

To: Possum Kingdom Leaseholder

From: Mike Patterson, General Partner of Patterson PK Land Partnership, LTD

Re: Alternatives to FERC Escrow Process

During the FERC process we have become aware of some lessees that will face undue hardship in purchasing their lease because of the FERC Escrow process.

Therefore, we have worked with the BRA to examine other possible remedies to this problem, and we believe we have found one.

Please see the discussion below regarding a "Performance Deed of Trust". Let me caution you 1st by saying, this solution may or may not be in your best interest.

PLEASE PLEASE DISCUSS THIS WITH AN ATTORNEY PRIOR TO CONSIDERING

We will be putting a sample "Performance Deed of Trust" on the website in the coming days.

Please feel free to call on us if we can help answer any questions.

Best Regards,

Mike Patterson

BRA Approved Encroachments

The Brazos River Authority (Authority) and Patterson PK Land Partnership (PPKLP) have received numerous questions regarding the requirement to place funds into escrow for the removal of encroachments that were approved in their current location by the Authority (Approved Encroachments). As a result of such inquiries and the concern that such escrow requirement may limit the ability of lessees with Approved Encroachments or those with unapproved residential encroachments (Residential Encroachments) to close contemporaneously, PPKLP will provide lessees the option of either (i) escrowing funds in the amount of 150% of the cost to remove such Approved Encroachment or Residential Encroachment or (ii) entering into a Performance Deed of Trust with PPKLP

wherein the lessee will agree to remove or modify the applicable Approved or Residential Encroachment should the Federal Energy Regulatory Commission (FERC) require removal or modification.

A Performance Deed of Trust operates basically in the same manner as a "typical" Deed of Trust that you would sign when you obtain a loan to purchase real property. The primary difference between a "typical" Deed of Trust and a Performance Deed of Trust is that one secures your obligation to pay a certain amount of money (your loan) and the other secures your obligation to do a certain act. In a "typical" Deed of Trust, your lender holds a security interest in your property until you make all your payments under your loan. In this Performance Deed of Trust, PPKLP will hold a security interest in your property until you perform the obligations described in the Performance Deed of Trust (that is, until you comply with any FERC requirement to remove or modify your Encroachment). If you obtain a loan to purchase your lot, the Performance Deed of Trust will be second to your lender's Deed of Trust (acting much like a second mortgage on a home). If you elect to enter into the Performance Deed of Trust and then do not comply with a FERC requirement to remove or modify your Encroachment, PPKLP will have the right to take back your lot (just as a lender would have the right to foreclose on your property if you do not make your loan payments). PPKLP is preparing a form of Performance Deed of Trust, which will be made available on the PPKLP website for your review as quickly as possible. It is important that you understand the implications of entering into a Performance Deed of Trust. If you have any questions regarding the Performance Deed of Trust, please consult with your attorney or call Mike Patterson at (817) 784-2065.

Please note that the Performance Deed of Trust is an option for Approved Encroachments and Residential Encroachments only. Those with unapproved encroachments will be required to escrow funds. If you believe you have an Approved Encroachment, please submit your evidence to the Authority on or before August 16, 2010 for the Authority's review. If the Authority determines that such encroachment is an Approved Encroachment, or if you have a Residential Encroachment, then you will have the option of entering into either the Escrow Agreement or Performance Deed of Trust with PPKLP. Please note that the Authority's approval of a lease transfer or assignment is not evidence that the Authority approved the encroachment.

In addition to the foregoing, the Authority and PPKLP have also received numerous questions regarding the requirement for FERC approval on encroachments approved by the Authority. The FERC License sets forth certain requirements and restrictions on the types of improvements that can be constructed within the FERC Project Area and the Authority has an obligation to require the removal of improvements that do not comply with the restrictions set forth in the FERC License. However, in accordance with House Bill 3031 (81st Legislature of the State of Texas, 2009), the Authority intends to submit an application to FERC regarding the encroachments into the FERC Project Area and will advocate for all Approved Encroachments and Residential Encroachments to remain in place. In the event FERC permits such Approved Encroachments or Residential Encroachments to remain in place, your escrow for the applicable Encroachment will be returned to you (or your Performance Deed of Trust will be terminated, as applicable). In the event FERC requires removal or modification of an Encroachment (whether Approved, Residential, or Unapproved), you will be responsible for complying with FERC's requirements.