the industry improve, inflationary cost pressures may resume.

RESULTS OF OPERATIONS

Comparison of 1995 to 1994

The Company reported net income for the year ended December 31, 1995

of \$4.4 million, a 68% increase over 1994. This increase is the result of higher production volumes attributable to acquisition and development activities. During the year, oil and gas production volumes increased 66% to 17.9 Bcfe, an average of 49,172 Mcfe per day. The increased revenues recognized from production volumes were partially offset by an 8% decrease in the average price received per Mcfe of production to \$2.08. The average oil price increased 9% to \$16.57 per barrel while average gas prices dropped 15% to \$1.79 per Mcf. As a result of the Company's larger base of producing properties and production, oil and gas production expenses increased 49% to \$14.9 million in 1995 versus \$10.0 million in 1994. However, the average operating cost per Mcfe produced decreased 11% from \$.93 in 1994 to \$.83 in 1995.

Gas transportation and marketing revenues increased 50% to \$3.3 million versus \$2.2 million in 1994. Coupled with this increase in gas transportation and marketing revenues was a 73% increase in associated expenses for the year. These increases were due primarily to the acquisition of several pipeline systems, as well as the expansion of the gas marketing efforts.

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Field services revenues increased 32% in 1995 to \$10.1 million, despite the September 1994 sale of virtually all well servicing and brine disposal assets in Ohio. The decrease in activities due to this sale was more than offset by an increase in well servicing and brine disposal activities in Oklahoma and well operations on acquired properties. Field services expenses increased 12% in 1995 to \$6.5 million versus \$5.8 million. The increase is attributed to the Oklahoma well servicing and the cost of operating a larger base of properties. The increase in well operating costs was offset to a great extent by the disposal in September 1994 of the Company's lower margin well servicing and brine hauling and disposal businesses.

Exploration expense increased 43% to \$512,000 due to the Company's increased involvement in exploration projects. These costs include delay rentals, seismic and exploratory drilling activities.

General and administrative expenses increased 10% from \$2.5 million in 1994 to \$2.7 million in 1995. As a percentage of revenues, general and administrative expenses were 5% in 1995 as compared to 7% in 1994. This decreasing trend reflects the spreading of administrative costs over a growing asset base.

Interest and other income rose 180% primarily due to higher sales of non-strategic properties. Interest expense increased 99% to \$5.6 million as compared to \$2.8 million in 1994. This was primarily as a result of the higher average outstanding debt balance during the year due to the financing of capital expenditures. The average outstanding balances on the bank credit facility were \$42.0 million and \$73.3 million for 1994 and 1995, respectively. The weighted average interest rate on these borrowings were 6.3% and 7.3% for the years ended December 31, 1994 and 1995, respectively.

Depletion, depreciation and amortization increased 47% compared to 1994 as a result of increased production volumes during the year. The increased depletion of oil and gas properties was partially offset by the reduction of depreciation of field services assets due to the 1994 sale of field service assets. The Company-wide depletion, depreciation and amortization rate for 1995 was \$.83 per Mcfe versus \$.93 in 1994.

Comparison of 1994 to 1993

The Company reported net income for the year ended December 31, 1994 of \$2.6 million, an 88% increase over 1993 net income. This increase can be attributed primarily to the realization of income from properties acquired in the fourth quarter of 1993 and in 1994, as well as the success of the 1994 drilling program.

During the year, oil and gas production volumes increased 141% to 10.8 MMcfe, an average of 29,680 Mcfe per day. The increased revenues recognized from production volumes were partially offset by a 9% decrease in the average price received per Mcfe of production to \$2.26. The average oil price decreased 5% to \$15.23 per barrel and average gas prices dropped 9% to \$2.10 per Mcf. As a result of the Company's larger base of producing properties and production,

oil and gas production expenses increased 126% to \$10.0 million in 1994 versus \$4.4 million in 1993. However, the average operating cost per Mcfe produced decreased 5% from \$0.98 in 1993 to \$0.93 in 1994.

Gas transportation and marketing revenues rose almost four fold to \$2.2 million versus \$0.6 million in 1993. Coupled with this increase in gas transportation and marketing revenues was an increase in associated expenses for the year. These increases were due primarily to the acquisition of several pipeline systems in late 1993, as well as the expansion of the gas marketing efforts.

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Field services revenues increased in 1994, despite the September 1994 sale of virtually all well servicing and brine hauling and disposal assets in Ohio. The decrease was offset by a marked increase in well operating revenues recognized on acquired properties. Field services expenses increased marginally in 1994 to \$5.8 million versus \$5.7 million. The slight increase can be attributed to the cost of operating a growing base of properties. The increase in well operating costs was offset to a great extent by the disposal in September 1994 of the Company's low-margin well servicing and brine hauling and disposal businesses.

Exploration expense increase four-fold due to the Company's increased involvement in drilling projects. The results of these costs can be seen in the increase in production due partially to its 1994 drilling program.

General and administrative expenses increased 21% from \$2.0 million in 1993 to \$2.5 million in 1994. As a percentage of revenues, general and administrative expenses were 7% in 1994 as compared to 11% in 1993. This decreasing trend reflects the spreading of administrative costs over a growing asset base.

Interest and other income rose 13% primarily due to a higher level of non-strategic property sales. Interest expense increased 151% to \$2.8 million as compared to \$1.1 million in 1993. This was as a result of the higher average outstanding debt balance during the year due to the financing of acquisitions and rising interest rates.

Depletion, depreciation and amortization increased 132% compared to 1993 as a result of increased production volumes during the year. The increased depletion of oil and gas properties was partially offset by the reduction of depreciation of field services assets due to the September 1994 sale of field service assets.

Comparison of 1993 to 1992

Total revenue for 1993 rose 37% to \$19.1 million compared to \$13.9 million in 1992. Net income increased 103% from \$686,000 in 1992 to \$1,391,000 in 1993. The increases in revenues and net income was due primarily to higher oil and gas volumes from acquisitions. The earnings increase was partially offset by higher operating expenses and increased depletion associated with higher production volumes.

Oil production averaged 872 barrels per day, an increase of 60% from 1992. The average oil price received for 1993 was \$16.07 per barrel compared to \$18.40 for 1992. Average daily gas production was 7,095 Mcf in 1993 versus 4,921 Mcf in the prior year, a 44% increase. Gas prices averaged \$2.32 per Mcf, \$.07 higher than 1992. Production operating expenses increased to \$4.5 million during 1993 compared to \$3.1 million during 1992 due to higher volumes. The average operating cost (including production taxes) was \$0.98 per Mcfe, slightly less than the prior year figure.

Field service revenues rose to \$7.0 million in 1993, a 32% increase compared to 1992. The increase was primarily the result of operating more oil and gas properties during 1993 and a full year's operations of Wellworks, Inc. ("Wellworks") versus one-half year of operations in 1992. Field service expenses increased 45% reflecting the higher expense ratio of well servicing.

Interest and other income decreased 28% to \$418,000 in 1993. The lower revenues were principally due to a lower level of property dispositions.

Interest expense increased 18% to \$1,120,000 as a result of a higher average outstanding debt balance from acquisitions. General and administrative expenses increased 7% and as a percentage of revenues was 11% in 1993 versus 14% in 1992. The reduction reflects cost efficiencies as well as higher cost reimbursements. Depletion, depreciation and amortization increased 39% in 1993 from the prior year principally due to increased oil and gas production volumes. The depletion rate in 1993 was \$0.74 per Mcfe compared to \$0.76 for 1992.

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ACCOUNTING STANDARDS

In March 1995, the Financial Standards Board (FASB) issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This standard requires the review of long-lived assets for impairment. Although the Company in the past has routinely reviewed its oil and gas assets for impairment, the new accounting rules may require a different grouping which may affect the amount of impairment, if any. SFAS No. 121 is required to be adopted for financial statements with fiscal years beginning after December 15, 1995 and allows the cumulative effect of the accounting change to be reported in net income in the year of adoption. The Company is currently reviewing the accounting standard and has not yet determined the effect, if any, on its consolidated financial position or results of operations.

In October 1995, FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This standard requires an audited pro forma footnote disclosure of what net income and earnings per share would have been for the Company based upon valuing employee options and other stock based compensation, at their estimated fair value using an option pricing model. SFAS No. 123 is required to be adopted for financial statements with fiscal years beginning after December 15, 1995. The Company is currently reviewing the accounting standard and has not yet determined the effect, if any, on its financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Index to Financial Statements on page 26 for a listing of the Company's financial statements and notes thereto and for supplementary schedules. Schedules I, III, IV, V, VI, VII, VIII, IX, X, XI, XII and XIII have been omitted as not required or not applicable or because the information required to be presented is included in the financial statements and related notes.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements have been prepared by management in conformity with generally accepted accounting principles. Management is responsible for the fairness and reliability of the financial statements and other financial data included in this report. In the preparation of the financial statements, it is necessary to make informed estimates and judgments based on currently available information on the effects of certain events and transactions.

The Company maintains accounting and other controls which management believes provide reasonable assurance that financial records are reliable, assets are safeguarded, and that transactions are properly recorded. However, limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed benefits derived.

The Company's independent auditors, Arthur Andersen LLP, are engaged to audit the financial statements and to express an opinion thereon. Their audit is conducted in accordance with generally accepted auditing standards to enable them to report whether the financial statements present fairly, in all material respects, the financial position and results of operations in accordance with generally accepted accounting principles.

ITEM 9. CHANGE IN ACCOUNTANTS AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The information required by Item 304 of Regulation S-K regarding

changes in accountants was previously filed on Form 8-K dated May 25, 1994.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The current executive officers and directors of the Company are listed below, together with a description of their experience and certain other information. Each of the directors was elected for a one-year term at the Company's 1995 annual meeting of stockholders. Executive officers are appointed by the Board of Directors.

| NAME | AGE | HELD OFFICE SINCE | POSITION WITH COMPANY |
|-------------------|-----|----------------------|--|
| ---- | --- | ----- | ----- |
| Thomas J. Edelman | 45 | 1988 | Chairman and Chairman of the Board |
| John H. Pinkerton | 41 | 1988 | President, Chief Executive Officer and Director |
| Robert E. Aikman | 64 | 1990 | Director |
| Allen Finkelson | 49 | 1994 | Director |
| Anthony V. Dub | 46 | 1995 | Director |
| Ben A. Guill | 45 | 1995 | Director |
| C. Rand Michaels | 58 | 1976 | Vice Chairman and Director |
| Jeffery A. Bynum | 41 | 1985 | Vice President-Land |
| Steven L. Grose | 47 | 1980 | Vice President-Appalachia Region |
| Chad L. Stephens | 40 | 1990 | Vice President-Midcontinent Region |
| Thomas W. Stoelk | 40 | 1994 | Vice President-Finance |
| John R. Frank | 40 | 1990 | Controller |

THOMAS J. EDELMAN, holds the office of Chairman and is Chairman of the Board of Directors. Mr. Edelman joined the Company in 1988 and served as its Chief Executive Officer until 1992. Since 1981, Mr. Edelman has been a director and President of Snyder Oil Corporation. Prior to 1981, Mr. Edelman was a Vice President of The First Boston Corporation. From 1975 through 1980, Mr. Edelman was with Lehman Brothers Kuhn Loeb Incorporated. Mr. Edelman received his Bachelor of Arts Degree from Princeton University and his Masters Degree in Finance from Harvard University's Graduate School of Business Administration. Mr. Edelman is also a director of Petroleum Heat & Power Co., Inc., a Connecticut based fuel oil distributor, Star Gas Corporation, a private company which distributes propane gas, Amerac Energy Corporation, a public domestic exploration and production company, and Command Petroleum Limited, an international exploration and production company affiliated with Snyder Oil Corporation.

JOHN H. PINKERTON, President, Chief Executive Officer and a Director, joined the Company in 1988. He was appointed President in 1990 and Chief Executive Officer in 1992. Previously, Mr. Pinkerton was Senior Vice President-Acquisitions of SOCO. Prior to joining SOCO in 1980, Mr. Pinkerton was with Arthur Andersen & Co. Mr. Pinkerton received his Bachelor of Arts Degree in Business Administration from Texas Christian University and his Master of Arts Degree in Business Administration from the University of Texas.

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ROBERT E. AIKMAN, a Director, joined the Company in 1990. Mr. Aikman has more than 40 years experience in petroleum and natural gas exploration and production throughout the United States and Canada. From 1984 to 1994 he was Chairman of the Board of Energy Resources Corporation. From 1979 through 1984, he was the President and principal shareholder of Aikman Petroleum, Inc. From 1971 to 1977, he was President of Dorchester Exploration Inc., and from 1971 to 1980, he was a Director and a Member of the Executive Committee of Dorchester

Gas Corporation. Mr. Aikman is also Chairman of Provident Trade Company, President of EROG, Inc., and President of The Hawthorne Company, an entity which organizes joint ventures and provides advisory services for the acquisition of oil and gas properties, including the financial restructuring, reorganization and sale of companies. He was President of Enertec Corporation which was reorganized under Chapter 11 of the Bankruptcy Code in December 1994. In addition, Mr. Aikman is a director of the Panhandle Producers and Royalty Owners Association and a member of the Independent Petroleum Association of America, Texas Independent Producers and Royalty Owners Association and American Association of Petroleum Landmen. Mr. Aikman graduated from the University of Oklahoma in 1952.

ALLEN FINKELSON, was appointed a Director in 1994. Mr. Finkelson has been a partner at Cravath, Swaine & Moore since 1977, with the exception of the period from September 1983 through August 1985, when he was a managing director of Lehman Brothers Kuhn Loeb Incorporated. Mr. Finkelson was first employed by Cravath, Swaine & Moore as an associate in 1971. Mr. Finkelson received his Bachelor of Arts Degree from St. Lawrence University and his Doctor of Laws Degree from Columbia University School of Law.

ANTHONY V. DUB, was elected to serve as a Director of the Company in 1995. Mr. Dub is Managing Director-Senior Advisor of CS First Boston, an international investment banking firm with headquarters in New York City. Mr. Dub joined CS First Boston in 1971 and was named a Managing Director in 1981. Mr. Dub received his Bachelor of Arts Degree from Princeton University in 1971.

BEN A. GUILL, was elected to serve as a Director of the Company in 1995. Mr. Guill is a Partner and Managing Director of Simmons & Company International, an investment banking firm located in Houston, Texas focused exclusively on the oil service and equipment industry. Mr. Guill has been with Simmons & Company since 1980. Prior to joining Simmons & Company, Mr. Guill was with Blyth Eastman Dillon & Company from 1978 to 1980. Mr. Guill received his Bachelor of Arts Degree from Princeton University and his Masters Degree in Finance from the Wharton Graduate School of Business at the University of Pennsylvania.

C. RAND MICHAELS, who holds the office of Vice Chairman and is a Director, served as President and Chief Executive Officer of the Company from 1976 through 1988 and Chairman of the Board from 1984 through 1988, when he became Vice Chairman. Mr. Michaels received his Bachelor of Science Degree from Auburn University and his Master of Business Administration Degree from the University of Denver. Mr. Michaels is also a director of American Business Computers Corporation of Akron, Ohio, a public company serving the beverage dispensing and fast food industries.

JEFFERY A. BYNUM, Vice President-Land and Secretary, joined the Company in 1985. Previously, Mr. Bynum was employed by Crystal Oil Company and Kinnebrew Energy Group of Shreveport, Louisiana. Mr. Bynum holds a Professional Certification with American Association of Petroleum Landmen and attended Louisiana State University in Baton Rouge, Louisiana and Centenary College in Shreveport, Louisiana.

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STEVEN L. GROSE, Vice President-Appalachia Region, joined the Company in 1980. Previously, Mr. Grose was employed by Halliburton Services, Inc. as a Field Engineer from 1971 until 1974. In 1974, he was promoted to District Engineer and in 1978, was named Assistant District Superintendent based in Pennsylvania. Mr. Grose is a member of the Society of Petroleum Engineers and a trustee of The Ohio Oil and Gas Association. Mr. Grose received his Bachelor of Science Degree in Petroleum Engineering from Marietta College.

CHAD L. STEPHENS, Vice President-Midcontinent Region, joined the Company in 1990. Previously, Mr. Stephens was a landman with Duer Wagner & Co., an independent oil and gas producer, since 1988. Prior thereto, Mr. Stephens was an independent oil operator in Midland, Texas for four years. From 1979 to 1984, Mr. Stephens was a landman for Cities Service Company and HNG Oil Company. Mr. Stephens received his Bachelor of Arts Degree in Finance and Land Management from the University of Texas.

THOMAS W. STOELK, Vice President - Finance and Chief Financial Officer, joined the Company in 1994. Mr. Stoelk is a Certified Public Accountant and was a Senior Manager with Ernst & Young LLP. Prior to rejoining Ernst & Young LLP in 1986 he was with Partners Petroleum, Inc. Mr. Stoelk received his Bachelor of Science Degree in Industrial Administration from Iowa State University.

JOHN R. FRANK, Controller and Chief Accounting Officer, joined the Company in 1990. From 1989 until he joined Lomak in 1990, Mr. Frank was Vice President Finance of Appalachian Exploration, Inc. Prior thereto, he held the positions of Internal Auditor and Treasurer with Appalachian Exploration, Inc. beginning in 1977. Mr. Frank received his Bachelor of Arts Degree in Accounting and Management from Walsh College and attended graduate studies at the University of Akron.

The Lomak Board has established three committees to assist in the discharge of its responsibilities.

AUDIT COMMITTEE. The Audit Committee reviews the professional services provided by Lomak's independent public accountants and the independence of such accountants from management of Lomak. This Committee also reviews the scope of the audit coverage, the annual financial statements of Lomak and such other matters with respect to the accounting, auditing and financial reporting practices and procedures of Lomak as it may find appropriate or as have been brought to its attention. Messrs. Aikman, Dub and Guill members of the Audit Committee.

COMPENSATION COMMITTEE. The Compensation Committee reviews and approves executive salaries and administers bonus, incentive compensation and stock option plans of Lomak. This Committee advises and consults with management regarding pensions and other benefits and significant compensation policies and practices of Lomak. This Committee also considers nominations of candidates for corporate officer positions. The members of Compensation committee are Messrs. Aikman, Guill and Finkelson.

EXECUTIVE COMMITTEE. The Executive Committee reviews and authorizes actions required in the management of the business and affairs of Lomak, which would otherwise be determined by the Board, where it is not practicable to convene the full Board. One of the principal responsibilities of the Executive Committee will be to review and approve smaller acquisitions. The members of the Executive Committee are Messrs. Edelman, Finkelson and Pinkerton.

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ITEM 11. COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Information with respect to executive compensation is incorporated herein by reference to the Proxy Statement for its 1996 annual meeting of stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the Company's Proxy Statement for its 1996 annual meeting of stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is incorporated herein by reference to the Company's Proxy Statement for its 1996 annual meeting of stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. and 2. Financial Statements and Financial Statement Schedules The items listed in the accompanying index to financial statements are filed as part of this Annual Report on Form 10-K.

3. Exhibits.
The items listed on the accompanying index to exhibits are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K.

November 8, 1995 - Acquisition of Transfuel Interests for \$20.2 million and \$755,000 in Lomak common stock. The acquisition includes approximately 1,800 producing gas wells, 1,100 miles of gathering lines, 175,000 net acres of undeveloped leases and associated real estate and equipment.

(c) Exhibits required by Item 601 of Regulation S-K. Exhibits required to be filed by the Company pursuant to Item 601 of Regulation S-K are contained in Exhibits listed in response to Item 14 (a)3, and are incorporated herein by reference.

(d) Financial Statement Schedules Required by Regulation S-X. The items listed in the accompanying index to financial statements are filed as part of this Annual Report on Form 10-K.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE COMPANY HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Dated: March 19, 1996

LOMAK PETROLEUM, INC.

By: /s/ John H. Pinkerton

John H. Pinkerton
President

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE PERSONS ON BEHALF OF THE COMPANY AND IN THE CAPACITIES AND ON THE DATES INDICATED.

/s/ Thomas J. Edelman

March 19, 1996

Thomas J. Edelman,
Chairman and Chairman of the Board

/s/ John H. Pinkerton

March 19, 1996

John H. Pinkerton,
Chief Executive Officer, President and Director

/s/ Thomas W. Stoelk

March 19, 1996

Thomas W. Stoelk,
Chief Financial Officer and Vice President-Finance

/s/ John R. Frank

March 19, 1996

John R. Frank,
Chief Accounting Officer and Controller

/s/ Robert E. Aikman

 March 19, 1996 Robert E. Aikman, Director

/s/ Allen Finkelson

 March 19, 1996 Allen Finkelson, Director

/s/ Anthony V. Dub

 March 19, 1996 Anthony V. Dub, Director

/s/ Ben A. Guill

 March 19, 1996 Ben A. Guill, Director

/s/ C. Rand Michaels

 March 19, 1996 C. Rand Michaels
 Vice Chairman and Director

LOMAK PETROLEUM, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

(ITEM 14[A], [D])

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| Reports of Independent Auditors | 28 |
| Consolidated balance sheets at December 31, 1994 and 1995 | 29 |
| Consolidated statements of income for the years ended December 31, 1993, 1994 and 1995 | 30 |
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| Notes to consolidated financial statements | 33 |
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All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or footnotes.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
LOMAK PETROLEUM, INC.

We have audited the accompanying consolidated balance sheets of Lomak Petroleum, Inc. (a Delaware corporation) as of December 31, 1994 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lomak Petroleum, Inc. as of December 31, 1994 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Cleveland, Ohio,
February 27, 1996

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REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
LOMAK PETROLEUM, INC.

We have audited the consolidated statements of income, stockholders' equity and cash flows of Lomak Petroleum, Inc. for the year ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of Lomak Petroleum, Inc. referred to above present fairly, in all material respects, the consolidated results of its operations and its cash flows for the year ended December 31,

1993, in conformity with generally accepted accounting principles.

As discussed in Note 10 to the consolidated financial statements, in 1993 the Company changed its method of accounting for income taxes.

ERNST & YOUNG LLP

Cleveland, Ohio
March 8, 1994

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LOMAK PETROLEUM, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

December 31,

| | 1994 | 1995 |
|---|-----------|-----------|
| | ----- | ----- |
| ASSETS | | |
| Current assets | | |
| Cash and equivalents..... | \$ 4,897 | \$ 3,047 |
| Accounts receivable..... | 9,431 | 14,938 |
| Inventory and other..... | 1,592 | 1,114 |
| | ----- | ----- |
| | 15,920 | 19,099 |
| | ----- | ----- |
| Oil and gas properties, successful efforts method..... | 133,373 | 210,073 |
| Accumulated depletion..... | (20,409) | (33,371) |
| | ----- | ----- |
| | 112,964 | 176,702 |
| | ----- | ----- |
| Gas transportation and field service assets..... | 16,125 | 23,167 |
| Accumulated depreciation..... | (3,241) | (4,304) |
| | ----- | ----- |
| | 12,884 | 18,863 |
| | ----- | ----- |
| | \$141,768 | \$214,664 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable..... | \$ 8,421 | \$ 9,084 |
| Accrued liabilities..... | 4,715 | 3,761 |
| Accrued payroll and benefit costs..... | 1,075 | 1,762 |
| Current portion of debt (Note 5)..... | 707 | 53 |
| | ----- | ----- |
| | 14,918 | 14,660 |
| | ----- | ----- |
| Long-term debt (Note 5)..... | 61,885 | 83,035 |
| Deferred taxes (Note 10)..... | 16,390 | 17,726 |
| Commitments and contingencies (Note 6)..... | | |
| Minority interest..... | 5,327 | - |
| Stockholders' equity (Notes 7 and 8) | | |
| Preferred stock, \$1 par, 2,000,000 shares authorized, 7-1/2% convertible preferred, 200,000 issued (liquidation preference \$5,000,000)..... | 200 | 200 |
| \$2.03 convertible preferred, 1,150,000 issued (liquidation preference \$28,750,000)..... | - | 1,150 |
| Common stock, \$.01 par, 20,000,000 shares authorized, 9,754,010 and 13,322,738 issued..... | 97 | 133 |
| Capital in excess of par value..... | 50,495 | 101,773 |
| Retained earnings (deficit)..... | (7,544) | (4,013) |
| | ----- | ----- |
| | 43,248 | 99,243 |
| | ----- | ----- |
| | \$141,768 | \$214,664 |
| | ===== | ===== |

SEE ACCOMPANYING NOTES.

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LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

Year Ended December 31,

| | 1993 | 1994 | 1995 |
|--|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Revenues | | | |
| Oil and gas sales..... | \$ 11,132 | \$ 24,461 | \$ 37,417 |
| Field services..... | 6,966 | 7,667 | 10,097 |
| Gas transportation and marketing..... | 559 | 2,195 | 3,284 |
| Interest and other..... | 418 | 471 | 1,317 |
| | ----- | ----- | ----- |
| | 19,075 | 34,794 | 52,115 |
| | ----- | ----- | ----- |
| Expenses | | | |
| Direct operating..... | 4,438 | 10,019 | 14,930 |
| Field services..... | 5,712 | 5,778 | 6,469 |
| Gas transportation and marketing..... | 13 | 490 | 849 |
| Exploration..... | 86 | 359 | 512 |
| General and administrative..... | 2,049 | 2,478 | 2,736 |
| Interest..... | 1,120 | 2,807 | 5,584 |
| Depletion, depreciation and amortization. | 4,347 | 10,105 | 14,863 |
| | ----- | ----- | ----- |
| | 17,765 | 32,036 | 45,943 |
| | ----- | ----- | ----- |
| Income before taxes..... | 1,310 | 2,758 | 6,172 |
| Income taxes | | | |
| Current..... | 69 | 21 | 86 |
| Deferred..... | (150) | 118 | 1,696 |
| | ----- | ----- | ----- |
| | (81) | 139 | 1,782 |
| | ----- | ----- | ----- |
| Net income..... | \$ 1,391 | \$ 2,619 | \$ 4,390 |
| | ===== | ===== | ===== |
| Net income applicable to common shares..... | \$ 1,062 | \$ 2,244 | \$ 3,659 |
| | ===== | ===== | ===== |
| Earnings per common share..... | \$ 0.18 | \$ 0.25 | \$ 0.31 |
| | ===== | ===== | ===== |
| Weighted average shares outstanding..... | 5,853 | 9,051 | 11,841 |
| | ===== | ===== | ===== |

SEE ACCOMPANYING NOTES.

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LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

Preferred Stock

Common Stock

| | Shares | Par Value | Shares | Par Value | Capital in Excess of Par Value | Retained Earnings (Deficit) |
|---------------------------------|--------|-----------|--------|-----------|--------------------------------|-----------------------------|
| Balance, December 31, 1992..... | 33 | \$ 33 | 4,776 | \$ 48 | \$ 20,274 | \$ (10,850) |
| Preferred dividends..... | - | - | - | - | - | (329) |
| Common issued..... | - | - | 2,772 | 28 | 17,032 | - |
| Common repurchased..... | - | - | (41) | (1) | (202) | - |
| 7-1/2% preferred issued..... | 200 | 200 | - | - | 4,639 | - |
| Conversion of 8% preferred..... | (33) | (33) | 802 | 8 | 25 | - |
| Net income..... | - | - | - | - | - | 1,391 |
| Balance, December 31, 1993..... | 200 | 200 | 8,309 | 83 | 41,768 | (9,788) |
| Preferred dividends..... | - | - | - | - | - | (375) |
| Common issued..... | - | - | 1,504 | 15 | 9,220 | - |
| Common repurchased..... | - | - | (59) | (1) | (493) | - |
| Net income..... | - | - | - | - | - | 2,619 |
| Balance, December 31, 1994..... | 200 | 200 | 9,754 | 97 | 50,495 | (7,544) |
| Preferred dividends..... | - | - | - | - | - | (731) |
| Common dividends..... | - | - | - | - | - | (128) |
| Common issued..... | - | - | 3,609 | 36 | 24,953 | - |
| Common repurchased..... | - | - | (40) | - | (332) | - |
| \$2.03 preferred issued..... | 1,150 | 1,150 | - | - | 26,657 | - |
| Net income..... | - | - | - | - | - | 4,390 |
| Balance, December 31, 1995..... | 1,350 | \$ 1,350 | 13,323 | \$ 133 | 101,773 | \$ (4,013) |

SEE ACCOMPANYING NOTES.

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LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

Year Ended December 31,

| | 1993 | 1994 | 1995 |
|---|----------|----------|----------|
| Cash flows from operations | | | |
| Net income..... | \$ 1,391 | \$ 2,619 | \$ 4,390 |
| Adjustments to reconcile net income to net cash provided by operations: | | | |
| Depletion, depreciation and amortization... | 4,347 | 10,105 | 14,863 |
| Deferred income taxes..... | (150) | 118 | 1,335 |
| Changes in working capital net of effects of purchases of businesses: | | | |
| Accounts receivable..... | (1,534) | 2,572 | (5,543) |
| Inventory and other..... | (334) | (45) | 278 |
| Accounts payable..... | (1,022) | (2,126) | 663 |
| Accrued liabilities and payroll and benefit costs..... | 1,928 | (1,531) | 1,778 |
| Gain on sale of assets and other..... | (321) | (471) | (1,203) |
| Net cash provided by operations..... | 4,305 | 11,241 | 16,561 |
| Cash flows from investing: | | | |
| Acquisition of businesses, net of cash.... | (27,607) | (9,399) | - |
| Oil and gas properties..... | (15,219) | (22,251) | (69,992) |
| Additions to property and equipment..... | (1,237) | (813) | (9,102) |
| Proceeds on sale of assets..... | 604 | 2,927 | 2,981 |
| Net cash used in investing..... | (43,459) | (29,536) | (76,113) |
| Cash flows from financing: | | | |
| Proceeds from indebtedness..... | 20,275 | 22,235 | 21,304 |
| Repayments of indebtedness..... | (1,045) | (1,024) | (808) |
| Preferred stock dividends..... | (329) | (375) | (731) |
| Common stock dividends..... | - | - | (128) |

| | | | |
|---|----------|----------|----------|
| Proceeds from common stock issuance..... | 15,385 | 830 | 10,590 |
| Repurchase of common stock..... | (207) | (493) | (332) |
| Proceeds from preferred stock issuance..... | 4,833 | | 27,807 |
| | ----- | ----- | ----- |
| Net cash provided by financing..... | 38,912 | 21,173 | 57,702 |
| | ----- | ----- | ----- |
| Change in cash..... | (242) | 2,878 | (1,850) |
| Cash and equivalents at beginning of period.... | 2,261 | 2,019 | 4,897 |
| | ----- | ----- | ----- |
| Cash and equivalents at end of period..... | \$ 2,019 | \$ 4,897 | \$ 3,047 |
| | ===== | ===== | ===== |

SEE ACCOMPANYING NOTES.

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LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

(1) ORGANIZATION AND NATURE OF BUSINESS

Lomak Petroleum, Inc. ("Lomak" or the "Company") is an independent oil and gas company engaged in the acquisition, development, exploration and enhancement of oil and gas properties in the United States. Lomak's core areas of operation are located in Texas, Oklahoma and Appalachia. The Company has grown through a combination of acquisition, development, exploration and enhancement activities. Since January 1, 1990, 60 acquisitions have been consummated at a total cost of approximately \$200 million and approximately \$24 million has been expended on development and exploration activities. As a result, proved reserves and production have each grown during this period at a rate in excess of 80% per annum. At December 31, 1995, proved reserves totaled 298 Bcfe, having a pre-tax present value at constant prices on that date of \$229 million and a reserve life of nearly 12 years.

Lomak's acquisition effort is focused on properties with prices of less than \$30 million within its core areas of operation. Management believes these purchases are less competitive than those involving larger property interests. To the extent purchases continue to be made primarily within existing core areas, efficiencies in operations, drilling, gas marketing and administration should be realized. In 1994, Lomak initiated a program to exploit its inventory of over 500 development projects. In the future, Lomak expects its growth to be driven principally by a combination of acquisitions and development and, to a lesser extent, exploration.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements include the accounts of the Company, all majority owned subsidiaries and its pro rata share of the assets, liabilities, income and expenses of certain oil and gas properties. Temporary investments with an initial maturity of ninety days or less are considered cash equivalents.

OIL AND GAS PROPERTIES

The Company follows the successful efforts method of accounting for oil and gas properties. Exploratory costs which result in the discovery of reserves and the cost of development wells are capitalized. Geological and geophysical costs, delay rentals and costs to drill unsuccessful exploratory wells are expensed. Depletion is provided on the unit-of-production method. Oil is converted to Mcfe at the rate of six Mcf per barrel. The depletion rates per Mcfe were \$.74, \$.74 and \$.73 in 1993, 1994 and 1995, respectively. Approximately \$5.3 million, \$12.9 million and \$12.2 million of oil and gas properties were classified as proved undeveloped or unproved and, therefore, not subject to depletion as of December 31, 1993, 1994 and 1995, respectively.

These costs are assessed periodically to determine whether their value has been impaired, and if impairment is indicated, the excess costs are charged to expense.

GAS TRANSPORTATION AND FIELD SERVICE ASSETS

The Company owns and operates approximately 1,900 miles of gas gathering lines in proximity to its principal gas properties. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from four to fifteen years.

The Company receives fees for providing field related services. These fees are recognized as earned. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from one to six years, except for buildings which are being depreciated over ten to twenty-five year periods.

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LOMAK PETROLEUM, INC. Notes to Consolidated Financial Statements

In September 1994, the Company sold substantially all of its brine disposal and well servicing assets located in the Appalachian region for approximately \$1.8 million. Through an acquisition completed in early 1995, the Company began conducting brine disposal and well services in Oklahoma.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NATURE OF BUSINESS

The Company operates in an environment with many financial risks, including, but not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks of the search for, development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, and the highly competitive nature of the industry and worldwide economic conditions. The Company's ability to expand its reserve base and diversify its operations is also dependent upon the Company's ability to obtain the necessary capital through operating cash flow, additional borrowings or additional equity funds.

FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and equivalents, accounts receivable, accounts payable and debt obligations. The book value of cash and equivalents, accounts receivable and payable and short term debt are considered to be representative of fair value because of the short maturity of these instruments. The Company believes that the carrying value of its borrowings under its bank credit facility approximates their fair value as they bear interest at the bank's prime rate or Libor. The Company's accounts receivable are concentrated in the oil and gas industry. The Company does not view such a concentration as an unusual credit risk.

Interest rate swap agreements, which are used by the Company in the management of interest exposure, is accounted for on an accrual basis. Income and expense resulting from these agreements are recorded in the same category as expense arising from the related liability. Amounts to be paid or received under interest rate swap agreements are recognized as an adjustment to expense in the periods in which they accrue. At December 31, 1995, the Company had \$40 million of borrowings subject to two swap agreements at rates of 6.25% and

6.49% through July 12, 1999 and October 12, 1999, respectively.

The Company uses futures, option and swap contracts to reduce the effects of fluctuations in crude oil and natural gas prices. At December 31, 1995, the Company had open contracts for natural gas price swaps in the amount of 360,000 MMBtu's. These contracts expire monthly through September 1996. The resulting transaction gains and losses are included in net income and are determined monthly. Net gains for the year ended December 31, 1995 approximated \$221,000 relating to these derivatives.

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LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

ACCOUNTING STANDARDS

In March 1995, the Financial Standards Board (FASB) issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This standard requires the review of long-lived assets for impairment. Although the Company in the past has routinely reviewed its oil and gas assets for impairment, the new accounting rules may require a different grouping which may affect the amount of impairment, if any. SFAS No. 121 is required to be adopted for financial statements with fiscal years beginning after December 15, 1995 and allows the cumulative effect of the accounting change to be reported in net income in the year of adoption. The Company is currently reviewing the accounting standard and has not yet determined the effect, if any, on its consolidated financial position or results of operations.

In October 1995, FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This standard requires an audited pro forma footnote disclosure of what net income and earnings per share would have been for the Company based upon valuing employee options and other stock based compensation, at their estimated fair value using an option pricing model. SFAS No. 123 is required to be adopted for financial statements with fiscal years beginning after December 15, 1995. The Company is currently reviewing the accounting standard and has not yet determined the effect, if any, on its financial statements.

EARNINGS PER COMMON SHARE

Net income per share is computed by subtracting preferred dividends from net income and dividing by the weighted average number of common and common equivalent shares outstanding. The calculation of fully diluted earnings per share assumes conversion of convertible securities when the result would be dilutive. Outstanding options and warrants are included in the computation of net income per common share when their effect is dilutive.

RECLASSIFICATIONS

Certain reclassifications have been made to prior period presentation to conform with current period classifications.

(3) ACQUISITION AND DEVELOPMENT

Since 1990, the Company has acquired \$200 million of oil and gas properties and field service assets. During 1995, the Company completed \$71.1 million of acquisitions. The purchases were funded by working capital, advances under a revolving credit facility and the issuance of common stock. These acquisitions are discussed below.

1995 ACQUISITIONS

APPALACHIA

Transfuel, Inc. In September 1995, the Company acquired proved oil and gas reserves, 1,100 miles of gas gathering lines and 175,000 undeveloped acres

in Ohio, Pennsylvania and New York from Transfuel, Inc. for \$20.2 million and approximately \$800,000 of Common Stock.

Parker & Parsley Petroleum Company. In August 1995, the Company purchased proved oil and gas reserves, 300 miles of gas gathering lines and 16,400 undeveloped acres in Pennsylvania and West Virginia from Parker & Parsley Petroleum Company for \$20.2 million.

Interests in approximately 470 Company operated properties in Pennsylvania and Ohio were purchased for \$5.4 million.

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LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

OKLAHOMA
- - - - -

The Company purchased interests in 52 wells in the Caddo and Canadian counties for \$4.8 million. The Company assumed operation of half of these wells.

Interests in Company operated properties were acquired for \$3.2 million.

TEXAS
- - - - -

The Company purchased interests in 140 wells located primarily in the Big Lake Area of west Texas and the Laura LaVelle Field of east Texas for \$2.8 million.

1994 ACQUISITIONS

OKLAHOMA
- - - - -

Red Eagle Resources Corporation. In December 1994, the Company acquired effective control of Red Eagle principally through the purchase of two common stockholders' holdings. In February 1995, the remaining stockholders of Red Eagle common stock voted to approve the merger of Red Eagle with a wholly owned subsidiary of the Company in exchange for approximately 2.2 million shares of the Company's common stock. The additional equity of Red Eagle acquired in February 1995 is reflected as minority interest on the Company's balance sheet at December 31, 1994. Acquisition costs of approximately \$46.5 million have been capitalized in regards to this acquisition. Red Eagle's assets included interests in approximately 370 producing wells located primarily in the Okeene Field of Oklahoma's Anadarko Basin. Subsequently, the Company acquired additional interests in 70 Red Eagle wells for \$1.7 million.

TEXAS
- - - - -

Grand Banks Energy Company. The Company purchased Grand Banks for \$3.7 million. Grand Banks' assets included interests in 182 producing wells located in west Texas, essentially all of which are now operated by the Company. Grand Banks owned an average working interest of 70% in the producing reserves, of which 60% was oil. Approximately 40% of Grand Banks' proved reserves are attributed to the Mills-Strain Unit located in the Sharon Ridge Field of Mitchell County, Texas. The Mills-Strain Unit is a waterflood unit producing from the Clearfork Formation at a depth of approximately 2,000 feet. The Mills-Strain Unit has a remaining life of over 20 years. The Company also purchased, for \$1.2 million, additional interests in a number of the Grand

Banks properties.

Gillring Oil Company. The Company acquired Gillring for \$11.5 million. Gillring's assets included \$5.2 million of working capital and interests in 106 producing oil and gas wells located in south Texas. Gillring owned an average working interest of 80% in the producing reserves of which 80% were gas. The Gillring properties are located principally in two fields producing from the Wilcox and Vicksburg formations ranging in depths from 4,000 to 11,000 feet. Subsequent to the purchase of Gillring, the Company acquired, for \$2.1 million, the limited partner interests and associated debt of a partnership for which Gillring acted as general partner.

The Company acquired from four parties interests in 118 producing wells in the Big Lake Area of west Texas and the Laura LaVelle Field of east Texas for \$6.5 million.

APPALACHIA

- -----

The Company acquired, for \$5.0 million, interests in 98 new wells and additional interests in 436 wells which the Company already operated.

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LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

1993 ACQUISITIONS

APPALACHIA

- -----

Mark Resources Corporation. In December 1993, the Company acquired Mark for approximately \$28.4 million. Mark's assets were located primarily in the Meadville Area of the Appalachian Basin. Mark owned interests in 655 producing wells, 230 miles of gas gathering lines and over 180 proven drilling locations. Mark operated nearly all of its properties.

Ohio Trend Area. The Company acquired interests in 119 wells and over 70 miles of gas gathering systems in Ohio for \$2.9 million.

Meadville Area. The Company acquired interests in 274 wells, one disposal facility and various undeveloped leaseholds for \$2.5 million.

TEXAS

- -----

Big Lake Area. The Company acquired from three parties interests in 84 producing wells in the Big Lake Area of west Texas for \$4.2 million.

Laura LaVelle Field. The Company acquired interests in 7,734 gross (7,524 net) acres in the Laura LaVelle Field located in east Texas for \$2.5 million. The Company assumed operations of 44 producing wells.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following table presents unaudited, pro forma operating results as if the transactions had occurred at the beginning of each period presented. The pro forma operating results include the following acquisitions, all of which were accounted for as purchase transactions; (i) the purchase of Grand Banks Energy Company, (ii) the purchase of Gillring Oil Company, (iii) the purchase of Red Eagle Resources Corporation, (iv) the purchase by the Company of certain oil and gas properties from a subsidiary of Parker & Parsley Petroleum, Co., (v) the purchase by the Company of certain oil and gas properties from Transfuel, Inc., (vi) the private placement of 1.15 million shares of Convertible Preferred Stock and the application of the net proceeds therefrom and (vii) the private placement of 1.2 million shares of Common Stock and the

application of the net proceeds therefrom.

| | Year ended December 31, | |
|--------------------------|--------------------------------------|-----------|
| | 1994 | 1995 |
| | ----- | ----- |
| | (in thousands except per share data) | |
| Revenues..... | \$ 64,465 | \$ 62,418 |
| Net income..... | 8,359 | 6,583 |
| Earnings per share..... | 0.51 | 0.39 |
| Total assets..... | 185,338 | 214,664 |
| Stockholders'equity..... | 81,755 | 99,243 |

The pro forma operating results have been prepared for comparative purposes only. They do not purport to present actual operating results that would have been achieved had the acquisition been made at the beginning of each period presented or to necessarily be indicative of future operations. Included in the 1994 pro forma financial information are revenues regarding partnership activities which contributed \$0.22 per share. These same activities did not occur in 1995.

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LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

(4) NOTES RECEIVABLE

In 1994, the Company issued \$165,000 in notes receivable to three of its officers in connection with their exercise of stock options. The notes accrued interest at the prime rate plus 1% payable quarterly. In 1995, the notes were repaid.

(5) INDEBTEDNESS

The Company had the following debt outstanding as of the dates shown. Interest rates at December 31, 1995 are shown parenthetically:

| | December 31, | |
|---------------------------------------|----------------|-----------|
| | 1994 | 1995 |
| | ----- | ----- |
| | (in thousands) | |
| Bank credit facility (6.7%)..... | \$ 61,870 | \$ 83,035 |
| Other (5.9% - 9.25%)..... | 722 | 53 |
| | ----- | ----- |
| | 62,592 | 83,088 |
| Less amounts due within one year..... | 707 | 53 |
| | ----- | ----- |
| Long-term debt, net..... | \$ 61,885 | \$ 83,035 |
| | ===== | ===== |

The Company maintains a \$250 million revolving bank credit facility. The facility provides for a borrowing base which is subject to semi-annual redeterminations. At December 31, 1995, the borrowing base on the credit facility was \$105 million. The facility bears interest at prime rate or LIBOR

plus 0.75% to 1.25% depending upon the percentage of the borrowing base drawn. Interest is payable quarterly and the loan is payable in sixteen quarterly installments beginning February 1, 1999. A commitment fee of 3/8% of the undrawn balance is payable quarterly. It is the Company's policy to extend the term period of the credit facility annually. The weighted average interest rate on these borrowings were 6.3% and 7.3% for the years ended December 31, 1994 and 1995, respectively. The weighted average interest rate gives effect to interest rate swap arrangements which have the effect of fixing the interest rate on \$40 million of the credit facility at a rate of 6.4%. The existing interest rate swap arrangements will remain in effect through no less than July 1997 and no longer than October 1999. The Company's other debt is comprised of secured equipment financings.

The debt agreements contain various covenants relating to net worth, working capital maintenance and financial ratio requirements. Interest paid during the years ended December 31, 1993, 1994 and 1995 totaled \$1.2 million, \$2.8 million and \$4.9 million, respectively.

Maturities of indebtedness as of December 31, 1995 were as follows (in thousands):

| | | |
|----------------|----|--------|
| 1996..... | \$ | 53 |
| 1997..... | | - |
| 1998..... | | - |
| 1999..... | | 15,569 |
| 2000..... | | 20,759 |
| Remainder..... | | 46,707 |
| | | ----- |
| | \$ | 83,088 |
| | | ===== |

LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

(6) COMMITMENTS AND CONTINGENCIES

In January 1995, a lawsuit (the "Lawsuit") was filed in the Delaware Court of Chancery, New Castle County, against Red Eagle Resources Corporation, each of the members of the Board of Directors of Red Eagle and the Company. The Plaintiff sought to represent all holders (the "Class") of Red Eagle common stock, excluding the Red Eagle Directors and Lomak. A settlement was reached during 1995 under which the Company paid \$250,000 in cash plus 74,286 shares of the Company's Common Stock.

The Company is involved in various other legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims will be resolved without material adverse effect on the Company's financial position.

(7) EQUITY SECURITIES

In 1993, \$5,000,000 of 7-1/2% cumulative convertible exchangeable preferred stock (the "7-1/2% Preferred Stock") was privately placed. The 7-1/2% Preferred Stock is convertible, at the option of the holders, into 576,945 shares of common stock, at an average conversion price of \$8.67 per share. The Company may convert the 7-1/2% Preferred Stock into common stock if the closing price for the common stock exceeds an average price of \$11.70 for twenty out of thirty consecutive trading days. Beginning in July 1996, the Company may redeem the 7-1/2% Preferred Stock at a 7-1/2% premium to liquidation value. Holders of the 7-1/2% Preferred Stock are entitled to two votes per share on matters presented to the shareholders. At the Company's option, it can exchange the

7-1/2% Preferred Stock for convertible subordinate notes due July 1, 2003. The notes carry the same conversion and redemption terms as the 7-1/2% Preferred Stock.

In November 1995, the Company sold 1,150,000 shares of \$2.03 convertible exchangeable preferred stock (the "\$2.03 Preferred Stock") for \$28.8 million. The \$2.03 Preferred Stock is convertible into the Company's common stock at a conversion price of \$9.50 per share, subject to adjustment in certain events. The \$2.03 Preferred Stock is redeemable, at the option of the Company, at any time on or after November 1, 1998, at redemption prices beginning at 105%. At the option of the Company, the \$2.03 Preferred Stock is exchangeable for the Company's 8-1/8% convertible subordinated notes due 2005. The notes would be subject to the same redemption and conversion terms as the \$2.03 Preferred Stock

In December 1995, the Company privately placed 1.2 million shares of its Common Stock for \$10.2 million to a state sponsored retirement plan. Warrants to acquire 40,000 shares of common stock were outstanding at December 31, 1995. The warrants have an exercise price of \$7.50 per share and expire in December 1996.

LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

(8) STOCK OPTION AND PURCHASE PLAN

The Company maintains a Stock Option Plan which authorizes the grant of options of up to 1.5 million shares of Common Stock. However, no new options may be granted which would result in their being outstanding aggregate options exceeding 10% of the Company's common shares outstanding plus those shares issuable under convertible securities. Under the plan, incentive and non-qualified options may be issued to officers, key employees and consultants. The plan is administered by the Compensation Committee of the Board. All options issued under the plan vest 30% after one year, 60% after two years and 100% after three years. The following is a summary of stock option activity:

| | Number of Options | | | Exercise |
|---------------------------------------|-------------------|----------|----------|--------------------------|
| | 1993 | 1994 | 1995 | Price Range Per Share |
| Outstanding at beginning of year..... | 254,001 | 428,983 | 680,483 | \$ 3.38 - \$ 9.38 |
| Granted..... | 174,982 | 298,500 | 342,000 | 4.01 - 9.38 |
| Canceled..... | - | (16,000) | (12,000) | 3.75 - 7.75 |
| Exercised..... | - | (31,000) | (33,334) | 3.75 - 5.63 |
| Outstanding at end of year..... | 428,983 | 680,483 | 977,149 | \$ 3.38 - \$ 9.38 |

In 1994, the stockholders approved the 1994 Outside Directors Stock Option Plan (the "Directors Plan"). Only Directors who are not employees of the Company are eligible under the Directors Plan. The Directors Plan covers a maximum of 200,000 shares. At December 31, 1995, 44,000 options were outstanding under the Directors Plan of which 3,600 were exercisable as of that date. The exercise price of the options ranges from \$7.75 to \$8.00 per share.

In 1994, the stockholders approved the 1994 Stock Purchase Plan (the "1994 Plan") which authorizes the sale of up to 500,000 shares of common stock to officers, directors, key employees and consultants. Under the Plan, the right to purchase shares at prices ranging from 50% to 85% of market value may be granted. The Company had a 1989 Stock Purchase Plan (the "1989 Plan") which was identical to the 1994 Plan except that it covered 333,333 shares. Upon adoption of the 1994 Plan, the 1989 Plan was terminated. The plans are administered by the Compensation Committee of the Board. During the year ended

December 31, 1995, the Company sold 85,800 unregistered common shares to officers and outside directors. From inception of the 1989 Plan through December 31, 1995, a total of 388,000 unregistered shares had been sold, for a total consideration of approximately \$1.8 million at prices equal to 75% of market value at the time of the sale.

(9) BENEFIT PLAN

The Company maintains a 401(K) Plan for the benefit of its employees. The Plan permits employees to make contributions on a pre-tax salary reduction basis. The Company makes discretionary contributions to the Plan. Company contributions for 1993, 1994 and 1995 were \$189,000, \$226,000 and \$346,000, respectively.

LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

(10) INCOME TAXES

Federal income tax (benefit) expense was (\$81,000), \$139,000 and \$1.8 million for the years 1993, 1994 and 1995, respectively. The current portion of the income tax provision represents alternative minimum tax currently payable. A reconciliation between the statutory federal income tax rate and the Company's effective federal income tax rate is as follows:

| | 1993 | 1994 | 1995 |
|---|------------|-----------|-----------|
| | ----- | ----- | ----- |
| Statutory tax rate..... | 34% | 34% | 34% |
| Realization of valuation allowance..... | (46) | (29) | (5) |
| Alternative minimum tax..... | 6 | - | - |
| | ----- | ----- | ----- |
| Effective tax rate..... | (6)% | 5% | 29% |
| | ===== | ===== | ===== |
| Income taxes paid..... | \$ 159,000 | \$ 47,500 | \$ 60,000 |
| | ===== | ===== | ===== |

In 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes". Under Statement 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption, income tax expense was determined using the deferred method and the Company reported tax expense equal to current alternative minimum taxes payable. Deferred taxes have not been provided on temporary differences prior to adoption due to the existence of net operating loss and other carryforwards.

Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

| | December 31, | |
|---------------------------|--------------|-----------|
| | 1994 | 1995 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Depreciation..... | \$ 27,217 | \$ 29,130 |
| | ===== | ===== |
| Deferred tax assets: | | |

| | | |
|---|-----------|-----------|
| Net operating loss carryforwards..... | 6,042 | 6,193 |
| Percentage depletion carryforward..... | 4,388 | 4,388 |
| AMT credits and other..... | 737 | 863 |
| | ----- | ----- |
| Total deferred tax assets..... | 11,167 | 11,444 |
| Valuation allowance for deferred tax assets.... | (340) | (40) |
| | ----- | ----- |
| Net deferred tax assets..... | \$ 10,827 | \$ 11,404 |
| | ===== | ===== |
| Net deferred tax liabilities..... | \$ 16,390 | \$ 17,726 |
| | ===== | ===== |

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LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

As permitted by Statement 109, the Company has elected not to restate prior year financial statements. As a result of tax basis in excess of the basis on the financial statements at January 1, 1993, the Company estimated deferred tax assets of \$2.6 million and deferred tax liabilities of \$0.9 million, for net deferred tax assets of \$1.7 million. Due to uncertainty as to the realizability of the tax benefit, a valuation allowance was established for the full amount of the net deferred tax assets. In 1993, 1994 and 1995, income taxes were reduced from the statutory rate of 34% by approximately \$0.5 million, \$0.9 million and \$0.3 million, respectively, through realization of a portion of the valuation allowance, resulting in \$1.2 million, \$0.3 million and \$40,000, respectively of the remaining allowance at December 31, 1993, 1994 and 1995.

During 1993, the Company acquired Mark Resources Corporation (See Note 3), a taxable business combination accounted for as a purchase. Deferred tax assets of \$3.9 million and a deferred tax liability of \$8.1 million were recorded in connection with the business combination. During 1994, the Company acquired Gillring Oil Company and Grand Banks Energy Company, taxable business combinations accounted for as purchases. Deferred tax assets of \$3.5 million and deferred tax liabilities of \$3.4 million were recorded in connection with these transactions. The Company acquired Red Eagle Resources Corporation, a taxable business combination accounted for as a purchase. Deferred tax liabilities of \$12.3 million and deferred tax assets of \$0.3 million were recorded in connection with this transaction.

As a result of the Company's issuance of equity and convertible debt securities, it experienced a change in control during 1988 as defined by Section 382 of the Internal Revenue Code. The change in control placed limitations to the utilization of net operating loss carryovers. At December 31, 1995, the Company had available for federal income tax reporting purposes net operating loss carryovers of approximately \$13.3 million which are subject to annual limitations as to their utilization and otherwise expire between 1996 and 2010, if unused. The Company has alternative minimum tax net operating loss carryovers of \$8.2 million which are subject to annual limitations as to their utilization and otherwise expire from 1996 to 2009 if unused. The Company has statutory depletion carryover of approximately \$8.5 million and an alternative minimum tax credit carryover of approximately \$500,000. The statutory depletion carryover and alternative minimum tax credit carryover are not subject to limitation or expiration.

(11) MAJOR CUSTOMERS

The Company markets its oil and gas production on a competitive basis. The type of contract under which gas production is sold varies but can generally be grouped into three categories: (a) life-of-the-well; (b) long-term (1 year or longer); and (c) short-term contracts which may have a primary term of one year, but which are cancelable at either party's discretion in 30-120 days. At December 31, 1995, approximately 59% of the Company's gas production was being sold under market sensitive contracts which do not contain floor price provisions. For the year ended December 31, 1995, no one customer accounted for more than 10% of the Company's total oil and gas revenues. Oil is sold on a basis such that the purchaser can be changed on 30 days notice. The price received is generally equal to a posted price set by the major purchasers

in the area. The Company sells to oil purchasers on a basis of price and service.

The Company has currently hedged less than 3% of its monthly production through September 1996. These hedges involve fixed price arrangements and other price arrangements at a variety of prices, floors and caps. Although these hedging activities provide the Company some protection against falling prices, these activities also reduce the potential benefits to the Company of price increases above the levels of the hedges.

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LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

(12) OIL AND GAS ACTIVITIES

The following summarizes selected information with respect to oil and gas producing activities:

| | Year Ended December 31, | | |
|---|-------------------------|------------|------------|
| | 1993 | 1994 | 1995 |
| | (in thousands) | | |
| Capitalized costs: | | | |
| Proved properties..... | \$ 67,370 | \$ 132,775 | \$ 209,310 |
| Unproved properties..... | 723 | 598 | 763 |
| Total..... | 68,093 | 133,373 | 210,073 |
| Accumulated depletion amortization..... | (12,783) | (20,409) | (33,371) |
| Net capitalized costs..... | \$ 55,310 | \$ 112,964 | \$ 176,702 |
| Costs incurred: | | | |
| Acquisition..... | \$ 43,177 | \$ 59,501 | \$ 69,244 |
| Development..... | 3,695 | 9,518 | 9,968 |
| Exploration..... | 131 | 192 | 216 |
| Total costs incurred..... | \$ 47,003 | \$ 69,211 | \$ 79,428 |

(13) SUBSEQUENT EVENTS

In February 1996, the Company completed three oil and gas property acquisitions for \$17.5 million of consideration. The properties are located in Lomak's core operating areas of Appalachia and Texas. In aggregate, the acquisitions are estimated to contain proved reserves of 20.2 Bcf of gas and 240,000 Bbls of oil, or 21.6 Bcfe in total.

In March 1996, the Company's Board of Directors approved resolutions authorizing the Company to repurchase shares of its Common Stock from odd-lot holders. The Company will acquire any and all shares from stockholders owning 99 or fewer shares for cash at market prices. Additionally, the Board of Directors approved a dividend of \$.01 per share to holders of its Common Stock to be paid on March 29, 1996.

(14) RELATED PARTY TRANSACTIONS

Mr. Edelman, Chairman of the Company, is also an executive officer and shareholder of Snyder Oil Corporation ("SOCO"). At December 31, 1995, Mr. Edelman owned 6.0% of the Company's common stock. In 1994, the Company repurchased 30,000 shares of its common stock from SOCO for \$240,000. The purchase price was based upon the prior day's closing price for the stock. In 1995, SOCO sold its remaining shares of the Company's common stock.

In 1995, the Company acquired SOCO's interest in certain wells located

in Appalachia for \$4 million. The price was determined based on arms-length negotiations through a third-party broker retained by SOCO. Subsequent to the transaction, the Company and SOCO no longer held interests in any of the same properties.

During 1994 and 1995, the Company incurred fees of \$369,000 and \$145,000, respectively, to the Hawthorne Company in connection with acquisitions. Mr. Aikman, a director of the Company, is an executive officer and a principal owner of the Hawthorne Company. The fees were consistent with those paid by the Company to third parties for similar services.

LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

(15) UNAUDITED SUPPLEMENTAL RESERVE INFORMATION

The Company's proved oil and gas reserves are located in the United States. Proved reserves are those quantities of crude oil and natural gas which, upon analysis of geological and engineering data, can with reasonable certainty be recovered in the future from known oil and gas reservoirs. Proved developed reserves are those proved reserves which can be expected to be recovered from existing wells with existing equipment and operating methods. Proved undeveloped oil and gas reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage.

QUANTITIES OF PROVED RESERVES

| | Crude Oil ----- (Bbls) | Natural Gas ----- (Mcf) |
|--|------------------------------|-------------------------------|
| | (in thousands) | |
| Balance, December 31, 1992 | 1,980 | 17,615 |
| Revisions..... | (35) | 2,559 |
| Extensions, discoveries and additions..... | 9 | 305 |
| Purchases..... | 2,905 | 57,125 |
| Sales..... | (2) | (451) |
| Production..... | (318) | (2,590) |
| | ----- | ----- |
| Balance, December 31, 1993 | 4,539 | 74,563 |
| Revisions..... | 15 | 630 |
| Extensions, discoveries and additions..... | 15 | 6,605 |
| Purchases..... | 4,599 | 75,698 |
| Sales..... | (79) | (1,130) |
| Production..... | (640) | (6,996) |
| | ----- | ----- |
| Balance, December 31, 1994 | 8,449 | 149,370 |
| Revisions..... | 255 | (3,513) |
| Extensions, discoveries and additions..... | 475 | 10,076 |
| Purchases..... | 2,618 | 90,575 |
| Sales..... | (21) | (1,150) |
| Production..... | (913) | (12,471) |
| | ----- | ----- |
| Balance, December 31, 1995 | 10,863 | 232,887 |
| | ===== | ===== |
| Proved developed reserves | | |
| December 31, 1993..... | 3,344 | 38,373 |
| | ===== | ===== |
| December 31, 1994..... | 6,430 | 97,251 |
| | ===== | ===== |
| December 31, 1995..... | 8,880 | 174,958 |
| | ===== | ===== |

The "Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves" (Standardized Measure) is a disclosure requirement under Statement of Financial Accounting Standards No. 69 "Disclosures about Oil and Gas Producing Activities". The Standardized Measure does not purport to present the fair market value of proved oil and gas reserves. This would require consideration of expected future economic and operating conditions, which are not taken into account in calculating the

LOMAK PETROLEUM, INC.
Notes to Consolidated Financial Statements

Future cash inflows were estimated by applying year end prices to the estimated future production less estimated future production costs based on year end costs. Future net cash inflows were discounted using a 10% annual discount rate to arrive at the Standardized Measure.

STANDARDIZED MEASURE

| | As of December 31, | | |
|---|--------------------|------------|------------|
| | 1993 | 1994 | 1995 |
| | (in thousands) | | |
| Future cash inflows..... | \$ 255,363 | \$ 457,048 | \$ 729,566 |
| Future costs: | | | |
| Production..... | (74,247) | (133,972) | (256,374) |
| Development..... | (40,224) | (52,102) | (60,554) |
| Future net cash flows..... | 140,892 | 270,974 | 412,638 |
| Income taxes..... | (34,031) | (59,950) | (102,108) |
| Total undiscounted future net cash flows..... | 106,861 | 211,024 | 310,530 |
| 10% discount factor..... | (53,110) | (91,475) | (136,480) |
| Standardized measure..... | \$ 53,751 | \$ 119,549 | \$ 174,050 |

CHANGES IN STANDARDIZED MEASURE

| | As of December 31, | | |
|--|--------------------|------------|------------|
| | 1993 | 1994 | 1995 |
| | (in thousands) | | |
| Standardized measure, beginning of year..... | \$ 21,608 | \$ 53,751 | \$ 119,549 |
| Revisions: | | | |
| Prices..... | (963) | 4,224 | (4,100) |
| Quantities..... | (1,085) | 2,240 | 2,267 |
| Estimated future development costs..... | - | - | (5,238) |
| Accretion of discount..... | 2,161 | 6,512 | 15,054 |
| Income taxes..... | (6,936) | (19,624) | (24,200) |
| Net revisions..... | (6,823) | (6,648) | (16,217) |
| Purchases..... | 45,271 | 84,836 | 87,741 |
| Extensions, discoveries and additions..... | 716 | 2,402 | 7,419 |
| Production..... | (6,711) | (14,442) | (22,487) |
| Sales..... | (310) | (350) | (1,955) |
| Standardized measure, end of year..... | \$ 53,751 | \$ 119,549 | \$ 174,050 |

LOMAK PETROLEUM, INC.

INDEX TO EXHIBITS

(Item 14[a 3])

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|---|
| 3.1(a) | Certificate of Incorporation of Lomak dated March 24, 1980.(1) |
| 3.1(b) | Certificate of Amendment of Certificate of Incorporation dated July 22, 1981.(1) |
| 3.1(c) | Certificate of Amendment of Certificate of Incorporation dated September 8, 1982.(1) |
| 3.1(d) | Certificate of Amendment of Certificate of Incorporation dated December 28, 1988.(1) |
| 3.1(e) | Certificate of Amendment of Certificate of Incorporation dated August 31, 1989.(1) |
| 3.2 | Current By-Laws of Lomak.(1) |
| 4 | Specimen certificate of Lomak Petroleum, Inc. Common Stock.(1) |
| 10.1(a) | Financial Restructuring Agreement dated September 29, 1988 between Lomak and Snyder Oil Corporation ("SOCO").(1) |
| 10.1(b) | Loan Agreement dated September 29, 1988 between Lomak Petroleum (Ohio), Inc., SOCO and MBank Fort Worth N.A. and Second Amendments thereto.(1) |
| 10.1(c) | Purchase and Sale Agreement dated February 28, 1989 between Lomak Petroleum (Ohio), Inc., Snyder Operating Partnership L.P. and Snyder Oil Partners L.P.(1) |
| 10.1(d) | Incentive and Non-Qualified Stock Option Plan dated March 13, 1989.(1) |
| 10.1(e) | Advisory Agreement dated September 29, 1988 between Lomak and SOCO.(1) |
| 10.1(f) | 401(k) Plan Document and Trust Agreement effective January 1, 1989.(1) |
| 10.1(g) | 1989 Stock Purchase Plan.(1) |
| 10.1(h) | Purchase Agreement dated as of May 31, 1990 by and between Ameritrust Company National Association and Lomak [Incorporated by reference to Lomak's Form 8-K dated May 31, 1990].(2) |
| 10.1(i) | Securities Purchase Agreement dated February 21, 1991 by and among the Company, Latoka and the selling securities holders of Latoka. (3) |
| 10.1(j) | Asset Purchase Agreement dated February 28, 1991 between the Company and Latoka. (1) |

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| | |
|----------|--|
| 10.1(k) | Proxies from Latoka Shareholders.(1) |
| 10.1(l) | Lease Agreement dated September 1, 1986 between Three Lincoln Centre - A Joint Venture and Strong Corporation.(4) |
| 10.1(m) | Strong 1986-A Ltd., Agreement of Limited Partnership.(4) |
| 10.1(n) | Strong 1986-A Ltd. Certificate of Limited Partnership.(4) |
| 10.1(o) | Letter Agreement dated December 4, 1987 regarding \$600,000.00 loan by Latoka, Inc., as borrower, to Premier Bank, as lender.(4) |
| 10.1(p) | Promissory Note dated December 4, 1987 regarding \$600,000.00 loan by Latoka, Inc., as borrower, to Premier Bank, as lender.(4) |
| 10.1(q) | Estoppel Certificate of Borrower dated December 4, 1987 regarding \$600,000.00 loan by Latoka, Inc., as borrower, to Premier Bank, as lender.(4) |
| 10.1(r) | Collateral Mortgage and Collateral Chattel Mortgage Note, Pledge Agreement and Collateral Mortgage and Collateral Mortgage dated December 4, 1987 regarding \$600,000.00 loan by Latoka, Inc., as borrower, to Premier Bank, as lender.(4) |
| 10.1(s) | Form for Deed of Trust, Security Agreement and Financing Statement (with Assignment of Production) dated December 4, 1987 regarding \$600,000.00 loan by Latoka, Inc., as borrower, to Premier Bank, as lender.(4) |
| 10.1(t) | Modification Agreement dated June 24, 1988 between Premier Bank, N.A. and Latoka, Inc.(4) |
| 10.1(u) | Form of Warrant Agreement issued by Xenda Corporation.(5) |
| 10.1(v) | Underwriters Warrant dated as of February 25, 1988 between Xenda Corporation and Capital First Securities, Inc. (5) |
| 10.1(w) | Selling and Agency Agreement effective May 15, 1989 between MLB Investments, Ltd., and Latoka.(6) |
| 10.1(x) | Letter Agreement dated September 20, 1989 between MLB Investments, Ltd., and Latoka.(6) |
| 10.1(y) | Letter Agreement dated May 17, 1989 between the Company and SOCO extending option period.(7) |
| 10.1(z) | Purchase and Sale Agreement, dated as of June 20, 1991, between the Company and Taconic.(7) |
| 10.1(aa) | Amended and Restated Stock Purchase Agreement, dated as of November 20, 1990, between Sparton Corporation, SOCO and the Company.(7) |

- 10.1(bb) Purchase and Sale Agreement, dated as of March 14, 1991, between Michigan Oil Company and Albercan Oil Corporation ("Albercan").(7)
- 10.1(cc) Share Purchase and Sale Agreement, dated March 14, 1991, among SOCO, the Company and Albercan.(7)

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- 10.1(dd) Purchase and Sale Agreement, date March 15, 1993 between the Company and Valley Resources, Inc.(8)
- 10.1(ee) Purchase and Sale Agreement, dated March 15, 1993 between the Company and Valley Oil and Gas, a Partnership.(8)
- 10.1(ff) Loan Agreement dated May 25, 1993 between the Company and Bank One, Texas, N.A.(9)
- 10.1(gg) Amendment dated August 8, 1993 to Loan Agreement dated May 25, 1993 between the Company and Bank One, Texas, N.A.(9)
- 10.1(hh) Letter of Intent, dated September 20, 1993 between the Company and Mark Resources Corporation.(9)
- 10.1(ii) Acquisition Agreement, dated October 16, 1993, among the Company, the Shareholders and Option Holders named therein, and Mark Resources Corporation.(10)
- 10.1(jj) Form of Consulting Agreement between the Company and Peter M. Mark.(11)
- 10.1(kk) Amendment dated November 12, 1993 to Loan Agreement dated May 25, 1993 between the Company and Bank One, Texas, N.A.(11)
- 10.1(ll) Form of Directors Indemnification Agreement (12)
- 10.1(mm) Acquisition Agreement dated as of February 8, 1994 among the Company, the Shareholders named therein and Grand Banks Energy Company (13)
- 10.1(nn) Amendment dated March 7, 1994 to Loan May 25, 1993 Agreement dated between the Company and Bank One, Texas, N.A. (14)
- 10.1(oo) 1994 Outside Directors Stock Option Plan. (15)
- 10.1(pp) 1994 Stock Option Plan. (15)
- 10.1(qq) Amended and Restated Revolving Credit and Term Loan Agreement dated July 6, 1994 between Lomak Petroleum, Inc. and Bank One, Texas N.A. and Texas Commerce Bank National Association. (16)
- 10.1(rr) First Amendment to Amended and Restated Revolving Credit and Term Loan Agreement dated October 20, 1994 between Lomak Petroleum, Inc. and Bank One Texas, N.A. and Texas Commerce Bank National Association. (16)
- 10.1(ss) Agreement and Plan of Merger dated as of October 28, 1994 between Registrant and Red Acquisition Corp. and Red Eagle Resources Corporation. (16)
- 10.1(tt) Second Amendment to Amended and Restated Revolving Credit and Term Loan Agreement dated December 30, 1994 between Lomak Petroleum, Inc. and Bank One Texas, N.A. and Texas Commerce Bank National Association. (17)

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- 10.1(uu) Third Amendment to Amended and Restated Revolving Credit and Term Loan Agreement dated January 25, 1995 between Lomak Petroleum, Inc. and Bank One Texas, N.A. and Texas Commerce Bank National Association. (17)
- 10.1(vv)* Second Amended and Restated Revolving Credit and Term Loan Agreement dated December 20, 1995 between Lomak Petroleum, Inc., Lomak Operating Company, Lomak Production Company, Lomak Resources Company and Red Eagle Resources Corporation; Bank One, Texas N.A., Texas Commerce Bank National Association, Nationsbank of Texas, N.A. and PNC Bank, National Association.
- 11.1* Computation of earnings per common and common equivalent shares.
- 16 Form 8-K dated May 25, 1994.
- 22* Subsidiaries of the Registrant.
- 23.1* Consent of Independent Public Accountants.
- 23.2* Consent of Independent Auditors.
- 27* Financial Data Schedule.

- (1) Previously filed as Exhibit to Company's Registration Statement, Registration Statement No. 33-31558.
- (2) Incorporated by reference to the Company's Form 8-K dated May 31, 1990.
- (3) Incorporated by reference to the Company's Form 8-K dated March 15, 1990.
- (4) Previously filed as exhibit to Xenda Corporation Form S-4 filed July 26, 1988, as amended, and incorporated herein by reference.
- (5) Previously filed as exhibit to Xenda Corporation Form S-18 filed January 26, 1988, as amended, and incorporated herein by reference.
- (6) Previously filed as exhibit to Latoka, Inc. Form 10-Q for the quarter ended September 30, 1989, and incorporated herein by reference.
- (7) Incorporated by reference to the Company's Form 8-K dated August 5, 1991.
- (8) Incorporated by reference to the Company's Form 8-K dated April 26, 1993 as amended by Form 8 dated June 23, 1993.
- (9) Incorporated by reference to the Company's Registration Statement No. 33-70462 filed on October 18, 1993.
- (10) Incorporated by reference to the Company's Pre-Effective Amendment No. 1 dated November 9, 1993, to the Company's

- Registration Statement No. 33-70462.
- (11) Incorporated by reference to the Company's Post-Effective Amendment No. 1 dated December 10, 1993, to the Company's Registration Statement No. 33-70462.
 - (12) Incorporated by reference to the Company's Post-Effective Amendment No. 2 dated January 27, 1994.
 - (13) Incorporated by reference to the Company's Form 8-K dated February 11, 1994.
 - (14) Incorporated by reference to the Company's Form 10K for the year ended December 31, 1993, and incorporated herein by reference.
 - (15) Incorporated by reference to the Company's Post-Effective Amendment No. 4 dated May 3, 1994.
 - (16) Incorporated by reference to the Company's Form S-4 dated December 13, 1994.
 - (17) Incorporated by reference to the Company's Form 10K for the year ended December 31, 1994, and incorporated herein by reference.

* Filed herewith.

EXHIBIT 10.1(VV)

SECOND AMENDED AND RESTATED
REVOLVING CREDIT AND TERM LOAN AGREEMENT

This Second Amended and Restated Revolving Credit and Term Loan Agreement is made on December 20, 1995, among LOMAK PETROLEUM, INC. ("PETROLEUM"), LOMAK OPERATING COMPANY ("OPERATING"), LOMAK PRODUCTION COMPANY ("PRODUCTION"), LOMAK RESOURCES COMPANY ("RESOURCES"), and RED EAGLE RESOURCES CORPORATION ("RED EAGLE") (individually a "BORROWER" and collectively the "BORROWERS"); BANK ONE, TEXAS, N.A. ("BANK ONE"), TEXAS COMMERCE BANK NATIONAL ASSOCIATION ("TCB"), NATIONSBANK OF TEXAS, N.A. ("NATIONSBANK"), and PNC BANK, NATIONAL ASSOCIATION ("PNC") (individually a "BANK" and collectively the "BANKS"); and BANK ONE, TEXAS, N.A., as agent for Banks (in such capacity, "AGENT").

RECITALS:

- - - - -

A. Petroleum, Operating, Production, Resources, and Red Eagle, as borrowers, and Bank One and TCB, as lenders, are parties to the Existing Credit Agreement (as herein defined), pursuant to which Bank One and TCB have made a \$150,000,000 revolving loan (the "EXISTING LOAN") to those borrowers, payment of which is secured by liens, security interests, and other rights in oil and gas properties and other properties in Alabama, Louisiana, Michigan, Ohio, Oklahoma, Pennsylvania, Texas, and West Virginia.

B. NationsBank and PNC have agreed to purchase from Bank One and TCB 30% of the Existing Loan and the related liens, security interests, and other rights, in the proportions of 20% for NationsBank and 10% for PNC, which will continue to be held in Bank One's name as Agent, for the ratable benefit of the Banks.

C. It is the intent of the parties that the collateral securing the Existing Loan secure and shall continue to secure the indebtedness of the Borrowers to the Banks.

D. The parties desire to amend and restate the Existing Credit Agreement in its entirety on the terms set out herein.

Now, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

ARTICLE 1 - DEFINITIONS.

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1.01. DEFINED TERMS. For purposes of this Agreement, the following terms will have the respective meanings assigned them in this Article or in the sections or subsections referred to below:

"ADVANCE" means, with respect to any Person, any loan, advance, or extension of credit to any other Person.

"AGREEMENT" means this Amended and Restated Revolving Credit and Term Loan Agreement, as amended, supplemented, or modified from time to time.

"APPLICABLE MARGIN" means the following percentage, determined based upon the type of Loan:

(a) BASE RATE LOANS: 0% during the Revolving Period and .25% during the Term Period; and

(b) LIBOR LOANS: the applicable percentage set out below,

based upon the amount of the Credit Outstanding as a percentage of the Borrowing Base, adjusted monthly and determined by Agent at the close of business on the first Business Day of each month:

(i) DURING THE REVOLVING PERIOD

| PERCENT OF CREDIT OUTSTANDING | APPLICABLE MARGIN |
|--|-------------------|
| Up to and including 50% | .75% |
| Greater than 50% up to and including 75% | 1.00% |
| Greater than 75% | 1.25% |

(ii) DURING THE TERM PERIOD

The Applicable Margins set out above under subparagraph (i) plus .25%.

"AUTHORIZED OFFICER" means, as to any Person, its Chairman, President, or Chief Financial Officer duly authorized to act on behalf of such Person.

"BASE RATE" means the rate of interest announced from time to time by Bank One at its office at 500 Throckmorton, Fort Worth, Texas, as its Bank One, Texas, N.A. Base Rate.

"BASE RATE LOAN" means a Loan bearing interest with reference to the Base Rate.

"BORROWER" means any of Petroleum, Operating, Production, Resources, or Red Eagle, and "BORROWERS" means all of them.

"BORROWING BASE" means the amount determined pursuant to Section 3.01(a).

"BUSINESS DAY" means any day except a Saturday, Sunday, or other day on which national banks in Fort Worth, Texas, are authorized by law to close and, if the applicable day relates to a LIBOR Loan, a day on which dealings in dollar deposits are also carried on in the London interbank market and banks are open for business in London.

"CLOSING DATE" means the date of this Agreement.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations and published interpretations thereof.

"COLLATERAL" means the Mortgaged Properties and all property covered by liens, security interests, and other interests created by all deeds of trust, security agreements, collateral assignments, guaranties, and other collateral instruments previously or hereafter executed by a Borrower in favor of Agent or the Banks, either pursuant to this Agreement or otherwise.

"COMMITMENT" means the Banks' aggregate obligation to make Loans to the Borrowers in an amount equal to the lesser of (i) the Borrowing Base or (ii) \$250,000,000.

"COMMONLY CONTROLLED ENTITY" means an entity, whether or not incorporated, which is under common control with a Borrower within the meaning of Section 414(b) or 414(c) of the Code.

"CREDIT OUTSTANDING" means, at any time, the sum of (i) the aggregate Letter of Credit Exposure at such time, plus (ii) the aggregate outstanding

principal balance of all Loans at such time.

"DEFAULT" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"DEBT" of any Person means at any date, without duplication, (a) all obligations of such Person for borrowed money or for the purchase price of property, (b) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments, (c) all other indebtedness (including capitalized lease obligations, other than usual and customary oil and gas leases) of such Person on which interest charges are customarily paid or accrued, (d) all guarantees by such Person, (e) the unfunded or unreimbursed portion of all letters of credit issued for the account of such Person, and (f) all liability of such Person as a general partner of a partnership for obligations of such partnership of the nature described in (a) through (e) preceding. "DEBT" shall not include economic interests which are to be received by third parties in the future after recovery of a fixed amount of hydrocarbons and accompanying elements or the proceeds therefrom so long as such economic interests are properly deducted from the calculation of reserves contained in the Reserve Report furnished by the Borrowers to the Banks pursuant to Section 6.02(c)(4).

"DETERMINATION" means any Periodic Determination, Special Determination, or any other Borrowing Base redetermination by the Banks.

"DETERMINATION DATE" means each May 1 and November 1 and also, with respect to any Special Determination, means the first day of the first month which is not less than 20 Business Days following the date of a request for a Special Determination.

"DISTRIBUTION" by any Person, shall mean (a) with respect to any stock issued by such Person or any partnership interest of such Person, the retirement, redemption, purchase, re-purchase, or other acquisition for value of any such stock or partnership interest, (b) the declaration or payment of any cash dividend or other distribution on or with respect to any stock or any partnership interest of any Person, and (c) any other payment by such Person with respect to such stock or partnership interest.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereof.

"EURODOLLAR RESERVE PERCENTAGE" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in Fort Worth, Texas, in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the LIBOR Interest Rate is determined or any category of extension of credit or other assets that include LIBOR Loans).

"EVENTS OF DEFAULT" has the meaning set forth in Section 7.01.

"EXISTING CREDIT AGREEMENT" means the Loan Agreement dated July 6, 1994, between the Borrowers, Bank One, and TCB, as amended through the date hereof.

"EXISTING LOAN" has the meaning given such term in the recitals hereto.

"FEDERAL FUNDS RATE" means, as of any date, the rate per annum (rounded upwards, if necessary to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such date, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such date, provided, that (i) if the day for which such rate is to be determined is not a Business Day, the Federal

Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day, as so published on the next succeeding Business Day, and (ii) if no such rate is so published on the next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to Agent on such day on such transactions as determined by Agent.

"GAAP" means generally accepted accounting principles, applied on a consistent basis, as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants or in statements of the Financial Accounting Standards Board or their respective successors and which are applicable in the circumstances as of the date in question (accounting principles are applied on a "consistent basis" when the accounting principles observed in a current period are comparable in all material respects to those accounting principles applied in a preceding period).

"HEDGE TRANSACTIONS" means transactions providing for the hedging, forward sale, or swap of crude oil or natural gas by a Borrower or its Subsidiaries.

"INTEREST PERIOD" means, with respect to each LIBOR Loan, the period commencing on the date that Loan is made and ending one, two, three, six, nine, or twelve months thereafter, subject to availability, as the Borrowers may elect, provided that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless that Business Day falls in another calendar month, in which case the Interest Period will end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of the Interest Period) will, subject to clause (iii) below, end on the last Business Day of a calendar month;

(iii) if any Interest Period includes a date on which any payment of principal of the Loan is required to be made hereunder, but does not end on that date, then (A) the principal amount of each LIBOR Loan required to be repaid on that date shall have an Interest Period ending on that date and (B) the remainder of the LIBOR Loan shall have an Interest Period determined as set forth above; and

(iv) No Interest Period shall extend past November 1, 2002.

"INVESTMENT" means, with respect to any Person, any capital contribution to, investment in, or purchase of the stock securities of, or interests in, any other Person.

"LENDING OFFICE" means, with respect to any Bank, for each type of Loan, the Lending Office of such Bank (or of an affiliate of such Bank) designated for such type of Loan on the signature pages hereof or such other office of such Bank (or of an affiliate of such Bank) as that Bank may from time to time specify to the Borrowers and Agent as the office at which its Loans of such type are to be made and maintained.

"LETTER OF CREDIT" means a letter of credit issued for the account of a Borrower pursuant to Section 2.02.

"LETTER OF CREDIT APPLICATION" means Bank One's customary letter of credit application.

"LETTER OF CREDIT EXPOSURE" means the unfunded or funded and unreimbursed portion of all Letters of Credit outstanding at any time.

"LIBOR LOAN" means a Loan bearing interest with reference to the LIBOR Rate; each LIBOR Loan having a different Interest Period shall be deemed to be a separate LIBOR Loan.

"LIBOR RATE" applicable to any Interest Period, means a rate per annum equal to the quotient obtained (rounded upward, if necessary to the next higher 1/64 of 1%) by dividing (i) the applicable London Interbank Offered Rate by (ii) 1.00 minus the Eurodollar Reserve Percentage, adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage.

"LIEN" means with respect to any asset, any mortgage, lien, pledge, charge, security interest, or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, the Borrowers shall be deemed to own subject to a Lien any asset which is acquired or held subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease, or other title retention agreement relating to such asset.

"LOAN" means a Base Rate Loan or a LIBOR Loan, and "LOANS" means Base Rate Loans or LIBOR Loans or any combination thereof.

"LOAN DOCUMENTS" means this Agreement, the Notes, the Mortgages, and all other certificates, documents or instruments delivered in connection with this Agreement, as the foregoing may be amended from time to time.

"LONDON INTERBANK OFFERED RATE" applicable to any Interest Period means the rate per annum determined by Agent (rounded upward, if necessary, to the next higher 1/64 of 1%) at which deposits in dollars are offered to Bank One by first class banks in the London interbank market as of the first day of the Interest Period in an amount approximately equal to the principal amount of the LIBOR Loan to which the Interest Period is to apply and for a period of time comparable to the Interest Period (Agent shall determine the London Interbank Offered Rate and shall notify Petroleum as soon as practicable).

"MAJORITY BANKS" means at any time the Banks holding 85% or more of the Commitment.

"MATERIAL ADVERSE EFFECT" means any circumstance or event which (i) would have or has had any adverse effect upon the validity or enforceability of any of the Loan Documents, (ii) is or would be material and adverse to the financial condition or business operations of a Borrower, (iii) has impaired or would impair the ability of a Borrower to perform any of its obligations or substantially all of its obligations under the Loan Documents, or (iv) causes an Event of Default.

"MAXIMUM RATE" means, at the particular time in question, the maximum rate of interest which, under applicable law, may then be charged by the Banks.

"MORTGAGED PROPERTIES" means the Borrower's oil and gas properties that are now or hereafter become subject to Mortgages.

"MORTGAGES" means mortgages, deeds of trust, and security agreements, financing statements, assignments, and such other documents and instruments (including division and transfer orders), previously granted to Bank One or hereafter granted to Bank One, individually and in its capacity as Agent, to secure repayment of the Obligations.

"MULTIEMPLOYER PLAN" means a Plan described in Section 4001(a)(3) of ERISA.

"NATIONSBANK" means NationsBank of Texas, N.A., a national banking association.

"NOTE" means a Revolving Note or a Term Note, and "NOTES" means the Revolving Notes or the Term Notes, or both, as the context may require.

"OBLIGATIONS" means all present and future indebtedness, obligations and liabilities, and all renewals and extensions thereof, or any part thereof, of a Borrower or any of its Subsidiaries to Agent or any Bank arising pursuant to the Loan Documents, and all interest accrued thereon, and costs, expenses, and attorneys' fees incurred in the enforcement or collection thereof,

regardless of whether such indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, liquidated, unliquidated, joint, several or joint and several.

"OPERATING" means Lomak Operating Company, an Ohio corporation.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"PNC" means PNC Bank, National Association, a national banking association.

"PERCENTAGE SHARE" means, for each Bank, that percentage set forth opposite its name below:

| | |
|-------------|-----|
| Bank One | 35% |
| TCB | 35% |
| NationsBank | 20% |
| PNC | 10% |

"PERIODIC DETERMINATION" means any determination of the Borrowing Base pursuant to Section 3.01(b)(1).

"PERMITTED ENCUMBRANCES" means with respect to any asset:

(a) Liens securing the Obligations in favor of the Banks;

(b) Minor defects in title which do not secure the payment of money and otherwise have no material adverse effect on the value or operation of oil and gas properties, and for the purposes of this Agreement, a minor defect in title shall include (i) those instances where record title to an oil and gas lease is in a predecessor in title to a Borrower, but where a Borrower, by reason of a farmout or other instrument is presently entitled to receive an assignment of its interest or other evidence of title and the appropriate Person is proceeding diligently to obtain such assignment, and (ii) easements, rights-of-way, servitudes, permits, surface leases and other similar rights in respect of surface operations, and easements for pipelines, streets, alleys, highways, telephone lines, power lines, railways, and other easements and rights-of-way, on, over or in respect of any of the properties of a Borrower that are customarily granted in the oil and gas industry; so long as, with respect to any of such minor defects in title, the same are minor defects which are customary and usual in the oil and gas industry and which are customarily accepted by a reasonably prudent operator dealing with its properties;

(c) Inchoate statutory or operators' liens securing obligations for labor, services, materials, and supplies furnished to oil and gas properties which are not delinquent;

(d) Mechanic's, materialmen's, warehouseman's, journeyman's and carrier's liens, and other similar liens arising by operation of law or statute in the ordinary course of business which are not delinquent to the extent permitted by Section 6.03(a);

(e) Production sales contracts, gas balancing agreements, and joint operating agreements; provided, that the amount of all gas imbalances known to any Authorized Officer of each Borrower and the amount of all production which has been paid for but not delivered shall have been disclosed or otherwise taken into account in the Reserve Reports delivered to the Banks hereunder;

(f) Liens for Taxes or other assessments not yet due or not yet delinquent, or, if delinquent, that are being contested in good faith in the normal course of business by appropriate action for which adequate reserves have been established;

(g) All rights to consent by, required notices to, filings with, or other actions by, governmental entities in connection with the sale or conveyance of oil and gas leases or interests therein if a Borrower is entitled to such consent, the same are customarily obtained subsequent to such sale or conveyance, and the appropriate Person is proceeding diligently to obtain such consent, notice or filing;

(h) The terms and provisions of any of the oil and gas leases pursuant to which a Borrower derives its interests;

(i) Lease burdens payable to third parties which are deducted in the calculation of discounted present value in the Reserve Reports including, without limitation, any royalty, overriding royalty, net profits interest, production payment, carried interest, or reversionary working interest and which have been disclosed to Agent in writing; PROVIDED, HOWEVER, that a Borrower shall not be required to disclose such lease burdens unless the same are lease burdens which are not customarily and usually found in the oil and gas industry or unless the same are lease burdens which obligate a Borrower, as applicable, in a fashion not customarily and usually found in the oil and gas industry;

(j) All applicable laws, rules, and orders of governmental authorities having jurisdiction of the affairs of the Borrowers;

(k) Liens securing Debt incurred to finance the acquisition of the assets which are the subject of such Liens (to the extent permitted by Section 6.03(a) hereof); and

(l) Security interests covering cash, deposit accounts, or certificates of deposit securing a Borrower's or its Subsidiaries' obligations under Hedge Transactions permitted by Section 6.03(m).

"PERMITTED INVESTMENTS" means, with respect to the Borrowers and their Subsidiaries, (a) Investments in the Borrowers' Subsidiaries (excluding Investments by Petroleum in Operating, Production, and Red Eagle and Investments by Operating in Resources) which combined do not exceed \$1,000,000 in the aggregate, calculated for each one year time period from January 1 to December 31, inclusive, and (b) Investments in (1) direct obligations of the United States or any agency thereof with maturities of one year or less from the date of acquisition; (2) commercial paper of a domestic issuer rated at least "A-1" by Standard & Poor's Corporation or "P-1" by Moody's Investor Service, Inc.; (3) certificates of deposit with maturities of one year or less from the date of acquisition issued by any commercial bank which is a member of the Federal Reserve System and has combined capital and surplus and undivided profits of not less than \$1,000,000,000; (4) stock, obligations, or securities received in settlement of debts (created in the ordinary course of business) owing to Petroleum or any Subsidiary or stock of publicly traded companies not to exceed \$5,000,000 in cost in the aggregate at any time; and (5) Hedge Transactions permitted by this Agreement.

"PERSON" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"PETROLEUM" means Lomak Petroleum, Inc., a Delaware corporation.

"PLAN" means any pension plan which is covered by Title IV of ERISA and in respect of which a Borrower or a Commonly Controlled Entity is an "employer" as defined in Section 3(5) of ERISA.

"PRESENT VALUE" means the discounted present value of future net income accruing to the pertinent oil and gas properties, calculated based upon the parameters established from time to time by the Securities and Exchange Commission.

"PRODUCTION" means Lomak Production Company, a Delaware corporation.

"PROHIBITED TRANSACTION" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

"RED EAGLE" means Red Eagle Resources Corporation, a Delaware corporation.

"REPORTABLE EVENT" means any of the events set forth in Section 4043 of ERISA.

"RESERVE REPORT" means an engineering analysis of the oil and gas properties owned by the Borrowers in form and substance acceptable to the Majority Banks prepared by independent petroleum engineers acceptable to the Majority Banks [with the exception of the Reserve Report required to be delivered on or before October 1 of each year pursuant to Section 6.02(b)(4) or, if permitted by the Majority Banks, pursuant to any Special Determination under Section 3.03, which may be prepared by Petroleum's in-house staff] in accordance with customary and prudent practices in the petroleum engineering industry and Financial Accounting Standards Board Statement 69, which designates the owner of each asset that is the subject of such Reserve Report.

"RESTRICTED PAYMENT" means (a) any Distribution by a Borrower, (b) the issuance of a guarantee by a Borrower with respect to any Debt or other obligation of any Subsidiary other than another Borrower, and (c) the retirement, redemption or prepayment prior to the scheduled maturity by a Borrower of such Borrower's Subordinated Debt.

"REVOLVING LOAN(S)" has the meaning assigned in Section 2.01(a).

"REVOLVING NOTE" means the promissory note evidencing a Bank's Revolving Loan and any renewals, extensions, or modifications of it.

"REVOLVING PERIOD" means the period of time commencing on the Closing Date and ending on the Revolving Termination Date.

"REVOLVING TERMINATION DATE" means November 1, 1998.

"SPECIAL ACCOUNTS" means a Person's revenue distribution accounts and other accounts at a Bank which are not solely for the benefit of such Person.

"SPECIAL DETERMINATION" means any determination of the Borrowing Base pursuant to Section 3.03.

"SUBORDINATED DEBT" means Debt incurred by a Borrower, the repayment of which is subordinate (in a manner acceptable to the Banks, as evidenced by the Banks' written approval) to such Borrower's repayment of the Loans, including notes created upon the conversion of Petroleum's convertible exchangeable preferred stock outstanding as of the Closing Date.

"SUBSIDIARY" means, for any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions (including that of a general partner) are at the time directly or indirectly owned, collectively, by that Person and any Subsidiaries of that Person.

"TCB" means Texas Commerce Bank National Association, a national banking association.

"TAXES" means all taxes, assessments, filing or other fees, levies, imposts, duties, deductions, withholdings, stamp taxes, interest equalization taxes, capital transaction taxes, foreign exchange taxes or other charges, or other charges of any nature whatsoever, from time to time or at any time imposed by law or any federal, state or local governmental agency. "TAX" means any one of the foregoing.

"TERM LOAN(S)" has the meaning assigned to it in Section 2.03.

"TERM NOTE" means the promissory note evidencing a Bank's Term Loan and any renewals, extensions, or modifications of it.

"TERM PERIOD" means the period of time commencing on the Revolving Termination Date and ending on November 1, 2002.

"UNUSED AVAILABILITY" means, at any time during the Revolving Period, the remainder of (i) the Borrowing Base at such time, minus (ii) the Credit Outstanding.

1.02. OTHER DEFINITIONAL PROVISIONS. Other terms are defined within this agreement. All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof", "herein", and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Article and Section references pertain to this Agreement. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. All petroleum terms used herein have the meanings given such terms from time to time and at the time in question by the Society of Professional Engineers of the American Institute of Mining Engineers. Terms used herein that are defined in the Uniform Commercial Code as adopted by the State of Texas, unless otherwise defined herein, shall have the meanings specified in the Uniform Commercial Code as adopted by the State of Texas.

ARTICLE 2 - AMOUNT AND TERMS OF THE LOANS.

2.01. REVOLVING LOANS. Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make loans (the "REVOLVING LOANS") to the Borrowers from time to time during the period from the date of this Agreement up to but not including the Revolving Termination Date in an aggregate principal amount not to exceed at any time outstanding its Percentage Share of the Commitment; provided that a Bank will have no obligation to advance funds to the Borrowers in excess of that Bank's Percentage Share of an amount equal to the Commitment less the aggregate Letter of Credit Exposure. The Revolving Loans shall be made to the Borrowers by each Bank in the proportion of that Bank's Percentage Share. Subject to terms and conditions hereof, the Revolving Loans may be outstanding as Base Rate Loans or LIBOR Loans. Each type of Revolving Loan shall be made and maintained at such Bank's Lending Office for such type of Loan. The failure of any Bank to make any requested Loan to be made by it on the date specified for such Loan shall not relieve the other Banks of their obligation (if any) to make such Loan on such date, but no Bank shall be responsible for the failure of the other Banks to make such Loans to be made by the other Bank. Each Revolving Loan shall be in a minimum principal amount of \$100,000 (except that any Base Rate Loan may be in the amount of the unused portion of the Commitment). Subject to the foregoing limitations, the Borrowers may borrow under this Section 2.01, repay as permitted by Sections 2.04 and 2.05 (and to the extent permitted by Section 2.11, prepay Loans), and reborrow under this Section 2.01. Notwithstanding any provision of this Agreement or the Loan Documents to the contrary, on the Closing Date and continuously until repayment in full of all Loans or the termination of this Agreement, whichever occurs first, there shall be and remain outstanding a Loan of not less than \$1,000, the balance of which may not be prepaid.

2.02. LETTERS OF CREDIT. (a) Bank One will, from time to time, upon request by any Borrower, issue Letters of Credit for the account of that Borrower, so long as: (i) the Borrowing Base exceeds the sum of the total Credit Outstanding plus the amount of the requested Letter of Credit; (ii) the Borrowers

would be entitled to a Loan under Section 2.01 in the amount of the requested Letter of Credit; and (iii) the total face amount of all Letters of Credit outstanding at any time does not exceed 10% of the Borrowing Base. Not less than three Business Days prior to the requested date of issuance of any Letter of Credit, such Borrower shall execute and deliver a Letter of Credit Application. Each Letter of Credit will be in the minimum amount of \$25,000 and will be in form and substance acceptable to Bank One. No Letter of Credit will have an expiration date later than the earlier of (i) the Revolving Termination Date, or (ii) one year from the date of issuance. At the time of issuance of each Letter of Credit, such Borrower shall pay Agent for the pro rata account of Banks a fee equal to the greater of (i) \$250, or (ii) one percent per annum

(based upon the amount and term of the Letter of Credit).

(b) In the event Bank One funds a Letter of Credit pursuant to a valid request for funding by a beneficiary of a Letter of Credit prior to the Revolving Termination Date, the Banks, at their option, may treat the funding as an advance under the Revolving Loans.

(c) Bank One irrevocably grants to TCB, NationsBank, and PNC, and TCB, NationsBank, and PNC irrevocably accept and purchase from Bank One, on the terms and conditions stated below, for each Bank's own account and risk, an undivided interest equal to each Bank's respective Percentage Share of Bank One's obligations and rights under each Letter of Credit issued hereunder and the amount of each draft paid by Bank One thereunder. In the event that a Borrower fails to pay Bank One on demand the amount of any draft or other request for payment drawn under a Letter of Credit as required by the Letter of Credit Application, TCB, NationsBank, and PNC shall, before 2:00 p.m., Fort Worth, Texas time, on the Business Day Bank One gives notice to the other Banks of that Borrower's failure to so pay Bank One, if such notice is given by 10:00 a.m., Fort Worth, Texas time (or on the Business Day immediately succeeding the day such notice is given after 10:00 a.m., Fort Worth, Texas time), pay to Bank One at its Lending Office, or at such other office of which Bank One shall have given written notice, in legal tender of the United States of America, in same day funds, such Bank's Percentage Share of the amount of such draft or other request for payment from the Borrowers plus interest on such amount from the date Bank One shall have paid such draft or request for payment to the date of such payment by such Bank, at the Federal Funds Rate or customary rate set by Agent for the correction of errors. TCB's, NationsBank's, and PNC's obligations to reimburse Bank One pursuant to the terms of this Section 2.02(c) are irrevocable and unconditional; provided, however, that TCB, NationsBank, and PNC shall not be obligated to reimburse Bank One for any wrongful payment or disbursement made by Bank One under any Letter of Credit as a result of acts or omissions constituting gross negligence or willful misconduct on the part of Bank One. Whenever, at any time after Bank One has made payment under any Letter of Credit and has received from the other Banks their respective Percentage Shares of such payment in accordance with this subsection, Bank One receives any payment related to such Letter of Credit (whether directly from a Borrower or otherwise, including proceeds of collateral applied thereto by Bank One), or any payment of interest on account thereof, Bank One will distribute to the other Banks their Percentage Shares thereof; PROVIDED, however, that in the event Bank One shall be required to return any such payment received by it, TCB, NationsBank, and PNC shall return to Bank One the portion thereof previously distributed by Bank One to them.

(d) Upon the occurrence of any Event of Default, the Borrowers shall, on the next succeeding Business Day, deposit with Bank One such funds as Bank One may request, up to a maximum amount equal to the aggregate existing Letter of Credit Exposure. As drafts or demands for payment are presented under any Letter of Credit, Bank One shall apply such funds to satisfy such drafts or demands. When all Letters of Credit have expired and the Loans and Letter of Credit Exposure have been repaid in full (and the Banks have no obligation to make further Loans or issue Letters of Credit hereunder) or such Event of Default has been cured to the satisfaction of Bank One, Bank One shall release to the Borrowers any remaining funds deposited under this provision.

(e) Whenever the Borrowers are required to make deposits under this provision and fail to do so on the day such deposit is due, Bank One may, without notice to the Borrowers, make such deposit (whether by application of proceeds of any collateral for the Loans or by transfers from other

accounts maintained with Bank One excluding any of the Borrowers' Special Accounts) using any funds then available to Bank One of the Borrowers, any guarantor, or any other person liable for all or any part of the Loans.

2.03. TERM LOANS. Each Bank severally agrees, subject to the terms and conditions of this Agreement, to make a loan (the "TERM LOANS") to the Borrowers on the Revolving Termination Date in an aggregate principal amount up to but not exceeding its Percentage Share of the unpaid principal balance of

the Revolving Loans, subject to the Borrowing Base provisions of Article 3. Each Bank's Term Loan may be a combination of Base Rate Loans and LIBOR Loans, subject to the terms of this Agreement. Each type of Loan shall be made and maintained at such Bank's Lending Office for such type of Loan.

2.04. NOTES. (a) All Revolving Loans made by each Bank shall be evidenced by, and repaid with interest in accordance with a single promissory note of the Borrowers (a "REVOLVING NOTE"), which shall (i) be in substantially the form of attached Exhibit A, duly completed; (ii) be dated the date hereof; (iii) be in a face amount equal to such Bank's Percentage Share of \$250,000,000; (iv) be payable to the order of such Bank, for the account of its applicable Lending Office; and (v) bear interest in accordance with Section 2.05 hereof. Notwithstanding the principal amount of each Bank's Revolving Note as stated on the face thereof, the amount of principal actually owing on a Bank's Revolving Note at any given time shall be the aggregate of that Bank's Loans made to the Borrowers, less all payments of principal actually received by Agent for the account of such Bank.

(b) The Term Loan made by each Bank shall be evidenced by, and repaid with interest in accordance with, a single promissory note (a "TERM Note") of the Borrowers which shall (i) be in substantially the form of attached Exhibit B, duly completed; (ii) be dated as of the Revolving Termination Date; (iii) be in renewal and extension of the principal amounts of the unpaid principal balance of the applicable Bank's Revolving Loan; (iv) bear interest in accordance with Section 2.05 hereof; and (v) be payable to the order of such Bank for the account of its applicable Lending Office. The principal of such Bank's Term Note shall be repaid in 16 consecutive quarterly installments, each in an amount equal to 1/16 of the original principal amount of such Bank's Term Loan. The first installment on each Term Note shall be due on January 1, 1999, with subsequent installments due on the first day of April, July, October, and January of each year of the Term Note, and thereafter to and including November 1, 2002; provided, however that the last payment will be in an amount sufficient to repay in full the unpaid, principal amount of each Bank's Term Loan.

2.05. INTEREST RATES. The Borrowers shall pay interest to Agent for the account of each Bank on the outstanding and unpaid principal amount of that Bank's Loans made under this Agreement at a rate per annum as follows:

(a) For each Base Rate Loan, at a rate equal to the sum of the Base Rate in effect from day to day plus the Applicable Margin, each change in the Base Rate to be effective without notice to Borrowers on the effective date of each such change, provided that in no event will the rate charged hereunder or under any Note exceed the Maximum Rate, payable on the first day of January, April, July, and October of each year.

(b) For each LIBOR Loan, for the Interest Period applicable thereto, at a rate equal to the sum of the LIBOR Rate plus the Applicable Margin, provided that in no event will the rate charged hereunder or under any Note exceed the Maximum Rate, payable on the first day of January, April, July, and October of each year and at the end of each applicable Interest Period.

(c) Agent shall determine each interest rate applicable to the Loans in accordance with the terms hereof. Agent shall promptly notify the Borrowers and the Banks of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

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(d) Notwithstanding the foregoing, if at any time the rate of interest calculated with reference to the Base Rate or the LIBOR Rate hereunder (the "CONTRACT RATE") is limited to the Maximum Rate, any subsequent reductions in the contract rate shall not reduce the rate of interest on the affected Loan below the Maximum Rate until the total amount of interest accrued equals the amount of interest which would have accrued if the contract rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of a Note, the total amount of interest paid or accrued on such Note is less than the amount of interest which would have accrued if the contract rate had at all times been in effect with respect thereto, then at such time, to the extent permitted by law, the Borrowers shall pay to the holder of the Note an amount equal to the difference between (i) the

lesser of the amount of interest which would have accrued if the contract rate had at all times been in effect and the amount of interest which would have accrued if the Maximum Rate had at all times been in effect, and (ii) the amount of interest actually paid on the Note.

(e) Any change in the interest rate based upon the Base Rate resulting from a change in the Base Rate shall be effective as of the opening of business on the Business Day on which the change in Base Rate becomes effective. Interest on the unpaid principal of each Base Rate Loan and LIBOR Loan shall be calculated on the basis of the actual days elapsed in a year consisting of 360 days.

2.06. METHOD OF BORROWING. (a) To request Loans, Petroleum shall hand deliver or telecopy to Agent a written loan request in a form acceptable to Agent at its sole discretion prior to 12:00 noon (Fort Worth, Texas time) at least one Business Day before the date of each proposed Base Rate Loan, and at least two Business Days before the date of each LIBOR Loan. Each loan request shall specify (1) the date of the Loans; (2) the aggregate amount of the Loans; (3) the portion of the Loans that are to be Base Rate Loans or LIBOR Loans; and (4) in the case of LIBOR Loans, the duration of the Interest Period applicable thereto. Agent shall promptly notify each Bank of Petroleum's request and not later than 12:00 p.m. (Fort Worth, Texas time), on the date of a Loan, each Bank will make available to Agent at 500 Throckmorton Street, Fort Worth, Texas 76102, in immediately available funds, that Bank's Percentage Share of the Loan. After Agent's receipt of these funds, not later than 2:00 p.m. (Fort Worth, Texas time), on the date of the Loans and upon fulfillment of the applicable conditions set forth in Article 5:

(i) For Revolving Loans, Agent will make the Loans available to the Borrowers in immediately available funds by crediting the amount thereof to Petroleum's account with Agent; and

(ii) For Term Loans, Agent will make the Loans available to the Borrowers and the proceeds of the Term Loans shall be applied to the payment in full of the then outstanding Revolving Loans of each Bank.

(b) All notices given by Petroleum under this Section 2.06 shall be irrevocable and shall be given not later than 10:00 a.m. (Fort Worth, Texas time) on a day which is not less than the number of Business Days specified above for such notice.

2.07. NON-RECEIPT OF FUNDS BY AGENT. (a) Unless Agent receives notice from a Bank prior to the date on which that Bank is to provide funds to Agent for a Loan to be made by that Bank that such Bank will not make available to Agent the funds, Agent may assume that such Bank has made the funds available to Agent on the date of the Loan in accordance with Section 2.06, and Agent in its sole discretion (but subject to Section 8.01 hereof) may, but shall not be obligated to, in reliance upon such assumption, make available to the Borrowers on the date a corresponding amount. If and to the extent such Bank has not made such funds available to Agent, such Bank agrees to repay to Agent, immediately on demand, the corresponding amount together with interest thereon, for each day from the date the amount is made available to the Borrowers until the date the amount is repaid to Agent, at the customary rate set by Agent for the correction of errors among banks for three Business Days and thereafter at the Base Rate. If such Bank shall repay to Agent the corresponding amount, such amount so repaid shall constitute such Bank's Loan for purposes of this Agreement. If such Bank does not pay such corresponding amount immediately upon Agent's demand therefor, Agent shall promptly notify Petroleum, and the Borrowers shall immediately pay such corresponding amount to Agent with interest

thereon, for each day from the date such amount is made available to the Borrowers until the date such amount is repaid to Agent, at the rate of interest applicable at the time to such proposed Loan.

(b) Unless Agent receives notice from the Borrowers prior to the date on which any payment is due to the Banks hereunder that the Borrowers will not make such payment in full, Agent may assume that the Borrowers have

made such payment in full to Agent on such date, and Agent in its sole discretion may, but is not be obligated to, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Borrowers shall not have so made such payment in full to Agent, each Bank shall repay to Agent immediately on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to Agent, at the customary rate set by Agent for the correction of errors among banks for three Business Days and thereafter at the Base Rate.

2.08. USE OF PROCEEDS. The proceeds of the Revolving Loans shall be used (a) on the Closing Date, to refinance the entire unpaid balance of the Existing Notes; and (b) on and after the Closing Date, (1) for the payment of capital expenditures, drilling costs, and other expenses incurred by the Borrowers in the further development of the Borrowers' oil and gas properties, (2) to purchase additional oil and gas properties, (3) for working capital and general corporate purposes, but only to the extent that the use of proceeds for such purposes would be permitted under the terms of this Agreement, (4) to fund Letters of Credit, and (5) for Permitted Investments. The proceeds of the Term Loan shall be used solely to refinance the indebtedness evidenced by the Revolving Notes.

2.09. CONVERSIONS AND RENEWALS. Petroleum may elect from time to time to convert all or a part of one type of Loan into another type of Loan or to renew all or part of a Loan by giving Agent written notice at least one Business Day before the conversion into a Base Rate Loan and at least two Business Days before the conversion into or renewal of a LIBOR Loan, specifying: (a) the renewal or conversion date; (b) the amount of the Loan to be converted or renewed; and (c) in the case of conversions, the type of Loan to be converted into; and (d) in the case of renewals of or a conversion into LIBOR Loans, the duration of the Interest Period applicable thereto; provided that (i) the minimum principal amount of each Loan outstanding after a renewal or conversion shall be \$100,000; and (ii) LIBOR Loans can be converted only on the last day of the Interest Period for such Loan. All notices given by Petroleum under this Section 2.09 shall be irrevocable and shall be given no later than 10:00 a.m. (Fort Worth, Texas time) on the Business Day which is not less than the number of Business Days specified above for such notice. If Petroleum fails to give Agent the notice as specified above for the renewal or conversion of a LIBOR Loan prior to the end of the Interest Period with respect thereto, that LIBOR Loan shall automatically be converted into a Base Rate Loan on the last day of the Interest Period for the Loan.

2.10. LIMITATION ON NUMBER OF LIBOR LOANS. There may be no more than an aggregate of ten LIBOR Loans outstanding at any time, unless otherwise agreed by the Banks.

2.11. PREPAYMENTS. (a) The Borrowers may, without premium or penalty, upon one Business Days' prior written notice to Agent, prepay the Notes, in whole or in part, with accrued interest to the date of such prepayment on the amount prepaid, provided that (i) each prepayment of less than the full outstanding principal balance of the Notes shall be in a minimum amount equal to \$100,000; (ii) if the Borrowers prepay the principal of any LIBOR Loan on any date other than the last day of the Interest Period applicable thereto, the Borrowers shall also pay to the Banks the amounts specified in Section 9.06; (iii) after the Revolving Termination Date, the Borrowers shall at all times maintain a sufficient portion of the Term Loan as a Base Rate Loan to allow the Borrowers to make regularly scheduled payments of principal without paying a LIBOR Loan prior to the end of the applicable Interest Period; and (iv) in the case of the Term Note, prepayments shall be applied pro rata to the remaining principal installments due after the prepayment. Upon receipt of any such prepayments, Agent will promptly thereafter cause to be distributed such prepayment to each Bank for the account of its applicable Lending Office in the

proportion that each such Bank's Loan to which the prepayment applies bears to the total amount of all Banks' Loans to which the prepayment applies.

(b) The Borrowers shall make mandatory prepayments of the

Revolving Notes and the Term Notes, as appropriate, as required under Section 3.05.

(c) Any prepayment of a Note hereunder shall be (i) made together with interest accrued (through the date of such prepayment) on the principal amount prepaid and (ii) applied first to accrued interest and then to principal.

2.12. MANNER AND APPLICATION OF PAYMENTS. (a) All payments of principal of, and interest on, any Note shall be made by the Borrowers to Agent before 2:00 p.m. (Fort Worth, Texas time), in Federal or other immediately available funds, at Agent's office at 500 Throckmorton Street, Fort Worth, Texas 76102, for the account of the applicable Lending Office of each Bank. Should the principal of, or any installment of the principal or interest on, any Note, or any commitment fee, become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day. Whenever any payment to be made under this Agreement or under any Note shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of the payment of interest and the commitment fee, as the case may be, except, in the case of a LIBOR Loan, if the result of such extension would be to extend such payment into another calendar month, such payment shall be made on the immediately preceding Business Day. All payments made under the Loan Documents shall be credited, to the extent of the amount thereof, in the following manner: (i) first to fees, costs and expenses which the Borrowers have agreed to pay under the Loan Documents for which the Borrowers have received an invoice no later than five days prior to such payment; (ii) second, against the amount of interest accrued and unpaid on such Note as of the date of such payment; (iii) third, against all principal (if any) due and owing on such Note as of the date of such payment; (iv) fourth, as a prepayment of outstanding Base Rate Loans under the Note; (v) fifth, as a prepayment of outstanding LIBOR Loans under the Note; and (vi) sixth, as a prepayment of any remaining Obligation. Subject to the foregoing, payments and prepayments of principal of a Note shall be applied to such outstanding Base Rate Loans and LIBOR Loans under the Note as the Borrowers shall select; provided, however, that the Borrowers shall select Base Rate Loans and LIBOR Loans to be repaid in a manner designated to minimize the loss to each Bank, if any, resulting from such payments; and provided further that, if the Borrowers fail to select the Base Rate Loans and LIBOR Loans to which such payments are to be applied, or if an Event of Default has occurred and is continuing at the time of such payment, then each Bank shall be entitled to apply the payment to Base Rate Loans and LIBOR Loans in the manner it shall deem appropriate.

(b) On the Business Day of receipt by Agent, if Agent's receipt occurs before 1:00 p.m. (Fort Worth, Texas time), Agent will promptly thereafter cause to be distributed, on the same Business Day, (1) such payments of principal and interest in like funds to each Bank for the account of its applicable Lending Office in the proportion that such Bank's Loans to which the payment applies bears to the total amount of all Banks' Loans to which the payment applies and (2) other fees payable to any Bank to be applied in accordance with the terms of this Agreement. All payments received by Agent after 1:00 p.m. (Fort Worth, Texas time) will be distributed promptly by Agent, and in no event later than 2:00 p.m. (Fort Worth, Texas time) of the next succeeding Business Day. The Borrowers authorize each Bank, if and to the extent payment is not made when due under this Agreement or under any Note, to charge from time to time against any account of any Borrower with such Bank other than a Special Account any amount as due.

ARTICLE 3 - BORROWING BASE.

3.01. DETERMINATION OF BORROWING BASE. (a) The term "BORROWING BASE" means the designated loan value (as calculated by the Banks in their sole discretion in accordance with then-current practices, customary procedures and standards used by Banks for their petroleum industry customers) assigned to the Borrowers' oil and gas properties and other related assets, as redetermined from time to time in their sole

discretion and as may be reduced by the Borrowers pursuant to Section 3.06. In

determining the Borrowing Base, each Bank will utilize (i) the pertinent economic parameters customarily used by each Bank with respect to credits of a similar size and nature and (ii) the information that the Banks have available to them at the time of each determination, including, without limitation, assets, liabilities, cash flow, and other financial information regarding the Borrowers and the Collateral and the business, properties, prospects, management, and ownership of the Borrowers. Any increase in the Borrowing Base is subject to the credit approval processes of the Banks. The Banks shall never have the obligation to designate a Borrowing Base in excess of their legal or internal lending limits.

(b) Based in part upon the Reserve Report delivered pursuant to Section 6.02(c)(4), the Banks will determine the Borrowing Base to be in effect on the next succeeding Determination Date. Each Bank shall notify Agent on or before ten days prior to each Determination Date of the Borrowing Base which such Bank determines should become effective on such Determination Date. Thereafter, the Banks shall consult with each other in order to agree on the Borrowing Base to be effective on such Determination Date. The Borrowing Base agreed to by the Majority Banks shall become effective on the next succeeding Determination Date and shall remain in effect until the next Determination. Agent shall notify the Borrowers of the Borrowing Base to become effective on each Determination Date no later than 2:00 p.m. (Fort Worth, Texas, time) on such Determination Date.

(c) The initial Borrowing Base in effect during the period commencing on the Closing Date and continuing until the first Determination after the Closing Date shall be \$105,000,000.

3.02. PERIODIC DETERMINATIONS. By the later of each Determination Date or the expiration of 30 days after the Banks' receipt of the information required by paragraphs (4), (5), (6), and (7) of Section 6.02(c), the Banks will redetermine, in their sole discretion, a Borrowing Base for the Borrowers as of the Determination Date (a "PERIODIC DETERMINATION").

3.03. SPECIAL DETERMINATIONS. (a) In addition to the Periodic Determinations, the Borrowers may request two Determinations in each six month period commencing on May 1 and November 1 of each year in conjunction with the Borrowers proposed acquisition of additional oil and gas properties (a "SPECIAL Determination"). With each request for a Special Determination, the Borrowers shall deliver to the Banks a Reserve Report prepared within 180 days prior to the date of such request. The Reserve Report shall evaluate the reserves attributable to the oil and gas properties to be acquired (such properties are herein called the "ADDITIONAL PROPERTIES") and shall include, without limitation, a description of reserves which relate to the Additional Properties, net revenue interests and working interests attributable to such reserves, rates of production, gross revenues, operating expenses, ad valorem taxes, projected capital expenditures necessary to cause the Additional Properties to achieve the rate of production set forth in the Reserve Report, net revenues and present value of future net revenues attributable to such reserves and production therefrom, and a statement of the assumptions upon which such determinations were made.

(b) Upon each request for a Special Determination, the Banks will review the Borrowing Base within 30 days from receipt by the Banks of all pertinent information, and Agent will advise the Borrowers of the Banks' decision, which will be at the Banks' sole discretion and will be determined in accordance with Section 3.01. If, in conjunction with a Special Determination, the Borrowers submit to the Banks for their review Additional Properties and the Banks elect to increase the Borrowing Base, the increase in the Borrowing Base will be effective as of the date upon which the Borrowers execute and deliver to the Banks appropriate documents reflecting an appropriate amendment to this Agreement.

3.04. ADDITIONAL DETERMINATIONS. (a) In addition to Periodic and Special Determinations, the Banks may redetermine the Borrowing Base one time in each six month period commencing on May 1 and November 1 of each year if at any time it appears to the Banks, in their sole discretion, that either (i) there has been a material decrease in the Present Value of the Borrowers' oil and gas properties, or (ii) an event has occurred that is reasonably expected to have a Material Adverse Effect. In addition to the

Periodic Determinations, the Special Determinations, and the Determinations just described, the Banks at their option may redetermine the Borrowing Base at any time a Borrower enters into and consummates a transaction to sell oil and gas properties valued in the Borrowers' most recent Reserve Report at an amount that equals or exceeds 5.0% of Borrowing Base at that time or at any time that a Borrower issues preferred stock or incurs Subordinated Debt as permitted under Section 6.03(i). All Determinations shall be made in accordance with Section 3.01.

(b) In the event of a Special Determination or a Determination pursuant to this Section 3.04, the Banks may, in the exercise of their sole discretion, suspend the next regularly scheduled Determination.

3.05. OVER ADVANCE. If at any Determination, the Borrowing Base is less than the aggregate Credit Outstanding, Agent will notify the Borrowers of the amount of the Borrowing Base and the amount of the deficiency. The Borrowers shall remedy the deficiency by paying to Agent for the account of each Bank principal payments, each equal to 1/6 of the deficiency, commencing 10 days after the deficiency notice is sent by Agent and continuing on the same day of the next five months. A failure by the Borrowers to resolve a Borrowing Base deficiency to the Banks' satisfaction within six months after the date the first deficiency payment is due will constitute an Event of Default under Section 7.01.

3.06. REDUCTION OF BORROWING BASE. (a) Petroleum may elect at any time to reduce the amount the Borrowers may borrow under this Agreement to an amount less than the Borrowing Base. If Petroleum so elects, Petroleum must give notice to Agent three Business Days prior to the effective date of any such reduction. Petroleum's reduction of the Borrowing Base may be in amounts of at least \$1,000,000 in any integral multiple of \$100,000. Any such reduction shall be accompanied by payment in full of any commitment fee then accrued on the amount of such reduction. The Borrowers may not reduce the Borrowing Base to an amount less than the Letter of Credit Exposure. On the effective date of any such reduction, the Borrowers shall, to the extent required as a result of such reduction, make a principal payment on the Loans in an amount sufficient to cause the outstanding principal balance of the Loans to be equal to or lesser than the Borrowing Base as thereby reduced.

(b) Except as required to comply with the provisions of Section 3.05, the Borrowers shall not prepay all or any portion of the principal amount of any LIBOR Loan prior to the last day of the Interest Period applicable thereto.

ARTICLE 4 - COLLATERAL.

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4.01. SECURITY. (a) The Obligations shall be unsecured with the exception that (i) the Obligations shall be secured by first and prior Liens (subject only to Permitted Encumbrances) covering the Mortgaged Properties as they exist on the date of this Agreement and (ii) the Obligations may become secured by the additional collateral referenced in Section 4.01(b) at the time and to the extent contemplated by Section 4.01(b).

(b) Upon the Borrowers' failure to make timely payments on the Obligations or upon the Borrowers' breach of either of the financial covenants set out in Sections 6.04(b) and 6.04(d) below, the Majority Banks may, at their discretion and by written notice to Petroleum, require that the Borrowers grant Agent, for the ratable benefit of each Bank, first and prior Liens (subject only to Permitted Encumbrances) on all oil and gas properties owned by the Borrowers designated by the Majority Banks which have a Present Value (as reflected on the most recent Reserve Report delivered to the Banks) of \$100,000 or more. Within 30 days following notification to Petroleum of the Majority Banks' intent to require such Liens, the Borrowers shall execute and deliver to Agent for the ratable benefit of each Bank, Mortgages in form and substance acceptable to Agent granting first and prior Liens on the oil and gas properties designated by the Majority Banks.

(c) The Borrowers acknowledge that all Mortgages now or hereafter executed by a Borrower will be promptly recorded and all other action necessary to perfect the liens and security

interests evidenced by the Mortgages will be taken. The Borrowers represent and warrant to the Banks that all Mortgages (i) are duly authorized, executed, and delivered by the Person executing them, (ii) constitute the valid, binding, and enforceable obligations of each Borrower or the other Person which executed the Mortgages in accordance with their terms, and (iii) operate to create in favor of the Banks first priority liens and security interests in the interests covered thereby.

4.02. LEGAL OPINIONS; CORPORATE MATTERS. Agent will be permitted, at the Borrowers' expense, to obtain opinions of counsel in each jurisdiction in which Borrowers' oil and gas properties are located, with respect to the validity, enforceability, and actions necessary to perfect the liens and security interests created by the Mortgages covering such oil and gas properties and as to such other matters as the Majority Banks shall deem necessary with respect to the Mortgages. Furthermore, simultaneously with the execution and delivery of any Mortgages required by Section 4.01, the Borrowers shall also deliver to Agent (i) such resolutions, certificates, and documents as the Majority Banks shall request relating to the existence of the Borrowers, the corporate authority for the execution, delivery, and performance of the Mortgages and such other matters relevant thereto as the Majority Banks may reasonably request, and (ii) at the Majority Banks' request, an opinion of counsel satisfactory to them with respect to the matters referred to in clause (i) immediately preceding.

4.03. ADDITIONAL TITLE DATA. (a) The Borrowers shall, upon the request of the Majority Banks, cause to be delivered to Agent such title opinions, title information, and other information in their possession, control, or direction with respect to title to the properties that hereafter become Mortgaged Properties and relative priority of the Mortgages as are appropriate to determine the status thereof.

(b) At such time as the Banks require the Borrowers to mortgage additional oil and gas properties, the Borrowers shall, upon the request of Agent, deliver to Agent title opinions or other title information acceptable to Agent covering at least 80% of the Present Value of the oil and gas properties which are to become Mortgaged Properties and other information regarding title to such oil and gas properties as Agent shall reasonably request, all in form and substance and from such attorneys as are acceptable to Agent.

4.04. MAINTENANCE OF SECURITY. When and to the extent required by Section 4.01 hereof, the Borrowers shall execute and deliver to Agent all Mortgages, financing statements, transfer order letters, and such other documents and instruments, and supplements and amendments thereto, and take such other actions as Agent reasonably deems necessary in order to create and maintain valid, enforceable and first priority perfected liens on all assets of the Borrowers requested by Agent to secure the Obligations. Furthermore, upon any consolidation or merger of any Subsidiary of a Borrower permitted by this Agreement, the Person which survives such merger or consolidation shall also execute and deliver such documents as Agent deems necessary to continue in force any Mortgages executed prior to such consolidation or merger by the parties subject to such consolidation or merger.

4.05. BENEFITS OF COLLATERAL. Agent shall hold the Collateral required to be pledged and deposited by the Borrowers to Agent, along with all payments and proceeds arising therefrom, for the ratable benefit of the Banks as security for the payment of all Obligations. Upon payment in full of all Obligations, Agent shall release all of the Collateral remaining in its possession to the Borrowers and shall notify each Bank of the release. Except as otherwise expressly provided for in this Article 4, Agent, in its own name or in the name of the Borrowers, may enforce any of the Collateral or the security therefor by any mode provided under the Loan Documents or by the law of the state in which the Collateral or in which any real property subject to any of the Collateral is located, and may collect and receive proceeds receivable on account of ownership of the Collateral.

4.06. PROCEEDS FROM COLLATERAL. All payments and proceeds of every kind from the Collateral, when directly received by Agent pursuant to Section

4.07 below (whether from payments on or with respect to the Collateral, from foreclosure and sale to third parties, from sale of Collateral subsequent to a foreclosure at which Agent or another Bank was the purchaser, or otherwise) shall be held by it as a part

of the Collateral and, except as otherwise expressly provided hereinafter, shall be applied to the Obligations in the manner set forth in Section 4.07(b).

4.07. STATUS OF COLLATERAL IN EVENT OF DEFAULT. (a) Notwithstanding the terms of any Mortgage or other security instrument securing repayment of the Obligations by which the Borrowers assign to Agent for the ratable benefit of the Banks the "proceeds of runs" accruing to the Mortgaged Properties, so long as no Event of Default has occurred which is continuing, the Borrowers shall be permitted to continue to receive from the purchasers of production all of such "proceeds of runs", and Agent shall not request payment of such "proceeds of runs". Upon the occurrence and continuation of any Event of Default, Agent, at the request of the Majority Banks, may exercise all rights granted it under the various Mortgages to direct the Persons purchasing the production from the Borrowers' oil and gas properties to pay the proceeds of sale directly to Agent. Upon the occurrence and continuation of any Event of Default, Agent, after giving written notice to the Borrowers and to the Banks of the action to be taken, also may at any time or times thereafter sell, assign, and deliver all or any part of the Collateral, or any substitution therefor or any additions thereto as provided hereafter. Any sale or assignment may be at any public or private sale at the option of Agent, without advertisement or any notice to the Borrowers or any other Person except those required by applicable law (the Borrowers hereby agreeing that 10 days' notice constitutes "reasonable notice"); and each Bank may bid and become a purchaser at any such sale. Sales hereunder may be at such time or times, place or places, for cash or credit, and upon such terms and conditions as Agent may determine in its sole discretion. Upon the completion of any sale, Agent shall execute all instruments of transfer necessary to vest in the purchaser title to the property sold, and shall deliver to the purchaser any of the property so sold which may be in the possession of Agent.

(b) In the case of any sale of all or part of the Collateral, the purchase money proceeds and all other proceeds which then may be held or recovered by Agent for the benefit of the Banks, shall be applied in the following order:

(i) First, to the payment of the reasonable costs and expenses of the sale and of the collection or enforcement of the collateral, and reasonable compensation to Agent, its agents and attorneys, and of all reasonable expenses and liabilities incurred and advances made by Agent in connection therewith;

(ii) Second, to the payment of expenses of the Banks which the Borrowers are obligated to pay pursuant to Section 11.01 hereof;

(iii) Third, to the payment ratably of the amounts due for principal of and interest on all Loans then outstanding, without preference or priority of the indebtedness owing to one Bank over another, or of principal over interest, or of interest over principal;

(iv) Fourth, other Obligations; and

(v) Fifth, to the payment of the surplus, if any, to the Borrowers, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

4.08. RIGHTS OF AGENT. Agent, in its sole discretion (but subject to Section 8.01 hereof) and in good faith, may (but is not required to) take whatever action it deems necessary to protect and enforce the Collateral or the rights of the Banks under the Loan Documents.

4.09. OFFSET. (a) Each Bank shall be entitled to exercise the rights of offset and/or banker's lien against each and every account and other property or assets of the Borrowers with or in the possession of each Bank to

the extent of the full amount of the Obligations, which shall be shared with the other Bank in the proportion that each Bank's Loans bears to the total amount of all the Banks' Loans, and each Bank shall apply its share in accordance with Section 2.12 of this Agreement.

(b) If Agent is stayed by operation of law from exercising a valid right of offset or banker's lien against any cash that is part of the Collateral, and Agent elects, in its sole discretion (but subject to Section 8.01 hereof) to consent to or is subject to an order of a court of competent jurisdiction permitting the Borrowers, or any Subsidiary or a trustee for the Borrowers to use, sell or otherwise dispose of the cash Collateral, then the proceeds of the cash Collateral, any evidences of debt in respect thereof, or any collateral security substituted therefor and/or the proceeds thereof, received or retained by Agent shall be shared by the Banks, allocated and applied as set forth in this Section 4.09 as if the Agent had exercised a right of offset or banker's lien against the proceeds. This Section 4.09 shall in no manner be deemed to limit or impair the rights of offset or any similar right of any Bank under any applicable law.

ARTICLE 5 - CONDITIONS PRECEDENT.

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5.01. CONDITIONS PRECEDENT TO RESTATEMENT OF EXISTING CREDIT AGREEMENT. The restatement of the Existing Credit Agreement on the terms set forth herein is subject to the conditions precedent that Agent shall have received on or before the Closing Date the following, in form and substance satisfactory to the Banks and their counsel and in sufficient copies for each Bank where applicable:

(a) A Revolving Note payable to the order of each Bank in the amount of such Bank's Percentage Share of \$250,000,000, duly executed by the Borrowers, dated as of the date of this Agreement;

(b) A certificate signed by an Authorized Officer stating that (i) the representations and warranties contained in this Agreement are true and correct in all respects, and (ii) no Event of Default has occurred and none is in existence;

(c) Certified (as of the date of this Agreement) copies of all corporate or partnership action taken by each Borrower, as applicable, including resolutions of the Board of Directors of each corporate Borrower, authorizing the execution, delivery, and performance of this Agreement and all documents called for by this Agreement and the performance of all of each Borrower's obligations under them, certified by an Authorized Officer of each Borrower and in recordable form; and

(d) Certificates issued by the appropriate governmental office of the State of Delaware reflecting that Petroleum, Production, Resources, and Red Eagle are in good standing and in existence and a certificate issued by the appropriate governmental office of the State of Ohio reflecting that Operating is in good standing and in existence.

Upon satisfaction of each of the conditions set forth in this Section 5.01, the Existing Credit Agreement shall automatically and completely be restated on the terms set forth herein without the necessity of any other action on the part of the Banks, the Agent, or the Borrowers. Until the conditions in this Section 5.01 are satisfied, the Existing Credit Agreement shall remain in full force and effect in accordance with its terms.

5.02. CONDITIONS PRECEDENT TO ALL REVOLVING LOANS. (a) The obligation of each Bank to make a Revolving Loan (including the initial Revolving Loan) and the obligation of Bank One to issue Letters of Credit shall be subject to the further conditions precedent that on the date of such Loan or Letter of Credit issuance:

(1) There neither has occurred (without having been

waived) nor exists any Default or Event of Default.

(2) No litigation or governmental proceedings have been instituted against a Borrower which, in the opinion of Agent, will have a Material Adverse Effect.

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(3) There has been no attachment, garnishment, or other seizure by judicial proceeding of any amount loaned or advanced or to be loaned or advanced by the Banks under this Agreement.

(4) There has been no material adverse change in the financial condition of the Borrowers from that at the time of the initial Revolving Loan.

(5) Following the making of such Loan or the issuance of such Letter of Credit and all other Loans to be made and/or Letters of Credit to be issued on the same day under this Agreement, the Credit Outstanding shall not exceed the Borrowing Base.

(b) Prior to making any Loan, Agent may require the delivery to it of appropriate affidavits and certificates that the conditions prescribed in Section 5.02(a) do in fact exist.

5.03. CONDITIONS PRECEDENT TO THE TERM LOANS. The obligation of each Bank to make its Term Loan shall be subject to the conditions precedent that Agent shall have received on or before the day of such Term Loan all of the documents required by Sections 5.01 and 5.02, and each of the following, in form and substance satisfactory to Agent and its counsel:

(a) A Term Note payable to the order of each Bank in the amount of such Bank's Percentage Share of the aggregate Credit Outstanding on the Revolving Termination Date, duly executed by the Borrowers, dated as of the Revolving Termination Date;

(b) The following statements shall be true and Agent shall have received a certificate signed by a duly authorized officer of the Borrowers dated the date of the Term Loans stating that:

(1) The representations and warranties contained in Article 6 of this Agreement are correct on and as of the date of the Term Loans as though made on and as of such date; and

(2) No Event of Default has occurred and is continuing or will result from the Term Loans, and no Default has occurred or will result from the Term Loans; and

(c) Agent shall have received such other approvals, opinions, or documents as any of the Banks may reasonably request.

ARTICLE 6 - WARRANTIES AND COVENANTS.
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6.01. WARRANTIES. (a) To induce Banks to enter into this Agreement and to lend to the Borrowers and for each Bank's reliance in so doing, each Borrower warrants to each Bank that:

(1) Each Borrower is duly organized and validly existing under the laws of its state of incorporation or formation, and is in good standing in that state and all other states in which it has material assets or operations.

(2) Each Borrower has and will continue to full power and authority to execute and deliver to the Banks this Agreement and the Loan Documents, and to perform all of its obligations under this Agreement and the Loan Documents; that all of those actions have been duly authorized and are not and will not be in conflict with any provision of law or the terms of its articles of incorporation or joint venture agreement or any agreement or

undertaking to which it is a party or by which it is bound; and that upon execution and delivery, this Agreement and all the Loan Documents will be valid and binding obligations of it.

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(3) All information supplied in statements and representations made to Banks by or on behalf of each Borrower in any financial, credit, or accounting statement, application for credit, or other statement furnished to the Banks prior to, contemporaneously with or subsequent to the execution of this Agreement, and any certificate, document, schedule, or other writing furnished to the Banks pursuant to this Agreement or in response to a request made by the Banks pursuant to this Agreement, are and shall be true, correct, complete, valid, genuine, and what they purport or are represented to the Banks to be.

(4) No Borrower is in default with respect to any material Tax or other obligation to which it is a party or by which it is bound other than obligations contested by such Borrower in good faith for which adequate reserves are being maintained.

(5) Each Borrower has obtained all authorizations, licenses, permits, consents, approvals, and undertakings which are required under any applicable law in connection with the execution and delivery of and the performance of its obligations under or in connection with this Agreement and the other Loan Documents.

(6) Each Borrower is in compliance with all statutes, ordinances, and regulations of all governmental bodies having jurisdiction over its activities that has a material impact on each Borrower's operations.

(7) No Borrower is a guarantor or surety or otherwise responsible in any material manner with respect to any Debt or undertaking of a Person other than another Borrower, except for Petroleum's and Operating's guarantees of the obligations of Athens Joint Venture to Bank One.

(8) No litigation is pending which affects the execution and delivery of this Agreement or any other Loan Documents or the ability of a Borrower to perform under them, and no litigation is pending which could have a Material Adverse Effect.

(9) The Borrowers have no wholly owned Subsidiaries except (i) Petroleum whose wholly owned Subsidiaries are Border Resources, Inc., a Delaware corporation; Buffalo Oil Field Services, Inc., an Ohio corporation; LPI Acquisition, Inc., a Texas corporation; Lomak Acquisition Corp., a Delaware corporation; Lomak Operating Company, an Ohio corporation; Lomak Production Company, a Delaware corporation; Lynx Exploration Company, a Colorado corporation; and Red Eagle Resources Corporation, a Delaware corporation; and (ii) Operating whose wholly owned Subsidiary is Lomak Resources Company, a Delaware corporation.

(10) Each Borrower and each Subsidiary is in compliance in all material respects with all applicable provisions of ERISA; neither a Reportable Event nor a Prohibited Transaction has occurred and is continuing with respect to any Plan; no notice of intent to terminate a Plan has been filed, nor has any Plan been terminated; no circumstances exist which constitute grounds entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings; neither Borrower nor any Commonly Controlled Entity has completely or partially withdrawn from a Multiemployer Plan; each Borrower and each Commonly Controlled Entity have met their minimum funding requirements under ERISA with respect to all of their Plans and the present value of all vested benefits under each Plan does not exceed the fair market value of all Plan assets allocable to such benefits, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA; and no Borrower nor any Commonly Controlled Entity has incurred any liability to the PBGC under ERISA.

(11) To the extent any of the following would have a Material Adverse Effect on a Borrower:

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(i) No Borrower or Subsidiary has failed to duly comply with, or failed to cause their businesses, operations, assets, equipment, property, leaseholds, or other facilities to be in compliance with, the provisions of any federal, state, and local environmental, health, and safety laws, codes and ordinances, or any rules and regulations promulgated thereunder ("LAWS").

(ii) No Borrower or Subsidiary has received notice of, nor knows of, or suspects facts which might constitute violations of any Laws with respect to its businesses, operations, assets, equipment, property, leaseholds, or other facilities.

(iii) Except in accordance with a valid governmental permit, license, certificate, or approval, there has been no emission, spill, release, or discharge into or upon (1) the air; (2) soils, or any improvements located thereon; (3) surface water or groundwater; or (4) the sewer, septic system or waste treatment, storage or disposal system servicing the premises of any toxic or hazardous substances or wastes ("WASTE") at or from the premises ("RELEASE"); and accordingly the premises of each Borrower and any Subsidiary are free of all Waste.

(iv) There has been no complaint, order, directive, claim, citation, or notice by any governmental authority or any person or entity with respect to (1) air emissions; (2) Release; (3) noise emissions; (4) solid or liquid waste disposal; (5) the use, generation, storage, transportation, or disposal of Waste ("TREATMENT"); or (6) other environmental, health, or safety matters affecting any Borrower or its business, operations, assets, equipment, property, leaseholds, or other facilities.

(12) Each Borrower has good and indefeasible title to all material assets purported to be owned by them subject only to Permitted Encumbrances. Without limiting the foregoing, with the exception of oil and gas properties which are clearly identified as being owned by Persons other than a Borrower, the Borrowers have good and indefeasible title to all material oil and gas properties which are the subject of the most recent Reserve Report provided to the Banks pursuant to the Existing Credit Agreement (except for Permitted Encumbrances). The Mortgages establish first and prior Liens on the properties and interests intended to be covered thereby subject only to Permitted Encumbrances.

(13) The Reserve Reports previously provided to the Banks pursuant to the Existing Credit Agreement accurately reflect, and all Reserve Reports hereafter delivered pursuant to this Agreement will reflect, in all material respects, the ownership interests in the oil and gas properties referred to therein (including all material before and after payout calculations).

(b) All warranties and representations contained in this Agreement are and will be in all respects true and correct as of this date and the date of each Loan, and the warranties contained in Section 6.01(a)(3) will be true and correct as of the date each item there mentioned is furnished to the Agent.

6.02. AFFIRMATIVE COVENANTS. From the date of this Agreement until the Obligations are fully paid, each Borrower agrees that it and each of its Subsidiaries shall:

(a) Maintain its existence in good standing with full legal capacity to perform all of its obligations under this Agreement and all documents called for by this Agreement and not permit its dissolution, liquidation, or other termination of existence or forfeiture of right to do business.

(b) At all times keep complete and accurate business records in conformity with GAAP, those records to be kept at Operating's Ohio office at 125 State Route 43, Hartsville, Ohio 44632.

(c) Furnish to the Banks:

(1) Within 90 days after the end of Petroleum's fiscal year (which ends on December 31), a copy of its annual audited consolidated financial statement including at least a balance

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sheet as of the close of the year, a statement of operations, a statement of changes in shareholders' equity, and a statement of cash flow, prepared in conformity with GAAP, prepared by Arthur Andersen L.L.P. or another independent firm of certified public accountants acceptable to the Banks, together with a certificate from an Authorized Officer of Petroleum that no Default or Event of Default has occurred or exists;

(2) Within 45 days after the end of each calendar quarter, except the last quarter of each fiscal year, a copy of Petroleum's unaudited consolidated quarterly report, prepared in conformity with GAAP, consisting of at least a balance sheet as of the close of that quarter, a statement of operations, a statement of changes in shareholders' equity, and a statement of cash flows for the period from the beginning of the fiscal year to the close of that quarter, certified to be accurate by an Authorized Officer of Petroleum, and accompanied by a certificate of the signing officer that no Default or Event of Default has occurred or exists;

(3) Simultaneously with the delivery of the financial statements referred to in Sections 6.02(c)(1) and (2), a certificate in a form acceptable to the Banks signed by an Authorized Officer of Petroleum (i) certifying that the Borrowers are in compliance with the provisions of Section 6.04 and (ii) setting forth in reasonable detail the calculations required to establish whether the Borrowers were in compliance with the provisions of Section 6.04 as of the end of each quarter;

(4) No later than each April 1 and September 1 during the term of the Loans, a Reserve Report as of the preceding December 31 and June 30, respectively, covering all of the Borrowers' oil and gas properties that in the Banks' opinion have material value;

(5) No later than 20 days before each May 1 and November 1 Determination Date, (i) complete revenue, expense and production information for the aggregate of the Borrowers' oil and gas properties for the most recent six month period preceding such Determination Date, and (ii) detailed revenue, expense and production information for the same time period, on a property-by-property or well-by-well basis, for Borrowers' oil or gas wells producing 75% of the Borrowers' oil and gas revenue for the applicable time period;

(6) As the Majority Banks from time to time request, an oil and gas operating statement prepared on a basis acceptable to the Banks reflecting at a minimum, for the pertinent month, net production volume, prices received, severance taxes, and capital and operating expenses, including a calculation of net operating income;

(7) Promptly upon filing thereof with the Securities and Exchange Commission, copies of the following securities information for Petroleum: (i) all final registration statements and post effective amendments thereto; (ii) all annual, quarterly, and special reports filed; and (iii) any item submitted for a vote of Petroleum's shareholders;

(8) No later than 10 days after the date that a Borrower issues preferred stock or incurs Subordinated Debt, written notice setting out all details deemed material by the Banks concerning either event; and

(9) As the Majority Banks may from time to time require by written notice to Petroleum, other reasonable oil or gas well

information, other financial information and other information concerning the business affairs of the Borrowers in addition to those specifically required by this Agreement.

(d) Permit any Person designated by any Bank to visit and inspect at reasonable places and times any of the properties, books, and records of any Borrower as often as any Bank may reasonably request.

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(e) Pay when due all Taxes, assessments, and other liabilities except and so long as contested in good faith in a manner acceptable to the Banks and adequate reserves are being maintained.

(f) Promptly and fully perform all of its obligations under this Agreement and all other Loan Documents (whether now existing or entered into hereafter).

(g) Pay the cost of preparing, obtaining, and furnishing to Agent or any Bank any statements, opinions, certificates, schedules, documents, insurance policies, and all other items required to be furnished to Agent or any Bank pursuant to this Agreement or any request made pursuant to this Agreement.

(h) Maintain casualty insurance on all material property and improvements and maintain liability insurance to such extent and against such hazards and liabilities as like properties are customarily insured within the industry (each policy of insurance must be with responsible insurers and must name Agent as loss payee and as an additional insured party), and deliver to Agent certificates of insurance coverage as and when requested by Agent.

(i) Maintain in good repair and working order all material properties owned by a Borrower and used in the normal course of its business.

(j) Pay in full all reasonable expenses and attorneys' fees of the Banks which have been or may be incurred by the Banks in connection with the preparation of this Agreement, the lending hereunder, the preparation of any revisions or new documents, the collection of the Loans, and the enforcement of the Borrowers' obligations hereunder and under any documents executed in connection with the Loans.

(k) Maintain their primary depository accounts at one or more of the Banks.

(l) Give the Banks prompt notice in writing of the occurrence or existence of a Default or an Event of Default.

(m) (1) Upon the reasonable request of the Majority Banks, cause to be delivered to Agent such title opinions and other information in its possession, control or direction regarding title to the oil and gas properties owned by the Borrowers and relative priority of the Mortgages as are appropriate to determine the status thereof; and

(2) At such time as the Borrowers and their Subsidiaries are required to grant Mortgages on their oil and gas properties under Section 4.01(b) and upon the request of the Majority Banks, deliver to Agent title opinions covering the oil and gas properties which are the subject of Mortgages required pursuant to Section 4.01(b) and other information regarding title to such oil and gas properties as they shall reasonably request, all in form and substance and from such attorneys as are acceptable to Agent.

(n) When and to the extent required by Section 4.01(b), the Borrowers will execute and deliver to Agent for the ratable benefit of the Banks all mortgages, deeds of trust, security agreements, financing statements, assignments and such other documents and instruments (including division and transfer orders), and supplements and amendments thereto, and take such other actions as the Majority Banks reasonably deem necessary in order to create and maintain valid, enforceable and first priority perfected Liens on all assets of the Borrowers required pursuant to Section 4.01(b).

(o) To the extent that the failure to comply could have a Material Adverse Effect on the financial condition or operations of the Borrowers:

(1) Maintain, develop, and operate their respective oil and gas properties in a good and workmanlike manner, and observe and comply with all of the terms and provisions, express

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or implied, of all oil and gas leases relating to such properties so long as oil and gas leases are capable of producing hydrocarbons and accompanying elements in paying quantities;

(2) Comply in all respects with all contracts and agreements applicable to or relating to their respective oil and gas properties or the production and sale of hydrocarbons and accompanying elements therefrom;

(3) At all times, maintain, preserve and keep all operating equipment used with respect to the oil and gas properties of the Borrowers in proper repair, working order and condition, and make all necessary or appropriate repairs, renewals, replacements, additions and improvements thereto so that the efficiency of such operating equipment shall at all times be properly preserved and maintained, provided that no item of operating equipment need be so repaired, renewed, replaced, added to or improved, if the Borrowers shall in good faith determine that such action is not necessary or desirable for the continued efficient and profitable operation of the business of the Borrowers; and

(4) With respect to the oil and gas properties of the Borrowers which are operated by operators other than a Borrower, seek to enforce such operators' contractual obligations to maintain, develop, and operate the oil and gas properties subject to the applicable operating agreements.

(p) As soon as possible, and in any event within 30 days after a Borrower knows or has reason to know that any circumstances exist that constitute grounds entitling the PBGC to institute proceedings to terminate a Plan subject to ERISA with respect to a Borrower or any Commonly Controlled Entity, and promptly but in any event within two Business Days of receipt by a Borrower or any Commonly Controlled Entity of notice that the PBGC intends to terminate a Plan or appoint a trustee to administer the same, and promptly but in any event within five Business Days of the receipt of notice concerning the imposition of withdrawal liability with respect to a Borrower or any Commonly Controlled Entity, Petroleum will deliver to each Bank a certificate of the chief financial officer of Petroleum setting forth all relevant details and the action which the Borrowers propose to take with respect thereto.

(q) To the extent necessary to avoid a Material Adverse Effect, be and remain, and cause each Subsidiary to be and remain, in compliance with the provisions of all Laws; notify Agent immediately of any notice of a hazardous discharge or material environmental complaint received from any governmental agency or any other party; notify Agent immediately of any Release from or affecting its premises; immediately contain and remove the same, in compliance with all applicable laws; promptly pay any fine or penalty assessed in connection therewith; permit Agent to inspect the premises, to conduct tests thereon, and to inspect all books, correspondence, and records pertaining thereto; and at Agent's request, and at such Borrower's expense, provide a report of a qualified environmental engineer, satisfactory in scope, form, and content to Agent, and such other and further assurances reasonably satisfactory to Agent that the condition has been corrected.

(r) NOTWITHSTANDING ANY OTHER LIMITATION OF LIABILITY IN THIS OR ANY OTHER AGREEMENT OR INSTRUMENT BETWEEN THE BORROWERS AND THE BANKS, EACH BORROWER, JOINTLY AND SEVERALLY, HEREBY PROMISES THAT IT WILL INDEMNIFY, DEFEND, SAVE, AND HOLD HARMLESS EACH BANK AND ITS AFFILIATES, OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES, AGENTS, ATTORNEYS, PARTNERS, AND

THEIR RESPECTIVE HEIRS, SUCCESSORS, AND ASSIGNS (COLLECTIVELY, THE "INDEMNIFIED PARTIES") AGAINST AND FROM, AND TO REIMBURSE THE INDEMNIFIED PARTIES WITH RESPECT TO, ANY AND ALL DAMAGES, CLAIMS, LIABILITIES, LOSSES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY'S FEES AND EXPENSES, COURT COSTS, ADMINISTRATIVE COSTS, AND COSTS OF APPEALS), INCURRED BY OR ASSERTED AGAINST THE INDEMNIFIED PARTIES BY REASONS OR ARISING OUT OF THE TREATMENT OR RELEASE OF ANY WASTE IN, ON, OR AFFECTING BORROWERS' OIL AND GAS PROPERTIES, WHETHER OR NOT CAUSED BY SUCH BORROWER, OR THE VIOLATION OF ANY LAWS. NOTWITHSTANDING ANYTHING IN THE

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LOAN DOCUMENTS TO THE CONTRARY, THE UNDERTAKINGS OF EACH BORROWER IN THIS PARAGRAPH SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THIS AGREEMENT REGARDLESS OF THE MEANS OF SUCH EXPIRATION OR TERMINATION. SPECIFICALLY, THE INDEMNIFICATION IN THIS PARAGRAPH SHALL RUN FROM THE NOTICE COMMUNICATED TO AGENT OF ANY TREATMENT OR RELEASE OF WASTE OR OTHER ENVIRONMENTAL CONDITION COVERED BY THIS AGREEMENT.

(s) EACH BORROWER, JOINTLY AND SEVERALLY, AGREES TO INDEMNIFY THE INDEMNIFIED PARTIES AND HOLD THEM HARMLESS FROM ANY AGAINST ANY AND ALL LIABILITIES, LOSSES, DAMAGES, COSTS AND EXPENSES OF ANY KIND (INCLUDING, WITHOUT LIMITATION, THE REASONABLE FEES AND DISBURSEMENTS OF COUNSEL FOR BANK IN CONNECTION WITH ANY INVESTIGATIVE, ADMINISTRATIVE OR JUDICIAL PROCEEDING, WHETHER OR NOT THE INDEMNIFIED PARTIES SHALL BE DESIGNATED A PARTY THERETO) WHICH MAY BE INCURRED BY THE INDEMNIFIED PARTIES, RELATING TO OR ARISING OUT OF THIS AGREEMENT OR ANY ACTUAL OR PROPOSED USE OF PROCEEDS OF LOANS HEREUNDER, INCLUDING AN INDEMNIFIED PARTY'S NEGLIGENCE; PROVIDED THAT THE INDEMNIFIED PARTIES SHALL NOT BE INDEMNIFIED HEREUNDER FOR THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

6.03. NEGATIVE COVENANTS. From the date of this Agreement until the Obligations are fully paid, the Borrowers agree, in addition to their other promises, that they shall not, without each Bank's prior written consent:

(a) Create or permit to exist any Lien with respect to any of its assets EXCEPT: (i) for current Taxes not delinquent or as security for Taxes being contested in good faith for which adequate reserves are being maintained; (ii) statutory liens of landlords, carriers, warehousemen, mechanics and materialmen, and similar liens, incurred in the ordinary course of business for sums not in excess of \$100,000; (iii) deposits made in the ordinary course of business in connection with worker's compensation insurance, unemployment insurance, social security, performance bonds, surety bonds, and other similar items; (iv) easements, rights-of-way, restrictions, and other similar encumbrances incurred in the ordinary course of business and not interfering in the ordinary conduct of its business; (v) those permitted or created under this Agreement including Permitted Encumbrances; (vi) Liens on the Borrowers' vehicles and field service equipment not exceeding an aggregate of \$1,000,000 at any one time; and (vii) Liens in existence as of the Closing Date reflected in Petroleum's quarterly report filed with the Securities and Exchange Commission for the period ended September 30, 1995.

(b) Create, incur, assume or suffer to exist, or permit any Subsidiary to create, incur, assume or suffer to exist, any Debt except: (i) Debt under this Agreement; (ii) Debt incurred in the Borrowers' normal course of business, as presently conducted; (iii) Debt not exceeding the greater of \$5,000,000 or 5.0% of the Borrowing Base in the aggregate; (iv) Subordinated Debt incurred by Petroleum as a result of the conversion of preferred stock issued in Petroleum's May, 1993, preferred stock offering or its November, 1995, preferred stock offering; (v) Subordinated Debt permitted by Section 6.03(i) below; and (vi) Debt under any Hedge Transaction permitted by Section 6.03(k) below.

(c) Be a party to any merger or consolidation to which Petroleum is not the surviving entity.

(d) Sell, transfer, convey, or lease their property, other

than (i) sales of inventory and leases in the ordinary course of business and (ii) other transactions in which the total consideration does not exceed an amount equal to 15% of the Borrowing Base per calendar year, in the aggregate.

(e) Engage in any business which differs substantially from their present business.

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(f) Make contributions to any Plan in any one year which, in the aggregate, exceed \$1,000,000.

(g) Make, or permit any Subsidiary to make, Advances to any Person (excluding Advances by one Borrower to another Borrower) which combined exceed \$1,000,000 in the aggregate, calculated for each one year time period running from January 1 to December 31, inclusive, or purchase or otherwise acquire, or permit any Subsidiary to purchase or otherwise acquire, any capital stock, assets, obligations, or other securities of, make any capital contribution to, or otherwise invest in or acquire any interest in any Person, or participate as a partner or joint venturer with any other Person, except Permitted Investments.

(h) Make any Restricted Payment; provided, that, so long as there is no Default or Event of Default exists and no Default or Event of Default will result from such Restricted Payment, the Borrowers may make Restricted Payments in an aggregate amount (measured cumulatively from January 1, 1996) not to exceed the sum of (i) the net cash proceeds to the Borrowers from all equity offerings completed by the Borrowers after January 1, 1996, plus (ii) 75% of the Borrowers' net income earned after January 1, 1996.

(i) Issue preferred stock or incur Subordinated Debt in the 1996 calendar year in excess of \$40,000,000 in the aggregate or issue preferred stock or incur Subordinated Debt in any subsequent calendar year in excess of \$30,000,000 in the aggregate.

(j) Make payments of interest on Subordinated Debt if there is an Event of Default under this Agreement or if a payment of interest on the Subordinated Debt will cause the Borrowers to breach any of the covenants set out in Section 6.04.

(k) Enter into Hedge Transactions with the exception that the Borrowers may enter into Hedge Transactions as long as the aggregate maximum amount of hydrocarbons which are the subject of Hedge Transactions in existence at any time shall not exceed 60% of the Borrowers' anticipated production from proved, developed reserves.

6.04. FINANCIAL COVENANTS. So long as this Agreement remains in force, the Borrowers shall maintain, on a consolidated basis, the following (all calculated in accordance with GAAP):

(a) A minimum tangible net worth of \$90,000,000;

(b) A minimum ratio of 2.5 to 1.0 of (x) the sum of net income plus depreciation, depletion, and amortization plus other non-cash charges (all for the past 12 months) to (y) the sum of interest expense plus preferred dividends paid (both for the past 12 months) (this ratio will be calculated by Petroleum quarterly on a four quarter rolling average of the and of each March, June, September, and December during the term of the Loans);

(c) A minimum ratio of current assets to current liabilities of 1.0 to 1.0 (for purposes of this calculation, current assets will include an amount equal to the Unused Availability); and

(d) A ratio of total liabilities to net worth not in excess of 3.0 to 1.0.

ARTICLE 7 - DEFAULT.

7.01. EVENTS OF DEFAULT. As used in this Agreement, the term EVENT OF DEFAULT" means the occurrence of any of the following events or existence of any of the following conditions:

(a) Failure of the Borrowers to pay any installment of principal or interest owing with respect to the Loans within five days of the due date;

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(b) Any default by the Borrowers in the performance of any other covenant, agreement, obligation, or undertaking contained in this Agreement, any document called for by this Agreement, or any other agreement with the Banks (whether now existing or made hereafter) which has not been cured to the Banks' satisfaction within the earlier to occur of (i) 30 days after written notice from Agent to Petroleum of the default or (ii) 30 days after the date the Borrowers should have notified the Banks of the default pursuant to the terms of this Agreement;

(c) Any warranty, representation, or statement contained in this Agreement or made or furnished to the Banks or on behalf of the Borrowers in connection with this Agreement or the Loans proves to have been false in any material respect when made or furnished;

(d) The default by a Borrower in the performance of any obligation owed to someone other than the Banks with respect to any indebtedness in excess of \$1,000,000 or the commencement of any foreclosure proceedings against a Borrower, if the default has not been cured or the foreclosure proceeding stopped, to the Banks' satisfaction, within the earlier to occur of (i) 30 days after written notice from Agent to Petroleum of the default or (ii) 30 days after the date the Borrowers should have notified the Banks of the default pursuant to the terms of this Agreement;

(e) A Borrower's voluntary bankruptcy filing, its liquidation or termination of existence, its merger or consolidation with another, where Petroleum is not the surviving entity, its insolvency, its forfeiture of right to do business, its appointment of a custodian, trustee, or receiver for any part of its property, or its assignment for the benefit of creditors;

(f) The commencement by a third party of any proceeding under any bankruptcy or insolvency law against a Borrower if the proceeding has not been dismissed within 30 days after its commencement;

(g) A default in the Loan Agreement dated September 24, 1991, between Athens Joint Venture and Bank One, as subsequently amended;

(h) The Borrowers' failure to remedy a Borrowing Base deficiency as required by Section 3.05;

(i) Any of the following events shall occur or exist with respect to a Borrower and any Commonly Controlled Entity under ERISA: any Reportable Event shall occur; complete or partial withdrawal from any Multi employer Plan shall take place; any Prohibited Transaction shall occur; a notice of intent to terminate a Plan shall be filed, or a Plan shall be terminated; or circumstances shall exist which constitute grounds entitling the PBGC to institute proceedings to terminate a Plan, or the PBGC shall institute such proceedings; and in each case above, such event or condition, together with all other events or conditions, if any, could subject a Borrower to any tax, penalty, or other liability which in the aggregate may exceed \$1,000,000;

(j) If any Bank receives its first notice of a material hazardous discharge or a material environmental complaint from a source other than the Borrowers (such Bank to immediately notify Agent and the Borrowers thereof) and such Bank does not receive notice (which may be given in oral form, provided same is followed with all due dispatch by written notice given to such Bank and Agent by certified mail, return receipt requested) of such hazardous discharge or environmental complaint from the Borrowers within 72 hours of the time such Bank first receives said notice from a source other than the Borrowers; or if any federal, state, or local agency asserts or creates a

lien upon any or all of the assets, equipment, property, leaseholds or other facilities of any Borrower by reason of the occurrence of a hazardous discharge or an environmental complaint; or if any federal, state, or local agency asserts a claim against any Borrower and/or its assets, equipment, property, leaseholds, or other facilities for damages or cleanup costs relating to a hazardous discharge or an environmental complaint; provided,

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however, that such claim shall not constitute a default if, within five Business Days of the occurrence giving rise to the claim (a) the Borrowers can provide to the satisfaction of Agent that the Borrowers have commenced and are diligently pursuing either: (i) a cure or correction of the event which constitutes the basis for the claim, and continues diligently to pursue such cure or correction to completion or (ii) proceedings for an injunction, a restraining order or other appropriate emergent relief preventing such agency or agencies from asserting such claim, which relief is granted within ten Business Days of the occurrence giving rise to the claim and the injunction, order, or emergent relief is not thereafter resolved or reversed on appeal; and (b) in either of the foregoing events, the Borrowers have posted a bond, letter of credit, or other security satisfactory in form, substance, and amount to Agent and the agency or entity asserting the claim to secure the proper and complete cure or correction of the event which constitutes the basis for the claim;

(k) There shall occur an "Event of Default" as defined in that certain agreement among the Borrowers and TCB captioned "ISDA Master Agreement" dated as of April 17, 1995, and all amendments thereto; or

(l) A majority of the then existing Board of Directors of Petroleum, including John H. Pinkerton and Thomas J. Edelman, resign or are removed from the Board and the Banks, at their sole discretion, have not approved the reconstituted Board of Directors within 60 days after the resignation or removal.

7.02. REMEDIES. (a) Upon the occurrence of an Event of Default, and at any time thereafter, then, and in any such event, Agent shall at the request of, or may, with the consent of, the Banks, by notice to the Borrowers, (1) declare the Banks' obligations to make Loans to be terminated, whereupon the same shall immediately terminate; (2) declare the outstanding Notes, all interest thereon, and all other amounts payable under this Agreement, and the other Loan Documents to be immediately due and payable, whereupon the Notes, all such interest, and all such amounts all become and be immediately due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration, or further notice of any kind, all of which are hereby expressly waived by the Borrowers, and (3) exercise all of their rights and remedies under the Loan Documents; PROVIDED THAT in the case of the Events of Default specified in Section 7.01(e) or (f), without any notice to the Borrowers or any other act by Agent or the Banks, the Commitment shall thereupon terminate and the Notes (together with accrued interest thereon) shall become immediately due and payable.

(b) (1) Upon the occurrence and during the continuance of any Event of Default, each Bank is hereby authorized at any time and from time to time, without notice to the Borrowers (any such notice being expressly waived by the Borrowers), to set off and apply any and all deposits (general or special, time or demand, provisional or final), excluding those held in Special Accounts, at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Borrowers against any and all of the Obligations of the Borrowers now or hereafter existing under this Agreement or any Note held by such Bank or any other Loan Document, irrespective of whether or not Agent or such Bank shall have made any demand under this Agreement or such Note or such other Loan Document and although such obligations may be unmatured. Each Bank agrees promptly to notify the Borrowers (with a copy of Agent) after any such set off and application, provided that the failure to give such notice shall not affect the validity of such set off and application. The rights of each Bank under this Section 7.02(b) are in addition to the other rights and remedies (including, without limitation, other rights of set off) which each such Bank may have.

(2) Each Bank agrees that if it shall, by exercising any right of setoff or counterclaim or otherwise, receive payment after the occurrence and during the continuance of an Event of Default of a proportion of the aggregate amount of principal and interest due with respect to the Loans held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of principal and interest due with respect to the Loans held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Loans held by the

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other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Loans held by the Banks shall be shared by the Banks in accordance with the amounts to be paid to such Bank pursuant to Section 2.12; provided, that, nothing in this Section 7.02 shall impair the right of any Bank to exercise any right of setoff or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrowers other than its indebtedness under the Loans. The Borrowers agree, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in a Loan may exercise rights of setoff or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Borrowers in the amount of such participation.

ARTICLE 8 - AGENCY PROVISIONS.

8.01. AUTHORIZATION AND ACTION. Each Bank hereby irrevocably appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to Agent by the terms hereof, together with such powers as are reasonably incidental thereto. The duties of Agent shall be mechanical and administrative in nature, and Agent shall not by reason of this Agreement be a trustee or fiduciary for any Bank. Agent shall have no duties or responsibilities except those expressly set forth herein. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Note), Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or so refraining from acting) upon the instructions of the Banks, and such instructions shall be binding upon all the Banks and all holders of the Note; provided, however, that Agent shall not be required to take any action which exposes Agent to personal liability or which is contrary to this Agreement or applicable law. Without the prior instructions of the Banks, Agent shall not exercise any provisions of this Agreement or the other Loan Documents which directly or indirectly authorize Agent to exercise its discretion or otherwise take actions which are discretionary in nature. All decisions with respect to the management of the Banks' relationship with the Borrowers and the credit facilities created under this Agreement and the other Loan Documents shall be made by the Majority Banks, except as qualified by Section 11.04.

8.02. LIABILITY OF AGENT. Neither Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement in the absence of its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, Agent (1) may treat the payee of any Note as the holder thereof until Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to Agent; (2) may consult with legal counsel (including counsel for the Borrowers), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; (3) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties, or representations made in or in connection with this Agreement; (4) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of this Agreement on the part of the Borrowers, or to inspect the property (including the books and records) of the Borrowers; (5) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, perfection, sufficiency, or value of this Agreement or any other instrument or document furnished pursuant thereto;

and (6) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate, or other instrument or writing (which may be sent by telegram, telex, or facsimile transmission) believed by it to be genuine and signed or sent by the proper party or parties.

8.03. RIGHTS OF AGENT AS A BANK. With respect to its Percentage Share, the Loans made by it and the Note issued to it, Agent shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include Agent in its individual capacity. Agent and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind

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of business with, any Borrower, any Subsidiary and any Person who may do business with or own securities of any Borrower or any Subsidiary, all as if Agent were not Agent and without any duty to account therefor to the Banks.

8.04. INDEPENDENT CREDIT DECISIONS. Each Bank acknowledges that it has, independently and without reliance upon Agent or any other Bank and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by Agent hereunder, Agent shall have no duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of any Borrower or any Subsidiary which may come into the possession of Agent or any of its affiliates.

8.05. INDEMNIFICATION. Each Bank agrees to indemnify Agent (to the extent not reimbursed by Borrowers), ratably according to its Percentage Share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of this Agreement or any action taken or omitted by Agent under this Agreement, provided that no Bank shall be liable for any portion of any of the foregoing resulting from Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank agrees to reimburse Agent (to the extent not reimbursed by the Borrowers) promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by Agent in connection with the preparation, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement.

8.06. SUCCESSOR AGENT. Agent may resign at any time by giving at least 60 days' prior written notice thereof to the Banks and the Borrowers. In addition, prior to the occurrence of an Event of Default, the Borrowers may request the designation by the Banks of a successor Agent. Upon any such request by the Borrowers or resignation by Agent, the Majority Banks shall have the right to appoint a successor Agent, which shall be one of the Banks. If no successor Agent shall have been so appointed by the Majority Banks, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Borrowers' request for a successor Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank which is a member of the Federal Reserve System and has combined capital and surplus and undivided profits of not less than \$1,000,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation, the provisions of this Article 8 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. Notwithstanding the provisions of this Section 8.06, the Borrowers shall have the right to approve each successor Agent.

8.07. SHARING OF PAYMENTS, ETC. If any Bank shall obtain any payment

(whether voluntary, involuntary, through the exercise of any right of set off, or otherwise) on account of the Note held by it in excess of its ratable share of payments on account of the Notes obtained by all the Banks, such Bank shall purchase from the other Banks such participations in the Notes held by them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with the other Banks, provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of such recovery together with an amount equal to such Bank's ratable share [according to the proportion of (1) the amount of such Bank's required repayment to (2) the total amount so recovered from the purchasing Bank] of any interest or other amount paid or payable by the purchasing Bank in respect of

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the total amount so recovered. The Borrowers agree that any Bank so purchasing a participation from another Bank pursuant to this Section 8.07 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set off) with respect to such participation as fully as if such Bank were the direct creditor of the Borrowers in the amount of such participation.

ARTICLE 9 - PROTECTION OF YIELD; CHANGE IN LAWS.

9.01. RISK-BASED CAPITAL. In the event any Bank determines that (a) compliance with any judicial, administrative, or other governmental interpretation of any law or regulation or (b) compliance by such Bank or any corporation controlling such Bank with any guideline or request from any central bank or other governmental authority (whether or not having the force of law) has the effect of requiring an increase in the amount of capital required or expected to be maintained by such Bank or any corporation controlling such Bank, and such Bank determines that the increase is based upon its obligations hereunder, and other similar obligations, the Borrowers shall pay to Agent, for the account of the applicable Bank, such additional amount as shall be certified by that Bank to be the amount allocable to such Bank's obligations to Borrowers hereunder. Such Bank will promptly notify Petroleum (with a copy to Agent) of any event occurring after the date of this Agreement that will entitle such Bank to compensation pursuant to this Section 9.01 as promptly as practicable after it obtains knowledge thereof and determines to request such compensation.

Determinations by a Bank for purposes of this Section 9.01 of the effect of any increase in the amount of capital required to be maintained by such Bank and of the amount allocable to such Bank's obligations to the Borrowers hereunder shall be conclusive, absent manifest error.

9.02. BASIS FOR DETERMINING INTEREST RATE APPLICABLE TO LIBOR LOANS INADEQUATE. If on or prior to the first day of any Interest Period:

(a) Agent is advised that deposits in dollars (in the applicable amounts) are not being offered to the Banks in the interbank eurocurrency market for such Interest Period, or

(b) Agent determines that the LIBOR Rate as determined by it will not adequately and fairly reflect the cost to the Banks of funding a LIBOR Loan for such Interest Period; or

(c) Adequate means do not exist in the interbank eurocurrency market to determine the LIBOR Rate;

the obligation of the Banks to make LIBOR Loans shall be suspended until Agent notifies the Borrowers that the circumstances giving rise to such suspension no longer exist. Unless the Borrowers notify Agent at least two Business Days before the date of any LIBOR Loan previously requested that it elects not to borrow on such date, the Loan shall instead be made as a Base Rate Loan.

9.03. ILLEGALITY OF LIBOR LOANS. (a) If, after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof

by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for such Bank (or its Lending Office) to make, maintain or fund its LIBOR Loans, the obligation of such Bank to make LIBOR Loans shall be suspended. If any Bank determines that it may not lawfully continue to maintain and fund any of its outstanding LIBOR Loans to maturity, the Borrowers shall immediately convert the principal amount of each LIBOR Loan to a Base Rate Loan of an equal principal amount from such Bank.

(b) No Bank shall be required to make a Loan hereunder if the making of such Loan would be in violation of any law applicable to such Bank.

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9.04. INCREASED COST OF LIBOR LOANS. If after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration hereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(a) shall subject such Bank to any tax, duty or other charge with respect to its LIBOR Loans or its obligation to make LIBOR Loans or shall change the basis of taxation of payments to a Bank of the principal of or interest on its LIBOR Loans or any other amounts due under this Agreement in respect of its LIBOR Loans or its obligation to make LIBOR Loans (except for changes in the rate of tax on the overall net income of a Bank imposed by the jurisdiction in which such Bank's Lending Office is located); or

(b) shall impose, modify or deem applicable any reserve, special deposit or similar requirement [including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System (but excluding with respect to any LIBOR Loan any such requirement included in an applicable Eurodollar Reserve Percentage)] against assets of, deposits with or for the account of or credit extended by such Bank or shall impose on such Bank or the London interbank market any other condition affecting the LIBOR Loans, any Note or such Bank's obligation to make LIBOR Loans;

and the result of any of the foregoing is to increase the cost to such Bank of making or maintaining any LIBOR Loan, or to reduce the amount of any sum received or receivable by such Bank under this Agreement or under the Note with respect thereto, by an amount deemed by such Bank to be material, then, within five days after demand by Agent, the Borrowers shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction. Each Bank will promptly notify Petroleum and Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section 9.04 and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of such Bank claiming compensation under this Section 9.04 and setting forth the additional amount or amounts to be paid to it hereunder shall be delivered to the Borrowers and shall be conclusive in the absence of manifest error. In determining such amount, such Bank must use reasonable averaging and attribution methods.

9.05. ALTERNATIVE LOANS SUBSTITUTED FOR AFFECTED LIBOR LOANS. If (a) the obligation of any Bank to make LIBOR Loans has been suspended pursuant to Section 9.03 or (b) such Bank has demanded compensation under Section 9.04, and the Borrowers shall, by at least five Business Days prior notice to such Bank, have elected that the provisions of this Section 9.05 shall apply, then, unless and until such Bank notifies Petroleum that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Bank as LIBOR Loans shall be made instead as Base Rate Loans, and

(ii) after each of its LIBOR Loans has been repaid, all payments of principal which would otherwise be applied to repay such LIBOR Loans shall be applied to repay its Base Rate Loans.

9.06. FUNDING LOSS INDEMNIFICATION. Upon notice to Petroleum from a Bank (with a copy to Agent), the Borrowers shall pay to Agent, within five days after notice from a Bank, for the pro rata account of the Banks, such amount or amounts sufficient to compensate them for any loss, cost, or expense incurred as a result of:

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(a) Any payment of a LIBOR Loan on a date other than the last day of the Interest Period for the Loan including, but not limited to, acceleration of the Loans by Agent pursuant to this Agreement, or

(b) Any failure by the Borrowers to borrow or convert, as the case may be, a LIBOR Loan on the date for borrowing or conversion, as the case may be, specified in the relevant notice under Section 2.06 or 2.09, as the case may be. Such Bank shall determine the amount of compensation and will provide the Borrowers with the basis for its determination. Such Bank's determination shall be conclusive, absent manifest error.

9.07. TAXES. All amounts payable by the Borrowers under the Loan Documents (whether principal, interest, fees, expenses, or otherwise) to or for the account of each Bank shall be paid in full, free of any deductions or withholdings for or on account of any Taxes. If the Borrowers are prohibited by law from paying such amount free of any such deductions and withholdings, then (at the same time and in the same manner that such original amount is otherwise due under the Loan Documents), the Borrowers shall pay to or for the account of such Bank such additional amount as may be necessary in order that the actual amount received by such Bank after deduction and/or withholding (and after payment of any additional Taxes due as a consequent of the payment of such additional amount, and so on) will equal the amount such Bank would have received if such deduction or withholding were not made.

9.08. DISCRETION OF BANKS AS TO MANNER OF FUNDING. Notwithstanding any provisions of this Agreement to the contrary, each Bank shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if such Bank had actually funded and maintained each LIBOR Loan during the Interest Period for such LIBOR Loan through the purchase of deposits having a maturity corresponding to the last day of such Interest Period and bearing an interest rate equal to the London InterBank Offered Rate for such Interest Period.

ARTICLE 10 - FEES.
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10.01. COMMITMENT FEE. On the first day of each January, April, July, and October commencing on January 1, 1996, and ending on the Revolving Termination Date, the Borrowers shall pay to Agent for the pro rata accounts of the Banks, a commitment fee equal to 3/8 of 1.0% per annum (computed on the basis of actual days elapsed and as if each calendar year consisted of 360 days) on the average daily Unused Availability for the time period ending on that date; provided, that, if the Credit Outstanding is less than 60% of the Borrowing Base, the commitment fee will be equal to 1/4 of 1% per annum.

10.02. ORIGINATION FEE. The Borrowers agree to pay to Agent for the pro rata accounts of the Banks an origination fee equal to 1/8 of 1.0% of the amount of any increase in the Borrowing Base subsequent to the Closing Date over the previous highest Borrowing Base determined by the Banks pursuant to Article 3, reduced by the amount of the previous highest Borrowing Base attributable to assets sold by the Borrowers; provided, that, as to any Determination other than Periodic Determinations, if the fee calculated using this formula is less than \$10,000, the fee will be \$10,000.

10.03. AGENCY FEE. The Borrowers shall pay to Agent such fees and other amounts as the Borrowers shall be required to pay to Agent from time to

time pursuant to any separate agreement between the Borrowers and Agent setting forth the compensation to be paid to Agent in consideration for acting as Agent hereunder. Such fees and other amounts shall be retained by Agent for its own account, and no Bank (other than Agent) shall have any interest therein.

ARTICLE 11 - GENERAL PROVISIONS.

11.01. EXPENSES; DOCUMENTARY TAXES; INDEMNIFICATION. (a) The Borrowers shall pay (i) all reasonable out-of-pocket expenses of Agent, including reasonable fees and disbursements of special counsel for the Banks and Agent, in connection with the preparation of this Agreement and the other

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Loan Documents and, if appropriate, the recordation of the Loan Documents, any waiver or consent hereunder or any amendment hereof or any default or alleged default hereunder and (ii) if an Event of Default occurs, all out-of-pocket expenses incurred by Agent or any Bank, including fees and disbursements of counsel in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom, fees of auditors and consultants incurred in connection therewith and investigation expenses incurred by Agent or any Bank in connection therewith.

(b) The Borrowers indemnify each Bank and hold each Bank harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind (including, without limitation, the reasonable fees and disbursements of counsel for any Bank in connection with any investigative, administrative or judicial proceeding, whether or not such Bank shall be designated a party thereto) which may be incurred by any Bank (or by Agent in connection with its actions as Agent hereunder), relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; PROVIDED THAT no Bank shall have the right to be indemnified hereunder for its own gross negligence or willful misconduct, it being the intention hereby that a Bank or Agent shall be indemnified for the consequences of their negligence.

11.02. NON-WAIVER. No act, delay, omission, or course of dealing will be a waiver of any of a Bank's rights or remedies under this Agreement or otherwise, and no waiver, change, or modification in whole or in part of this Agreement, any Note, or any other agreement will be effective unless in a writing signed by the Borrowers and the Banks. All rights and remedies of the Banks are cumulative and may be exercised singly or concurrently. A waiver by the Banks of any right or remedy on any occasion will not be a bar to the exercise of any right or remedy on any subsequent occasion.

11.03 . AMENDMENT AND WAIVERS. Any provision of this Agreement, the Notes or the other Loan Documents may be amended or waived if, but only if such amendment or waiver is in writing and is signed by the Borrowers and the Majority Banks (and, if the rights or duties of Agent are affected thereby, by Agent); PROVIDED THAT no such amendment or waiver shall, unless signed by all the Banks, (a) increase the total aggregate Commitments of the Banks or subject any Bank to any additional obligation, (b) forgive any of the principal of or reduce the rate of interest on any Loan or any fees hereunder, (c) postpone the date fixed for any payment of principal of or interest on any Loan or any fees hereunder, (d) change the percentage of the Commitments except as otherwise provided for in this Agreement or of the aggregate unpaid principal amount of the Notes, or the number of Banks which shall be required for the Banks or any of them to take any action under this Section 11.03 or any other provision of this Agreement, (e) permit the Borrowers to assign any of their rights hereunder, (f) change Section 6.03 or 6.04 or the definitions contained in Section 1.01 applicable thereto, or (g) change Article 3 or the definitions contained in Section 1.01 applicable thereto.

11.04. SURVIVAL. All representations, warranties, and covenants made by the Borrowers herein or in any certificate or other instrument delivered by it or in its behalf under the Loan Documents shall be considered to have been relied upon by the Banks and shall survive the delivery to the Banks of such Loan Documents or the extension of the Loans (or any part thereof), regardless of any investigation made by or on behalf of the Banks.

11.05. LIMITATION ON INTEREST. Regardless of any provision contained in the Loan Documents, the Banks shall never be entitled to receive, collect, or apply, as interest on the Loans, any amount in excess of the Maximum Lawful Rate, and in the event the Banks ever receive, collect or apply as interest any such excess, such amount which would be deemed excessive interest shall be deemed a partial prepayment of principal and treated hereunder as such; and if the Loans are paid in full, any remaining excess shall promptly be paid to the Borrowers. In determining whether or not the interest paid or payable under any specific contingency exceeds the Maximum Rate, the Borrowers and the Banks shall, to the extent permitted under applicable law, (a) characterize any nonprincipal payment as an expense, fee or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof and (c) amortize, prorate, allocate and spread, in equal parts, the total amount of the interest throughout the entire

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contemplated term of the Notes, so that the interest rate is the Maximum Rate throughout the entire term of the Notes; PROVIDED, HOWEVER, that if the unpaid principal balance thereof is paid and performed in full prior to the end of the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds the Maximum Rate, the Banks shall refund to the Borrowers the amount of such excess and, in such event, the Banks shall not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of the Maximum Rate.

11.06. INVALID PROVISIONS. If any provision of the Loan Documents is held to be illegal, invalid, or unenforceable under present or future laws effective during the term thereof, such provision shall be fully severable, the Loan Documents shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part thereof, and the remaining provisions thereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance therefrom. Furthermore, in lieu of such illegal, invalid, or unenforceable provision there shall be added automatically as a part of the Loan Documents a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid and enforceable.

11.07. WAIVER OF CONSUMER CREDIT LAW. Pursuant to Article 15.10(b) of Chapter 15, Subtitle 79, Revised Civil Statutes of Texas, 1925, as amended, the Borrowers agree that such Chapter 15 shall not govern or in any manner apply to the Loans.

11.08. SUCCESSORS AND ASSIGNS. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrowers may not assign or otherwise transfer any of their rights under this Agreement.

(b) Each Bank may transfer or assign all or any part of its interest in Loans and its interest herein to any of its affiliates regardless of the term of such transfer or assignment. Each Bank may transfer or assign all or any part of its interest in Loans to any commercial bank which is a member of the Federal Reserve System and has combined capital and surplus and undivided profits of not less than \$100,000,000. Notwithstanding the foregoing, each Bank shall not transfer or assign all or any part of its Loans under this Agreement to any Person other than an affiliate of such Bank without the prior written approval of Petroleum, such approval to not be unreasonably withheld.

(c) Subject to receiving the prior written consent of Petroleum, such consent to not be unreasonably withheld, each Bank shall have the right to disclose any information in its possession regarding the Borrowers or any Subsidiary, or regarding the Collateral, to any transferee, participant, potential transferee or potential participant of any of the Loans or any part thereof.

(d) Nothing herein shall prohibit a Bank from pledging or assigning any Note to any Federal Reserve Bank in accordance with applicable law.

11.09. NOTICE. Any notices or other communications required or permitted to be given by this Agreement or any other Loan Documents must be in writing (which may be by facsimile transmission) and must be personally delivered or mailed by prepaid certified or registered mail to the party to whom such notice or communication is directed at the address of such party as shown below or on the signature pages hereof. Any such notice or communication shall be deemed to have been given (whether actually received or not) on the day it is personally delivered or delivered by facsimile as permitted above or, if mailed, on the day it is deposited in the mail as provided above. The addresses of Borrowers and Agent are as follows:

Petroleum: Lomak Petroleum, Inc.
500 Throckmorton Street, Suite 2104
Fort Worth, Texas 76102
Attention: John H. Pinkerton
Telephone No.: (817) 870-2601

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Fax No.: (817) 870-2316

Operating: Lomak Operating Company
125 State Route 43
Hartville, Ohio 44632
Attention: John H. Pinkerton
Telephone No.: (216) 877-6747
Fax No.: (216) 877-6129

Production: Lomak Production Company
500 Throckmorton Street, Suite 2104
Fort Worth, Texas 76102
Attention: John H. Pinkerton
Telephone No.: (817) 870-2601
Fax No.: (817) 870-2316

Resources: Lomak Resources Company
125 State Route 43
Hartville, Ohio 44632
Attention: John H. Pinkerton
Telephone No.: (216) 877-6747
Fax No.: (216) 877-6129

Red Eagle: Red Eagle Resources Corporation
500 Throckmorton Street, Suite 2104
Fort Worth, Texas 76102
Attention: John H. Pinkerton
Telephone No.: (817) 870-2601
Fax No.: (817) 870-2316

Agent: Bank One, Texas, N.A.
500 Throckmorton Street
Fort Worth, Texas 76102
Attention: Brad Bartek
Telephone No.: (817) 884-5707
Fax No.: (817) 884-5622

11.10. REPORTS AND CERTIFICATES. All reports and certificates of each Borrower required by this Agreement must be in form and substance satisfactory to Agent and made under oath before a notary public by an authorized corporate officer or representative of each Borrower.

11.11. GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA AND SHALL BE PERFORMED IN TARRANT COUNTY, TEXAS.

11.12 COMPLETE AGREEMENT. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE BANKS, AGENT, AND THE BORROWERS AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE BANKS, AGENT, OR THE BORROWERS. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE BANKS, AGENT, AND THE BORROWERS.

11.13. WAIVER OF JURY TRIAL. THE BORROWERS AND THE BANKS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS AND FOR ANY COUNTERCLAIM THEREIN.

11.14. COUNTERPARTS; EFFECTIVENESS. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when Agent shall have received counterparts hereof signed by all of the parties hereto or, in the case of any Bank as to which an executed counterpart shall not have been received, Agent shall have received telegraphic or other written confirmation from such Bank of execution of a counterpart hereof by such Bank.

Executed in Fort Worth, Texas, on the date first set forth above.

BORROWERS:

LOMAK PETROLEUM, INC.

By: _____
John H. Pinkerton, President

LOMAK OPERATING COMPANY

By: _____
John H. Pinkerton, President

LOMAK PRODUCTION COMPANY

By: _____
John H. Pinkerton, President

LOMAK RESOURCES COMPANY

By: _____
John H. Pinkerton, President

RED EAGLE RESOURCES CORPORATION

By: _____
John H. Pinkerton, President

AGENT:

BANK ONE, TEXAS, N.A.

By: _____
Brad Bartek,

Vice President

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BANKS:

BANK ONE, TEXAS, N.A.

By: _____
Brad Bartek,
Vice President

Lending Office:

500 Throckmorton Street
Fort Worth, Texas 76102

Address for Notices for Credit Matters:

500 Throckmorton Street, 10th Floor
Fort Worth, Texas 76102
Attention: Brad Bartek
Telephone No.: (817) 884-5707
Fax No.: (817) 884-5622

Address for Notices of Operational Matters:

500 Throckmorton Street
Fort Worth, Texas 76102
Attention: Lora Roberts
Telephone No.: (817) 884-4399
Fax No.: (817) 884-4691

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TEXAS COMMERCE BANK
NATIONAL ASSOCIATION

By: _____
Timothy E. Perry,
Senior Vice President

Lending Office:

2200 Ross Avenue
Dallas, Texas 75266-0197

Address for Notices for Credit Matters:

Texas Commerce Bank National Association
2200 Ross Avenue
P. O. Box 660197
Dallas, Texas 75266-0197
Attention: Timothy E. Perry
Telephone No.: (214) 922-2536
Fax No.: (214) 922-2389

Address for Notices of Operational Matters:

Texas Commerce Bank National Association
2200 Ross Avenue
P. O. Box 660197
Dallas, Texas 75266-0197
Attention: Richard Sink
Telephone No.: (214) 922-2379
Fax No.: (214) 922-2389

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NATIONSBANK OF TEXAS, N.A.

By: _____
J. Scott Fowler,
Vice President

Lending Office:

901 Main Street
64th Floor
Dallas, Texas 75202

Address for Notices for Credit Matters:

NationsBank of Texas, N.A.
901 Main Street
64th Floor
Dallas, Texas 75202
Attention: J. Scott Fowler
Telephone No.: (214) 508-3757
Fax No.: (214) 508-1285

Address for Notices for Operational Matters:

NationsBank of Texas, N.A.
901 Main Street
14th Floor
Dallas, Texas 75202
Attention: Karen Dumond
Telephone No.: (214) 508-2513
Fax No.: (214) 508-1215

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PNC BANK, NATIONAL ASSOCIATION

By: _____
Philip P. Conti,
Vice President

Lending Office:

One PNC Plaza, Third Floor
Fifth Avenue and Wood Street
Pittsburgh, Pennsylvania 15265

Address for Notices for Credit Matters:

PNC Bank, National Association
One PNC Plaza, Third Floor
Fifth Avenue and Wood Street
Pittsburgh, Pennsylvania 15265
Attention: Philip P. Conti
Telephone No.: (412) 762-2540
Fax No.: (412) 762-2571

Address for Notices of Operational Matters:

PNC Bank, National Association
One PNC Plaza, Third Floor
Fifth Avenue and Wood Street
Pittsburgh, Pennsylvania 15265
Attention: Becky Porter
Telephone No.: (412) 762-2876
Fax No.: (412) 762-2571

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REVOLVING PROMISSORY NOTE

\$____,000,000.00 Fort Worth, Texas December 20, 1995

FOR VALUE RECEIVED, on or before November 1, 1998 ("MATURITY DATE"), LOMAK PETROLEUM, INC., a Delaware corporation, LOMAK OPERATING COMPANY, an Ohio corporation, LOMAK PRODUCTION COMPANY, a Delaware corporation, LOMAK RESOURCES COMPANY, a Delaware corporation, and RED EAGLE RESOURCES CORPORATION, a Delaware corporation (hereinafter referred to as "BORROWERS"), jointly and severally promise to pay to the order of BANK ONE, TEXAS, N.A. [TEXAS COMMERCE BANK NATIONAL ASSOCIATION] [NATIONSBANK OF TEXAS, N.A.] [PNC BANK, NATIONAL ASSOCIATION] ("BANK") at the offices of Bank One, Texas, N.A., in Tarrant County, Texas, at 500 Throckmorton Street, Fort Worth, Texas 76102, the principal amount of _____ MILLION DOLLARS (\$____,000,000.00) ("TOTAL PRINCIPAL AMOUNT"), or such amount less than the Total Principal Amount which is outstanding from time to time if the total amount outstanding under this Promissory Note ("NOTE") is less than the Total Principal Amount, together with interest on such portion of the Total Principal Amount which has been advanced to Borrowers from the date advanced until paid at a fluctuating rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate (as hereafter defined), or (b) the Base Rate plus the Applicable Margin or the LIBOR Rate plus the Applicable Margin (collectively the "CONTRACT RATE"), all as calculated and defined in the Loan Agreement (as hereafter defined). The Contract Rate will be calculated on the basis of the actual days elapsed but computed as if each year consisted of 360 days, with each change in the rate to be charged on this Note to become effective without notice to Borrowers on the effective date of each change in the Maximum Rate or the Contract Rate, as the case may be; provided, however, that if at any time the Contract Rate shall exceed the Maximum Rate, thereby causing the interest on this Note to be limited to the Maximum Rate, then any subsequent reduction in the Contract Rate shall not reduce the rate of interest on this Note below the Maximum Rate until the total amount of interest accrued on this Note equals the amount of interest which would have accrued on this Note if the Contract Rate had at all times been in effect. The term "MAXIMUM RATE," as used herein, shall mean at the particular time in question the maximum rate of interest which, under applicable law, may then be charged on this Note. If such maximum rate of interest changes after the date hereof and this Note provides for a fluctuating rate of interest, the Maximum Rate shall be automatically increased or decreased, as the case may be, without notice to Borrowers from time to time as of the effective date of each change in such maximum rate. If applicable law ceases to provide for such a maximum rate of interest, the Maximum Rate shall be equal to eighteen percent (18%) per annum.

This Note has been executed and delivered pursuant to, and is subject to and governed by, the terms of a Second Amended and Restated Revolving Credit and Term Loan Agreement (as hereafter supplemented, amended, or modified, the

"LOAN AGREEMENT") of even date, executed by Borrowers, Bank, and [Bank One, Texas, N.A., Texas Commerce Bank National Association, NationsBank of Texas, N.A., and PNC Bank, National Association] (collectively "LENDERS"). Borrowers promise to repay sums advanced under this Note in accordance with the payment terms set forth in the Loan Agreement; and Borrowers promise to pay interest on the sums advanced under this Note calculated in accordance with the interest rate options set forth in the Loan Agreement.

This Note evidences obligations and indebtedness from time to time owing by Borrowers to Bank pursuant to the Loan Agreement; and this Note is secured by all collateral described or referred to in the Loan Agreement. This Note, the Loan Agreement, and all other documents evidencing, securing, governing, guaranteeing, or pertaining to this Note, including but not limited to those documents described above, are hereinafter collectively referred to as the "LOAN DOCUMENTS." The Loan Documents are held by Bank One, Texas, N.A., as Agent, for the benefit of Bank and Lenders pursuant to the Loan Agreement. The holder of this Note is entitled to the benefits and security provided in the Loan Documents.

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To the extent that any interest is not paid on or before the fifth day after it becomes due and payable, Bank may, at its option, add such accrued interest to the principal of this Note. Notwithstanding anything herein to the contrary, upon an Event of Default (as hereinafter defined) or at maturity, whether by acceleration or otherwise, all principal of this Note shall, at the option of Bank, bear interest at the Maximum Rate until paid.

Under the Loan Agreement, Borrowers may request advances and make payments hereunder from time to time, provided that it is understood and agreed that the aggregate principal amount outstanding from time to time hereunder shall not at any time exceed the Total Principal Amount. The unpaid balance of this Note shall increase and decrease with each new advance or payment hereunder, as the case may be. Borrowers may borrow, repay, and reborrow hereunder. However, the principal amount outstanding under this Note may never exceed the Bank's Percentage Share of the Borrowing Base as defined in the Loan Agreement. All payments of the indebtedness evidenced by this Note and by any of the other Loan Documents shall be applied as provided in the Loan Agreement. All payments and prepayments of principal of or interest on this Note shall be made in lawful money of the United States of America in immediately available funds, at the address indicated above, or such other place as the holder of this Note shall designate in writing to Borrowers. The books and records of Bank shall be PRIMA FACIE evidence of all outstanding principal of and accrued and unpaid interest on this Note.

Borrowers agree that no advances under this Note shall be used for personal, family, or household purposes, and that all advances hereunder shall be used solely for business, commercial, investment, or other similar purposes.

Borrowers agree that upon the occurrence of any one or more of the following events of default ("EVENT OF DEFAULT"):

- (a) failure of Borrowers to pay any installment of principal of or interest on this Note within five days of when due; or
- (b) the occurrence of any Event of Default specified in the Loan Agreement or in any of the other Loan Documents;

the holder of this Note may, at its option, without further notice or demand, (i) declare the outstanding principal balance of and accrued but unpaid interest on this Note at once due and payable, (ii) refuse to advance any additional amounts under this Note, (iii) foreclose all liens securing payment hereof, (iv) pursue any and all other rights, remedies, and recourses available to the holder hereof, including but not limited to any such rights, remedies, or recourses under the Loan Documents, at law or in equity, or (v) pursue any combination of the foregoing.

The failure to exercise the option to accelerate the maturity of this Note or any other right, remedy, or recourse available to the holder hereof upon the occurrence of an Event of Default hereunder shall not constitute a

waiver of the right of the holder of this Note to exercise the same at that time or at any subsequent time with respect to such Event of Default or any other Event of Default. The rights, remedies, and recourses of the holder hereof, as provided in this Note and in any of the other Loan Documents, shall be cumulative and concurrent and may be pursued separately, successively, or together as often as occasion therefore shall arise, at the sole discretion of the holder hereof. The acceptance by the holder hereof of any payment under this Note which is less than the payment in full of all amounts due and payable at the time of such payment shall not (i) constitute a waiver of or impair, reduce, release, or extinguish any right, remedy, or recourse of the holder hereof, or nullify any prior exercise of any such right, remedy, or recourse, or (ii) impair, reduce, release, or extinguish the obligations of any party liable under any of the Loan Documents as originally provided herein or therein.

This Note and all of the other Loan Documents are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the

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other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby, and all provisions shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of the holder hereof to at all times comply with the usury and other applicable laws now or hereafter governing the interest payable on the indebtedness evidenced by this Note. If the applicable law is ever revised, repealed, or judicially interpreted so as to render usurious any amount called for under this Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved, or received with respect to the indebtedness evidenced by this Note, or if Bank's exercise of the option to accelerate the maturity of this Note or if any prepayment by Borrowers results in Borrowers having paid any interest in excess of that permitted by law, then it is the express intent of Borrowers and Bank that all excess amounts theretofore collected by Bank be credited on the principal balance of this Note (or, if this Note and all other indebtedness arising under or pursuant to the other Loan Documents have been paid in full, refunded to Borrowers), and the provisions of this Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by Borrowers for the use, forbearance, detention, taking, charging, receiving or reserving of the indebtedness of Borrowers to Bank under this Note or arising under or pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits Bank to contract for, charge, or receive a greater amount of interest, Bank will rely on federal law instead of TEX. REV. CIV. STAT. ANN. art. 5069-1.04, as amended, for the purpose of determining the Maximum Rate. Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank may, at its option and from time to time, implement any other method of computing the Maximum Rate under such Article 5069-1.04, as amended, or under other applicable law by giving notice, if required, to Borrowers as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

In no event shall TEX. REV. CIV. STAT. ANN. art. 5069 Ch. 15 (which regulates certain revolving loan accounts and revolving tri-party accounts) apply to this Note. To the extent that TEX. REV. CIV. STAT. ANN. art.

5069-1.04, as amended, is applicable to this Note, the "indicated rate ceiling" specified in such article is the applicable ceiling; provided that, if any applicable law permits greater interest, the law permitting the greatest interest shall apply.

If this Note is placed in the hands of an attorney for collection, or is collected in whole or in part by suit or through probate, bankruptcy, or other legal proceedings of any kind, Borrowers agree to pay, in addition to all other sums payable hereunder, all costs and expenses of collection, including but not limited to reasonable attorneys fees.

Borrowers and any and all endorsers and guarantors of this Note severally waive presentment for payment, notice of nonpayment, protest, demand, notice of protest, notice of intent to accelerate, notice of acceleration and dishonor, diligence in enforcement and indulgences of every kind and without further notice hereby agree to renewals, extensions, exchanges, or releases of collateral, taking of additional collateral, indulgences, or partial payments, either before or after maturity.

To the extent that any provisions or terms herein conflict with the terms of the Loan Agreement, the Loan Agreement will control.

THIS NOTE HAS BEEN EXECUTED UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS, EXCEPT AS SUCH LAWS ARE PREEMPTED BY APPLICABLE FEDERAL LAWS.

To the extent set forth below, this Note is given in renewal, extension, and modification, but not extinguishment, of amounts left owing and unpaid on the following promissory notes: (a) Revolving Promissory Note dated September 26, 1995, in the stated principal amount of \$75,000,000, executed and delivered by Borrowers, and payable to the order of Bank [Bank One, Texas, N.A.], to the extent of \$_____ ; (b) Revolving Promissory Note dated September 26, 1995, in the stated principal amount of \$75,000,000, executed and delivered by Borrowers, and payable to the order of Texas Commerce Bank National Association, to the extent of \$_____.

Nothing contained herein or in any other of the Loan Documents shall be construed to release, cancel, terminate, or otherwise impair the status or priority of the liens or security for either of the Revolving Promissory Notes referred to above or for this Note.

BORROWERS:

LOMAK PETROLEUM, INC.

LOMAK RESOURCES COMPANY

By: _____
John H. Pinkerton,
President

By: _____
John H. Pinkerton,
President

LOMAK OPERATING COMPANY

RED EAGLE RESOURCES
CORPORATION

By: _____
John H. Pinkerton,
President

By: _____
John H. Pinkerton,
President

LOMAK PRODUCTION COMPANY

By: _____
John H. Pinkerton,
President

TERM PROMISSORY NOTE

\$____,000,000.00

Fort Worth, Texas November 1, 1998

FOR VALUE RECEIVED, on or before November 1, 2002 ("MATURITY DATE"), LOMAK PETROLEUM, INC., a Delaware corporation, LOMAK OPERATING COMPANY, an Ohio corporation, LOMAK PRODUCTION COMPANY, a Delaware corporation, LOMAK RESOURCES COMPANY, a Delaware corporation, and RED EAGLE RESOURCES CORPORATION, a Delaware corporation (hereinafter referred to as "BORROWERS"), jointly and severally promise to pay to the order of BANK ONE, TEXAS, N.A. [TEXAS COMMERCE BANK NATIONAL ASSOCIATION] [NATIONSBANK OF TEXAS, N.A.] [PNC BANK, NATIONAL ASSOCIATION] ("BANK") at the offices of Bank One, Texas, N.A., in Tarrant County, Texas, at 500 Throckmorton Street, Fort Worth, Texas 76102, the principal amount of _____ MILLION DOLLARS (\$____,000,000.00) ("TOTAL PRINCIPAL AMOUNT"), or such amount less than the Total Principal Amount which is outstanding from time to time if the total amount outstanding under this Promissory Note ("NOTE") is less than the Total Principal Amount, together with interest on such portion of the Total Principal Amount which has been advanced to Borrowers from the date advanced until paid at a fluctuating rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate (as hereafter defined), or (b) the Base Rate plus the Applicable Margin or the LIBOR Rate plus the Applicable Margin (collectively the "CONTRACT RATE"), all as calculated and defined in the Loan Agreement (as hereafter defined). The Contract Rate will be calculated on the basis of the actual days elapsed but computed as if each year consisted of 360 days, with each change in the rate to be charged on this Note to become effective without notice to Borrowers on the effective date of each change in the Maximum Rate or the Contract Rate, as the case may be; provided, however, that if at any time the Contract Rate shall exceed the Maximum Rate, thereby causing the interest on this Note to be limited to the Maximum Rate, then any subsequent reduction in the Contract Rate shall not reduce the rate of interest on this Note below the Maximum Rate until the total amount of interest accrued on this Note equals the amount of interest which would have accrued on this Note if the Contract Rate had at all times been in effect. The term "MAXIMUM RATE," as used herein, shall mean at the particular time in question the maximum rate of interest which, under applicable law, may then be charged on this Note. If such maximum rate of interest changes after the date hereof and this Note provides for a fluctuating rate of interest, the Maximum Rate shall be automatically increased or decreased, as the case may be, without notice to Borrowers from time to time as of the effective date of each change in such maximum rate. If applicable law ceases to provide for such a maximum rate of interest, the Maximum Rate shall be equal to eighteen percent (18%) per annum.

The principal of and all accrued but unpaid interest on this Note shall be due and payable as follows:

- (a) the principal of this Note shall be due and payable in sixteen (16) equal quarterly installments in the amount of \$____ each, together with all accrued but unpaid interest thereon, commencing on February 1, 1999, and continuing upon the first day of each May, August, November, and February thereafter during the term of this Note; and
- (b) the outstanding principal balance of this Note, together with all accrued but unpaid interest, shall be due and payable on the Maturity Date.

This Note has been executed and delivered pursuant to, and is subject to and governed by, the terms of a Second Amended and Restated Revolving Credit and Term Loan Agreement (as hereafter supplemented, amended, or modified, the "LOAN AGREEMENT") dated December __, 1995, executed by Borrowers, Bank, and [Bank One, Texas, N.A., Texas Commerce Bank National Association, NationsBank of Texas, N.A., and PNC Bank, National Association] (collectively "LENDERS"). Borrowers promise to pay interest on the sums advanced under this Note calculated in accordance with the interest rate options set forth in the Loan Agreement.

This Note evidences obligations and indebtedness from time to time owing by Borrowers to Bank pursuant to the Loan Agreement; and this Note is secured by all collateral described or referred to in the Loan Agreement. This Note, the Loan Agreement, and all other documents evidencing, securing, governing, guaranteeing, or pertaining to this Note, including but not limited to those documents described above, are hereinafter collectively referred to as the "LOAN DOCUMENTS." The Loan Documents are held by Bank One, Texas, N.A., as Agent, for the benefit of Bank and Lenders pursuant to the Loan Agreement. The holder of this Note is entitled to the benefits and security provided in the Loan Documents.

To the extent that any interest is not paid on or before the fifth day after it becomes due and payable, Bank may, at its option, add such accrued interest to the principal of this Note. Notwithstanding anything herein to the contrary, upon an Event of Default (as hereinafter defined) or at maturity, whether by acceleration or otherwise, all principal of this Note shall, at the option of Bank, bear interest at the Maximum Rate until paid.

Borrower may from time to time prepay all or any portion of the principal of this Note without premium or penalty, except as may be prohibited by the Loan Agreement. All regularly scheduled payments of the indebtedness evidenced by this Note and by any of the other Loan Documents shall be applied first to any accrued but unpaid interest then due and payable hereunder or thereunder and then to the principal amount then due and payable. All non-regularly scheduled payments shall be applied to such indebtedness in such order and manner as provided in the Loan Agreement. All payments and prepayments of principal of or interest on this Note shall be made in lawful money of the United States of America in immediately available funds, at the address indicated above, or such other place as the holder of this Note shall designate in writing to Borrowers. If any payment of principal of or interest on this Note shall become due on a day which is not a Business Day (as hereinafter defined), such payment shall be made on the next succeeding Business Day and any such extension of time shall be included in computing interest in connection with such payment. As used herein, the term "BUSINESS DAY" has the meaning assigned in the Loan Agreement. The books and records of Bank shall be PRIMA FACIE evidence of all outstanding principal of and accrued and unpaid interest on this Note.

Borrowers agree that no advances under this Note shall be used for personal, family, or household purposes, and that all advances hereunder shall be used solely for business, commercial, investment, or other similar purposes.

Borrowers agree that upon the occurrence of any one or more of the following events of default ("EVENT OF DEFAULT"):

- (a) failure of Borrowers to pay any installment of principal of or interest on this Note within five days of when due; or
- (b) the occurrence of any Event of Default specified in the Loan Agreement or in any of the other Loan Documents;

the holder of this Note may, at its option, without further notice or demand, (i) declare the outstanding principal balance of and accrued but unpaid interest on this Note at once due and payable, (ii) refuse to advance any additional amounts under this Note, (iii) foreclose all liens securing payment hereof, (iv) pursue any and all other rights, remedies, and recourses available to the holder hereof, including but not limited to any such rights, remedies, or recourses under the Loan Documents, at law or in equity, or (v) pursue any combination of the foregoing.

The failure to exercise the option to accelerate the maturity of this Note or any other right, remedy, or recourse available to the holder hereof upon the occurrence of an Event of Default hereunder shall not constitute a waiver of the right of the holder of this Note to exercise the same at that time or at any subsequent time with respect to such Event of Default or any other Event of Default. The rights,

remedies, and recourses of the holder hereof, as provided in this Note and in any of the other Loan Documents, shall be cumulative and concurrent and may be pursued separately, successively, or together as often as occasion therefore shall arise, at the sole discretion of the holder hereof. The acceptance by the holder hereof of any payment under this Note which is less than the payment in full of all amounts due and payable at the time of such payment shall not (i) constitute a waiver of or impair, reduce, release, or extinguish any right, remedy, or recourse of the holder hereof, or nullify any prior exercise of any such right, remedy, or recourse, or (ii) impair, reduce, release, or extinguish the obligations of any party liable under any of the Loan Documents as originally provided herein or therein.

This Note and all of the other Loan Documents are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby, and all provisions shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of the holder hereof to at all times comply with the usury and other applicable laws now or hereafter governing the interest payable on the indebtedness evidenced by this Note. If the applicable law is ever revised, repealed, or judicially interpreted so as to render usurious any amount called for under this Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved, or received with respect to the indebtedness evidenced by this Note, or if Bank's exercise of the option to accelerate the maturity of this Note or if any prepayment by Borrowers results in Borrowers having paid any interest in excess of that permitted by law, then it is the express intent of Borrowers and Bank that all excess amounts theretofore collected by Bank be credited on the principal balance of this Note (or, if this Note and all other indebtedness arising under or pursuant to the other Loan Documents have been paid in full, refunded to Borrowers), and the provisions of this Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by Borrowers for the use, forbearance, detention, taking, charging, receiving or reserving of the indebtedness of Borrowers to Bank under this Note or arising under or pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits Bank to contract for, charge, or receive a greater amount of interest, Bank will rely on federal law instead of TEX. REV. CIV. STAT. ANN. art. 5069-1.04, as amended, for the purpose of determining the Maximum Rate. Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank may, at its option and from time to time, implement any other method of computing the Maximum Rate under such Article 5069-1.04, as amended, or under other applicable law by giving notice, if required, to Borrowers as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

In no event shall TEX. REV. CIV. STAT. ANN. art. 5069 Ch. 15 (which regulates certain revolving loan accounts and revolving tri-party accounts) apply to this Note. To the extent that TEX. REV. CIV. STAT. ANN. art. 5069-1.04, as amended, is applicable to this Note, the "indicated rate ceiling" specified in such article is the applicable ceiling; provided that, if any applicable law permits greater interest, the law permitting the greatest interest shall apply.

If this Note is placed in the hands of an attorney for collection, or is collected in whole or in part by suit or through probate, bankruptcy, or other legal proceedings of any kind, Borrowers agree to pay, in

addition to all other sums payable hereunder, all costs and expenses of collection, including but not limited to reasonable attorneys fees.

Borrowers and any and all endorsers and guarantors of this Note severally waive presentment for payment, notice of nonpayment, protest, demand, notice of protest, notice of intent to accelerate, notice of acceleration and dishonor, diligence in enforcement and indulgences of every kind and without further notice hereby agree to renewals, extensions, exchanges, or releases of collateral, taking of additional collateral, indulgences, or partial payments, either before or after maturity.

To the extent that any provisions or terms herein conflict with the terms of the Loan Agreement, the Loan Agreement will control.

THIS NOTE HAS BEEN EXECUTED UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS, EXCEPT AS SUCH LAWS ARE PREEMPTED BY APPLICABLE FEDERAL LAWS.

To the extent of \$_____, this Note is given in renewal, extension, and modification, but not extinguishment, of amounts left owing and unpaid on that certain Revolving Promissory Note dated December 19, 1995, in the stated principal amount of \$_____,000,000, executed and delivered by Borrowers, and payable to the order of Bank.

Nothing contained herein or in any other of the Loan Documents shall be construed to release, cancel, terminate, or otherwise impair the status or priority of the liens or security for the Revolving Promissory Note referred to above or for this Note.

BORROWERS:

LOMAK PETROLEUM, INC.

LOMAK RESOURCES COMPANY

By: _____
John H. Pinkerton,
President

By: _____
John H. Pinkerton,
President

LOMAK OPERATING COMPANY

RED EAGLE RESOURCES
CORPORATION

By: _____
John H. Pinkerton,
President

By: _____
John H. Pinkerton,
President

LOMAK PRODUCTION COMPANY

By: _____
John H. Pinkerton,
President

EXHIBIT 11.1

LOMAK PETROLEUM, INC.

COMPUTATION OF EARNINGS PER COMMON
AND COMMON EQUIVALENT SHARES

| | Year Ended December 31, | | |
|--|-------------------------|--------------|--------------|
| | 1993 | 1994 | 1995 |
| | ----- | ----- | ----- |
| Average shares outstanding | 5,642,627 | 8,901,687 | 11,673,355 |
| Net effect of conversion of warrants and stock options | 210,763 | 148,871 | 167,244 |
| | ----- | ----- | ----- |
| Total primary and fully diluted shares | 5,853,390 | 9,050,558 | 11,840,599 |
| | ===== | ===== | ===== |
| Net income | \$ 1,391,398 | \$ 2,618,554 | \$ 4,390,420 |
| Less preferred stock dividends | (328,977) | (375,000) | (730,752) |
| | ----- | ----- | ----- |
| Net income applicable to common shares | \$ 1,062,421 | \$ 2,243,554 | \$ 3,659,668 |
| | ===== | ===== | ===== |
| Earnings per common share | \$.18 | \$.25 | \$.31 |
| | ===== | ===== | ===== |

EXHIBIT 22
LOMAK PETROLEUM, INC.
SUBSIDIARIES OF REGISTRANT

| Name ----- | Jurisdiction of Incorporation ----- | Percentage of Voting Securities Owned by Immediate Parent ----- |
|---------------------------------|--|---|
| Lomak Operating Company | Ohio | 100% |
| Lomak Production Company | Delaware | 100% |
| Buffalo Oilfield Services, Inc. | Ohio | 100% |
| Border Resources, Inc. | Delaware | 100% |
| Red Eagle Resources Corporation | Delaware | 100% |

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 27, 1996, included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 File No. 33-66322 and on Form S-3 File No. 33-64303.

ARTHUR ANDERSEN LLP

Cleveland, Ohio
March 18, 1996

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-66322) pertaining to the 1989 Stock Option Plan of Lomak Petroleum, Inc. and in the Registration Statement (Form S-3 No. 33-64303) pertaining to the registration of common stock, preferred stock and subordinated notes of our report dated March 8, 1994, with respect to the consolidated financial statements of Lomak Petroleum, Inc. for the year ended December 31, 1993, included in this Annual Report (Form 10-K) for the year ended December 31, 1995.

ERNST & YOUNG LLP

Cleveland, Ohio
March 18, 1996

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