SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 1-11680

LEVIATHAN GAS PIPELINE PARTNERS, L.P.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	76-0396023
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 TRAVIS STREET SUITE 7200 HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 224-7400

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
PREFERENCE UNITS REPRESENTING LIMITED PARTNER INTERESTS	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE.

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
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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 ON MARCH 14, 1997 OF THE REGISTRANT'S PREFERENCE UNITS HELD BY NON-AFFILIATES OF THE REGISTRANT, BASED ON THE AVERAGE OF THE HIGH AND LOW PRICES AS QUOTED IN THE NEW YORK STOCK EXCHANGE ON SUCH DATE, WAS APPROXIMATELY $392.0 MILLION. THE REGISTRANT HAD 18,075,000 PREFERENCE UNITS AND 6,291,894 COMMON UNITS OUTSTANDING AS OF MARCH 14, 1997.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

LEVIATHAN GAS PIPELINE PARTNERS, L.P.
ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED
DECEMBER 31, 1996

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The following text is qualified in its entirety by reference to the more detailed information and consolidated financial statements (including the notes thereto) appearing elsewhere in the Annual Report on Form 10-K ("Annual Report"). Unless the context otherwise requires, references in this Annual Report to the "Partnership" shall mean Leviathan Gas Pipeline Partners, L.P., a publicly held Delaware limited partnership; references to "Leviathan" shall mean Leviathan Gas Pipeline Company ("Leviathan"), a Delaware corporation and the general partner of the Partnership (in such capacity, the "General Partner"); and references to the Partnership with respect to the operations and ownership of the Partnership's assets are also references to its subsidiaries and the nonmanaging interest of Leviathan in certain of the Partnership's subsidiaries. In December 1996, the Board of Directors of the General Partner approved a two for one split of the preference units representing limited partner interests in the Partnership ("Preference Units") and the common units representing limited partner interests in the Partnership ("Common Units", and collectively with the Preference Units, the "Units") for the Unitholders of record as of the close of business on December 31, 1996. All number of Units and per Unit disclosures have been restated to reflect this two for one Unit split. For a description of certain terms used in this Annual Report relating to the oil and gas industry, see Items 1 & 2, "Business and Properties -- Certain Definitions."

PART I

ITEMS 1 & 2. BUSINESS AND PROPERTIES

OVERVIEW

The Partnership is primarily engaged in the gathering, transportation and production of natural gas and crude oil in the Gulf of Mexico (the "Gulf"). The Partnership commenced operations in February 1993 when it succeeded to substantially all of the pipeline operations of Leviathan in connection with the initial public offering of Preference Units. In June 1994, the Partnership completed a second public offering of Preference Units. The Preference Units are listed on the New York Stock Exchange ("NYSE") under the symbol "LEV." The closing price of the Preference Units on the NYSE on March 14, 1997 was $21 3/4 per Preference Unit. As of March 14, 1997, the Partnership had 18,075,000 Preference Units and 6,291,894 Common Units outstanding. All of the Preference Units are owned by the public, representing a 72.7% effective limited partnership interest in the Partnership. Leviathan, through its ownership of all of the Common Units, its 1% general partner interest in the Partnership and its approximate 1% nonmanaging interest in certain of the Partnership's subsidiaries, owns a 27.3% effective interest in the Partnership.

The Partnership's assets include interests in (i) eight natural gas pipelines (the "Gas Pipelines"), (ii) a crude oil pipeline system, (iii) five strategically located multi-purpose platforms, (iv) three producing oil and gas properties, (v) an overriding royalty interest and (vi) a dehydration facility.

The Partnership conducts a significant portion of its business activities through joint ventures, organized as general partnerships or limited liability companies, with other major oil and gas companies. Stingray Pipeline Company ("Stingray"), High Island Offshore System ("HIOS"), U-T Offshore System ("UTOS") and Viosca Knoll Gathering Company ("Viosca Knoll") are partnerships and Poseidon Oil Pipeline Company, L.L.C. ("POPCO"), Manta Ray Offshore Gathering Company, L.L.C. ("Manta Ray Offshore"), Nautilus Pipeline Company, L.L.C. ("Nautilus") and West Cameron Dehydration Company, L.L.C. ("West Cameron Dehy") are limited liability companies which constitute the Partnership's equity investees (the "Equity Investees"). Management decisions related to the Equity Investees are made by management committees comprised of representatives with authority appointed in direct relationship to ownership interests.

NATURAL GAS AND OIL PIPELINES

GENERAL

The Partnership owns interests in eight natural gas pipelines which are strategically located offshore Louisiana and eastern Texas and gather and transport natural gas for producers, marketers, pipelines and end-users for a fee. The Gas Pipelines include 984 miles of pipeline with a throughput capacity of approximately 5.9 Bcf of gas per day as of December 31, 1996. During the years ended December 31, 1994, 1995 and 1996, the Gas Pipelines transported an average of approximately 2.3 Bcf, 2.4 Bcf and 2.8 Bcf, respectively, of gas per day. Each of the Gas Pipelines interconnects with one or more long line transmission pipelines that provide access to multiple markets in the eastern half of the United States.

None of the Gas Pipelines functions as a merchant to purchase and resell gas, thus avoiding the commodity risk associated with the purchase and resale of gas. Each of Stingray, HIOS and UTOS (together, the "Regulated Pipelines") is currently classified as a "natural gas company" under the Natural Gas Act of 1938, as amended (the "NGA"), and is therefore subject to regulation by the Federal Energy Regulatory Commission ("FERC"), including regulation of rates. None of Manta Ray Offshore (which owns the systems formerly known as the Manta Ray System and the Louisiana Offshore Gathering Systems), Green Canyon Pipe Line Company, L.L.C. ("Green Canyon"), Ewing Bank Gathering Company, L.L.C. ("Ewing Bank") and Viosca Knoll is currently considered a "natural gas company" under the NGA. By order dated March 13, 1997, the FERC declared that Tarpon Transmission Company ("Tarpon") would not be subject to NGA jurisdiction as a "natural gas company." See " -- Regulation."

The Partnership owns a 36% interest in POPCO which was formed to construct and operate the Poseidon Oil Pipeline ("Poseidon" and collectively with the Gas Pipelines, the "Pipelines"). Poseidon is a major new sour crude oil pipeline system that was built in response to an increased demand for additional sour crude oil pipeline capacity in the central Gulf. Poseidon, which has a capacity of approximately 400,000 barrels per day, was placed in service in two phases, in April and December 1996. During 1996, Poseidon transported an average of approximately 30,000 barrels of oil per day.

The following table sets forth certain information with respect to the Pipelines. The throughput information represents the average throughput net to the Partnership's interest.

	GREEN CANYON	EWING BANK	TARPON	MANTA RAY OFFSHORE (1)	VIOSCA KNOLL	STINGRAY	HIOS	UTOS	POSEIDON
Ownership interest	100%	100%	100%	25.7%	50%	50%	40%	33.3%	36%
Unregulated (U)/regulated (R)(2)	U	U	U	U	U	R	R	R	U
In-service date	1990	1993	1978	1987/88	1994	1974/75	1977	1978	1996
Approximate capacity (MMcf per day)	220	20	80	755 (3)	700	1,120	1,800	1,200	--
Approximate capacity (barrels per day)	--	--	--	--	--	--	--	--	400,000
Aggregate miles of pipeline	68	7	40	161 (5)	100	361	203	30	245
Average net throughput (MMcf per day) for calendar year ended:									
December 31, 1996	142	2	33	217 (6)	144	373	398	109	--
December 31, 1995	71	3	42	226 (6)	83	352	327	118	--
December 31, 1994	76	3	59	233 (6)	57 (4)	366	326	114	--

(1) Initially, the Partnership owned 100% of the Louisiana Offshore Gathering Systems and the Manta Ray System and operated each system independently. In May 1996, these two systems were integrated, merged and renamed the Manta Ray Gathering System. In January 1997, the Partnership contributed substantially all of the Manta Ray Gathering System to Manta Ray Offshore.
(2) Regulated Pipelines are subject to extensive rate regulation by the FERC. See "- Regulation."
(3) Represents the approximate aggregate capacity of the five pipelines comprising the Manta Ray Offshore system, excluding facilities under construction. See (1) above.
(4) The gathering system was placed in service in November 1994.
(5) In January 1997, the Partnership contributed 161 miles of pipeline to Manta Ray Offshore. The Partnership continues to own 100% of two offshore platforms, 19 miles of oil pipeline and 14 miles of gas pipeline which were formerly a part of the Manta Ray Gathering System.
(6) Represents 100% ownership interest during this period.

The Partnership operates all of its 100% owned pipelines, the Viosca Knoll system and, currently, a portion of the Manta Ray Offshore system. The remaining joint venture pipelines are operated by unaffiliated pipeline companies.

RECENT EVENTS

FORMATION OF STRATEGIC NEW PIPELINE JOINT VENTURES

Poseidon. In February 1996, the Partnership and Texaco, Inc. ("Texaco") formed POPCO, which at inception, was 50% owned by the Partnership and 50% owned by a subsidiary of Texaco. Pursuant to the terms of organizational documents, the Partnership initially contributed assets, at net book value, related to the construction

of the initial phase of Poseidon as well as certain dedication agreements with producers, and Texaco initially contributed an equivalent amount of cash as well as its rights under certain agreements. In July 1996, Marathon Oil Company ("Marathon") joined POPCO by contributing its interest in 58 miles of nearby crude oil pipelines and dedicating its portion of oil reserves attached to such pipelines to Poseidon for transportation. As a result, each of the Partnership and Texaco now owns a 36% interest in POPCO and Marathon owns the remaining 28% interest. In April 1996, Phase I of Poseidon, a 117-mile segment extending in an easterly direction from the Partnership's 50% owned platform in Garden Banks Block 72 to a platform in Ship Shoal Block 332, was placed in service. Phase II of Poseidon, an 83-mile segment, extending in a northerly direction from the Ship Shoal Block 332 Platform to Calliou Island, Louisiana, was placed in service in December 1996.

In order to move crude oil from the terminus of Poseidon at Calliou Island to Houma or St. James, Louisiana, POPCO currently uses existing Texaco pipelines. POPCO anticipates building a new 24-inch diameter pipeline from Calliou Island to Houma, Louisiana which should be operational in late 1997. POPCO has an agreement pursuant to which Texaco Pipelines Inc. will provide downstream capacity for POPCO from Larose and/or Houma, Louisiana to St. James, Louisiana.

Recently, POPCO has been successful in obtaining long-term commitments for production from several properties containing significant reserves. POPCO has contracted with Phillips Petroleum Company, Amoco Petroleum Company and Anadarko Petroleum Company with respect to the Mahogany field, Newfield Exploration with respect to Vermilion Block 398, Mobil Oil with respect to South Marsh Island Block 205, and the Partnership and MidCon Corp. with respect to Garden Banks Block 72 and Garden Banks Block 117. In addition, discussions are currently pending with a number of other producers regarding commitments of reserves to Poseidon.

Poseidon is operated by a subsidiary of Texaco. It is anticipated that any additional construction and installation costs of Poseidon will be funded pursuant to the POPCO Credit Facility as discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Nautilus and Manta Ray Offshore. In January 1997, the Partnership and affiliates of Marathon and Shell Oil Company ("Shell") formed Nautilus to build and operate an interstate natural gas pipeline system, and Manta Ray Offshore to acquire, operate and extend an existing gathering system that will be connected to the Nautilus system, once it is constructed. Each of the two new companies was formed to serve growing production areas in the Green Canyon area of the Gulf and are owned 50% by Shell, 24.3% by Marathon and 25.7% by the Partnership. The total cost of the two systems, including substantially all of the Manta Ray Offshore system which was contributed to Manta Ray Offshore by the Partnership, is approximately $270.0 million. The Nautilus system, a new jurisdictional interstate pipeline, will consist of a 30-inch line downstream from Ship Shoal Block 207 connecting to the Exxon Company USA operated Garden City gas processing plant, onshore Louisiana. Upstream of the Ship Shoal 207 terminal, the existing Manta Ray Offshore gathering system will be extended into a broader gathering system that would serve shelf and deep water production around Ewing Bank Block 873 to the east and Green Canyon Block 65 to the west. Affiliates of Marathon and Shell have committed to each of the Nautilus and Manta Ray Offshore systems significant deep water acreage positions in the area, including the recently announced Troika field (Green Canyon Block 244), and will provide the majority of the capital funding for the new construction. The Partnership may provide some funding in addition to the contribution of the Manta Ray Offshore system.

ADDITIONAL CAPACITY FOR THE VIOSCA KNOLL GATHERING SYSTEM

In November 1994, Viosca Knoll completed the construction and placed in service the Viosca Knoll system, a 50% owned gathering system operated by the Partnership. The 100-mile system redelivers gas into two downstream pipelines and was designed to transport 400 million cubic feet of gas per day without compression. During 1996, Viosca Knoll installed a 6,000 horsepower compressor on the Partnership's Viosca Knoll 817 platform. The pipeline compressor was required to meet operating pressures on downstream interstate pipelines with which it is interconnected, resulting in an increase in the throughput capacity of the Viosca Knoll system to approximately 700 million cubic feet of gas per day. The additional capacity was needed to transport new gas volumes during 1997 from the Shell operated Southeast Tahoe and Ram-Power fields as well as other new deep water projects in the area.

OIL AND GAS SUPPLY

The reserves that are currently available for transportation on the Pipelines are depleting assets and, as such, will be produced over a finite period. Each of the Pipelines must access additional reserves to offset the natural decline in production from existing wells connected thereto. Management believes that there will be sufficient reserves available to the Gas Pipelines for transportation to maintain throughput at or near current levels for at least the next five years. Initial deliveries from Poseidon began in April 1996, and management believes that there will be significant increases in reserves attached to and transportation through Poseidon over the next several years. As more fully discussed below, the Green Canyon, Viosca Knoll, HIOS and Stingray systems experienced an increase in transportation volumes in 1996 as compared with the previous year. Conversely, each of the Tarpon, Ewing Bank and UTOS systems and the Manta Ray Gathering System experienced decreases in volumes transported in 1996 as compared with 1995.

The Green Canyon system's average daily throughput increased 101% for 1996 as compared with 1995. This increase was due to additional connections to the Green Canyon system during 1996 at Green Canyon Block 136 and South Marsh Island Block 192. The Viosca Knoll system experienced an increase of 77% in throughput during 1996 primarily as a result of the initiation of production from Viosca Knoll Block 817. See "-- Oil and Gas Properties -- Viosca Knoll Block 817". HIOS experienced an increase in transportation volume of 22% for the year ended December 31, 1996 as compared with the previous year. HIOS accesses the East Breaks and Garden Banks areas of the flextrend and deepwater areas of the Gulf. Management believes that development in these and other areas served by HIOS is likely to occur in future years, resulting in additional throughput on HIOS, and partially offsetting the continuing decline in reservoir deliverability from existing wells connected to HIOS. For the year ended December 31, 1996, Stingray experienced an increase in throughput of 6% as compared with the previous year.

The Tarpon system experienced a throughput decrease of 20% for the year ended December 31, 1996 as compared with the previous year. This decrease was primarily attributable to the normal decline of existing connected fields. The Ewing Bank system connects the Ewing Bank 914 #2 well of Tatham Offshore, Inc. ("Tatham Offshore"), an affiliate of the Partnership, to a shallow water platform located at Ewing Bank Block 826. All of the production from Tatham Offshore's eight block Ewing Bank project area is dedicated to the Partnership for transportation. See the Partnership's "Notes to Consolidated Financial Statements -- Note 9 -- Related Party Transactions" located elsewhere in this Annual Report. UTOS experienced a decrease in transportation volume of 7% for the year ended December 31, 1996 as compared with the previous year. The reduction in volumes transported on UTOS is a result of competition from another interstate pipeline connected at UTOS' source of supply. For the year ended December 31, 1996, the Manta Ray Gathering System experienced a throughput decline of 4% from the previous year. This decrease in throughput was primarily the result of lower production from a low margin field connected to the system.

Poseidon initiated transportation services in April 1996 and transported an average of 30,000 barrels of oil per day during such portion of 1996. During 1996, Poseidon added production from six new fields and anticipates adding additional supply as new subsalt and deep water fields are developed in its service area.

OFFSHORE PLATFORMS AND OTHER FACILITIES

Offshore platforms play a key role in the development of oil and gas reserves and the offshore pipeline network. Platforms are used to tie together the offshore pipeline grid and to provide an efficient means to perform pipeline maintenance operations and operate compression facilities. The Partnership has ownership interest in five strategically located platforms in the Gulf.

Viosca Knoll Block 817. During 1995, the Partnership completed the installation of a 100% owned multipurpose platform in Viosca Knoll Block 817 (the "VK 817 Platform"). The VK 817 Platform was used by the Partnership as a base for conducting drilling operations for oil and gas reserves located on the Viosca Knoll Block 817 lease. In addition, the platform serves as a base for landing other deepwater production in the area thereby generating platform access and processing fees for the Partnership. The Partnership also leases platform space to Viosca Knoll for the location of compression equipment for the Viosca Knoll system.

Garden Banks Block 72. The Partnership owns a 50% interest in a multipurpose platform located in Garden Banks Block 72 (the "GB 72 Platform"). The GB 72 Platform is located at the south end of the Stingray system and

serves as the westernmost terminus of Poseidon. The GB 72 Platform was also used as a drilling and production platform and as the landing site for production from the Partnership's Garden Banks Block 117 lease located in an adjacent lease block.

Ship Shoal Block 332. The Partnership owns a 100% interest in a platform located in Ship Shoal Block 332 (the "SS 332 Platform"). The SS 332 Platform serves as a junction platform for gas pipelines in Manta Ray Offshore's system as well as an eastern junction for Poseidon.

Ship Shoal Block 207. The Ship Shoal Block 207 platform (the "SS 207 Platform") was contributed to Manta Ray Offshore by the Partnership as part of its original capital contribution to the joint venture. The SS 207 Platform serves as the northern junction platform for the Manta Ray Offshore system as well as the offshore terminus of the proposed Nautilus system.

South Timbalier Block 292. The South Timbalier Block 292 platform (the "ST 292 Platform") is a 100% owned facility located at the easternmost terminus of Manta Ray Offshore's system. The ST 292 Platform serves as a landing site for gas production in the area.

Other Facilities. Through its 50% ownership interest in West Cameron Dehy, the Partnership owns an interest in certain dehydration facilities located at the northern terminus of the Stingray system, onshore Louisiana.

OIL AND GAS PROPERTIES

GENERAL

The Partnership conducts exploration and production activities primarily through Flextrend Development Company, L.L.C. ("Flextrend Development"), a subsidiary of the Partnership. Flextrend Development is an independent energy company engaged in the development and production of reserves located offshore the United States in the Gulf, focusing principally on the flextrend and deepwater areas. As of December 31, 1996, the Partnership owns working interests in three lease blocks in the Gulf comprising 17,280 gross (10,080 net) acres with proved reserves estimated to be 3.0 million barrels of oil and 43.8 Bcf of gas, net to the Partnership's interest, based on a reserve report prepared by Netherland, Sewell & Associates, Inc. ("Netherland, Sewell"). See "-- Oil and Gas Reserves" for a discussion of the assumptions used in, and inherent difficulties relating to, estimating reserves.

On June 30, 1995, Flextrend Development entered into a purchase and sale agreement (the "Purchase and Sale Agreement") with Tatham Offshore pursuant to which Flextrend Development acquired, subject to certain reversionary rights, a 75% working interest in Viosca Knoll Block 817, a 50% working interest in Garden Banks Block 72 and a 50% working interest in Garden Banks Block 117 (the "Assigned Properties") for $30 million. Flextrend Development is entitled to retain all of the revenue attributable to the Assigned Properties until it has received net revenue equal to the Payout Amount (as defined below), whereupon Tatham Offshore is entitled to receive reassignment of a portion of the Assigned Properties, subject to conditions as discussed below. "Payout Amount" is defined as an amount equal to all costs incurred by Flextrend Development with respect to the Assigned Properties (including the $30 million acquisition cost paid to Tatham Offshore) plus interest thereon at a rate of 15% per annum. Effective February 1, 1996, the Partnership entered into an agreement with Tatham Offshore regarding certain transportation agreements that increased the amount recoverable from the Payout Amount by $7.5 million plus interest. See the Partnership's "Notes to Consolidated Financial Statements -- Note 9 -- Related Party Transactions" located elsewhere in this Annual Report.

Effective December 10, 1996, Flextrend Development exercised its option to permanently retain 50% of the acquired working interest in all Assigned Properties in exchange for forgiving 50% of the then-existing Payout Amount, exclusive of the $7.5 million plus interest added to the Payout Amount in February 1996. Flextrend Development's election to retain 50% of the acquired working interest in all three of the Assigned Properties reduced the Payout Amount from $94.0 million to $50.8 million as of December 10, 1996. Subsequent to December 10, 1996, only 50% of the development and operating costs attributable to the Assigned Properties are added to the Payout Amount and 50% of the net revenue from the Assigned Properties will reduce the Payout Amount. As of December 31, 1996, the Payout Amount balance was $49.6 million comprised of (i) initial acquisition and transaction costs of $32.1 million, (ii) developing and operating costs of $84.6 million, (iii) prepaid demand charges of $7.5 million and (iv) interest of $13.1 million, reduced by the sum of (i) net revenue of $44.5 million and (ii) forgiveness of $43.2 million of the Payout Amount as a result of Flextrend Development's decision

to retain 50% of the acquired working interests in the Assigned Properties. Tatham Offshore and the Partnership have also agreed that in the event Tatham Offshore furnishes the Partnership with a financing commitment from a lender with a credit rating of BBB- or better covering 100% of the then outstanding Payout Amount, the interest rate utilized to compute the Payout Amount shall be adjusted from and after the date of such commitment to the interest rate specified in such commitment. As of December 31, 1996, all of the Assigned Properties are on production.

PRODUCING OIL AND GAS PROPERTIES

Viosca Knoll Block 817. Viosca Knoll Block 817 is a producing property that is comprised of 5,760 gross (4,320 net) acres located 40 miles off the coast of Louisiana in approximately 650 feet of water. Pursuant to the Purchase and Sale Agreement, Flextrend Development acquired from Tatham Offshore a 75% working interest in Viosca Knoll Block 817 from the sea-floor through the stratigraphic equivalent of the base of the Tex X-6 Sand, subject to certain reversionary rights.

Flextrend Development, as operator, has concluded the drilling program and has placed eight wells on production on Viosca Knoll Block 817. The Viosca Knoll Block 817 project is currently producing an aggregate of approximately 106 MMcf of gas and 340 barrels of oil per day. From inception of production in December 1995 through December 31, 1996, the Viosca Knoll project has produced 15.3 Bcf of gas and 3,100 barrels of oil, to Flextrend Development's net revenue interest. Netherland, Sewell estimates that approximately 37.5 Bcf of proved gas reserves and 382,000 barrels of proved oil reserves are attributable to Flextrend Development's interest in the Viosca Knoll Block 817 project as of December 31, 1996. Production from Viosca Knoll Block 817 is dedicated to the Partnership for transportation through the Viosca Knoll system. Pursuant to Flextrend Development's election on December 10, 1996, Tatham Offshore will receive a reassignment of a 37.5% working interest upon satisfaction of the Payout Amount.

Garden Banks Block 72. Garden Banks Block 72 covers 5,760 gross (2,880 net) acres and is located 120 miles off the coast of Louisiana in approximately 550 feet of water. Tatham Offshore and Midcon Exploration Company ("MidCon Exploration") jointly bought the Garden Banks Block 72 lease in the August 1991 OCS lease sale for a joint bid of $3.7 million. On June 30, 1995, Flextrend Development acquired from Tatham Offshore its 50% working interest (approximately 40.2% net revenue interest) in Garden Banks Block 72, subject to certain reversionary rights. MidCon Exploration owns the remaining 50% working interest in Garden Banks Block 72.

Since May 1996, Flextrend Development has placed five wells on production at Garden Banks Block 72. Production at Garden Banks Block 72 totaled 655 MMcf of gas and 249,000 barrels of oil, to Flextrend Development's net revenue interest from the inception of production in May 1996 through December 31, 1996. Netherland, Sewell estimates that approximately 1,244,000 barrels of proved oil reserves and 4.1 Bcf of proved gas reserves are attributable to Flextrend Development's interest in the Garden Banks Block 72 project as of December 31, 1996. The five wells are currently producing a total of approximately 3,500 barrels of oil, 14 MMcf of gas and 550 barrels of water per day from seven completions. Gas production from Garden Banks Block 72 is being transported through the Stingray system and the oil production is being transported through Poseidon. Pursuant to Flextrend Development's election on December 10, 1996, Tatham Offshore will receive a reassignment of a 25% working interest upon satisfaction of the Payout Amount.

Garden Banks Block 117. Garden Banks Block 117 covers 5,760 gross (2,880 net) acres adjacent to Garden Banks Block 72 and is located in approximately 1,000 feet of water. Tatham Offshore and MidCon Exploration jointly acquired the Garden Banks Block 117 lease from Shell Offshore, Inc. ("Shell Offshore") under a farm-in arrangement. The farm-in agreement provides that Shell Offshore retains a 1/12 overriding royalty interest in Garden Banks Block 117 with an option to convert the overriding royalty interest into a 30% working interest after the property has produced 25 million net equivalent barrels of oil. In November 1994, Tatham Offshore completed the drilling of a new field discovery at Garden Banks Block 117 with its Garden Banks 117 #1 well. On June 30, 1995, Flextrend Development acquired from Tatham Offshore its 50% working interest (approximately 37.5% net revenue interest) in Garden Banks Block 117, subject to certain reversionary rights. MidCon Exploration owns the remaining 50% working interest in Garden Banks Block 117.

In July 1996, Flextrend Development initiated production from the Garden Banks 117 #1 well which is currently producing approximately 1,700 barrels of oil, 3 MMcf of gas and 3,700 barrels of water per day. Since inception of production through December 31, 1996, Garden Banks Block 117 produced 237 MMcf of gas and

142,000 barrels of oil, to Flextrend Development's net revenue interest. Flextrend Development has drilled a second successful well at Garden Banks Block 117 which is expected to be placed on production in April 1997. Netherland, Sewell estimates that approximately 1,340,000 barrels of proved oil reserves and 2.2 Bcf of proved gas reserves are attributable to Flextrend Development's interest in the Garden Banks Block 117 project as of December 31, 1996. Gas production from Garden Banks Block 117 is transported on the Stingray system and oil production is transported through Poseidon. Pursuant to Flextrend Development's election on December 10, 1996, Tatham Offshore will receive a reassignment of a 25% working interest upon satisfaction of the Payout Amount.

OVERRIDING ROYALTY INTERESTS

The Partnership also owns an overriding royalty interest in the six lease block Ewing Bank Unit operated by Tatham Offshore. This override entitles the Partnership to receive from approximately 3.56% to 5.34% (depending on the water depth of the specific lease block) of the future gross revenue from production from the Ewing Bank Unit, except for the Ewing Bank 914 #2 well, in which the Partnership is entitled to receive 7.13% of the gross revenue from production. The Ewing Bank 914 #2 well is currently the only producing well in the Ewing Bank Unit. For the year ended December 31, 1996, the Partnership received royalties in the amount of $0.7 million from its overriding royalty interest in the Ewing Bank 914 #2 well. In addition to its royalty interest in the Ewing Bank Unit, the Partnership owns certain other minority interests in oil and gas leases which are not material to the business of the Partnership.

OIL AND GAS RESERVES

Estimates of the Partnership's oil and gas reserves as of December 31, 1996 relative to its working interests have been made by Netherland, Sewell. Estimates relating to the Partnership's overriding royalty interest in the Ewing Bank Unit have been made by the Partnership's reservoir engineers. Total proved developed and proved undeveloped reserves of oil and gas were as follows:

	December 31, 1996					
	Oil (barrels)			Gas(1)(MMcf)		
	Proved Developed Producing	Proved Developed Non Producing	Proved Undeveloped	Proved Developed Producing	Proved Developed Non Producing	Proved Undeveloped
Viosca Knoll Block 817	362,000	20,000	--	34,853	2,630	--
Garden Banks Block 72	1,085,000	159,000	--	3,178	938	--
Garden Banks Block 117	139,000	1,201,000	--	229	1,983	--
Ewing Bank Unit	11,000	172,000	313,000	24	240	439
Total	1,597,000	1,552,000	313,000	38,284	5,791	439

(1) Gas volumes are stated at the legal pressure base of the state or area in which the reserves are located and at 60 degrees Fahrenheit.

In general, estimates of economically recoverable oil and natural gas reserves and of the future net revenue therefrom are based upon a number of variable factors and assumptions, such as historical production from the subject properties, the assumed effects of regulation by governmental agencies and assumptions concerning future oil and gas prices, future operating costs and future plugging and abandonment costs, all of which may vary considerably from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of the future net revenue expected therefrom, prepared by different engineers or by the same engineers at different sites, may vary substantially. The meaningfulness of such estimates is highly dependent upon the assumptions upon which they are based.

Furthermore, production from Garden Banks Block 117, Garden Banks Block 72 and Viosca Knoll Block 817 was initiated in July 1996, May 1996 and December 1995, respectively, and, accordingly, estimates of future production are based on this limited history. Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than upon actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations,

which may be substantial, in the estimated reserves. A significant portion of the Partnership's reserves is based upon volumetric calculations.

The following table sets forth as of December 31, 1996, the estimated future net cash flows and the present value of estimated future net cash flows discounted at 10% per annum from the production and sale of the proved developed and undeveloped reserves attributable to the Partnership's interest in oil and gas properties as of such date, as determined by Netherland, Sewell and the Partnership's reservoir engineers in accordance with the requirements of applicable accounting standards, before income taxes.

	December 31, 1996		
	Proved Developed	Proved Undeveloped	Total Proved
		(in thousands)	
Estimated future net cash flows from proved reserves before income taxes(1)	$ 179,154	$ 8,810	$ 187,964
Present value of estimated future net cash flows from proved reserves before income taxes (discounted at 10%)	$ 150,817	$ 4,821	$ 155,638

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(1) The average oil and gas prices, as adjusted by lease for gravity and Btu content, transportation and marketing fees, regional posted price differences and oil and gas price hedges in place and weighted by production over the life of the proved reserves, used in the calculation of estimated future net cash flows at December 31, 1996 are $22.55 per barrel and $2.88 per Mcf. The Partnership received an average of $22.24 per barrel and $2.42 per Mcf for its February 1997 oil and gas production, respectively.

In accordance with applicable requirements of the Securities and Exchange Commission (the "Commission"), the estimated discounted future net revenues from estimated proved reserves are based on prices and costs at year end unless future prices or costs are contractually determined at such date. Actual future prices and costs may be materially higher or lower. Actual future net revenue also will be affected by factors such as actual production, supply and demand for oil and gas, curtailments or increases in consumption by natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

In accordance with methodology approved by the Commission, specific assumptions were applied in the computation of the reserve evaluation estimates. Under this methodology, future net cash flows are determined by reducing estimated future gross cash flows to the Partnership for oil and gas sales by the estimated costs to develop and produce the underlying reserves, including future capital expenditures, operating costs, transportation costs, royalty and overriding royalty burdens on certain of the Partnership's properties.

Future net cash flows were discounted at 10% per annum to arrive at discounted future net cash flows. The 10% discount factor used to calculate present value is required by the Commission, but such rate is not necessarily the most appropriate discount rate. Present value of future net cash flows, irrespective of the discount rate used, is materially affected by assumptions as to timing of future oil and gas prices and production, which may prove to be inaccurate. In addition, the calculations of estimated net revenue do not take into account the effect of certain cash outlays, including, among other things, general and administrative costs, interest expense and Partnership distributions. The present value of future net cash flows shown above should not be construed as the current market value as of December 31, 1996, or any prior date, of the estimated oil and gas reserves attributable to the Partnership's properties.

PRODUCTION, UNIT PRICES AND COSTS

The following table sets forth certain information regarding the production volumes of, average unit prices received for and average production costs for the Partnership's sale of gas and oil for the periods indicated:

	Natural Gas (MMcf) Year Ended December 31,			Oil (barrels) Year Ended December 31,		
	1994	1995	1996	1994	1995	1996
Net production (1)	--	392	15,730	--	--	393,000
Average sales price (1)	--	$ 2.35	$ 2.37	--	--	$ 21.76
Average production costs (1) (2)	--	$ 0.44	$ 0.27	--	--	$ 1.59

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(1) Substantially all of the oil and gas sales revenue for the year ending December 31, 1994 was from the Partnership's overriding royalty interest in the Ewing Bank 914 #2 well. The information regarding production, unit prices and costs excludes overriding royalty interests.
(2) The components of production costs may vary substantially among wells depending on the methods of recovery employed and other factors, but generally include third party transportation expenses, maintenance and repair, labor and utilities costs.

The relationship between average sales prices and average production costs depicted by the table above is not necessarily indicative of future results of operations expected by the Partnership.

ACREAGE

The following table sets forth the developed and undeveloped oil and gas acreage in which the Partnership held a working interest as of December 31, 1996. Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of gas and oil, regardless of whether or not such acreage contains proved reserves. Gross acres in the following table refer to the combined number of acres in which a working interest is owned by the Partnership. The number of net acres is the sum of the fractional ownership of current working interest owned by the Partnership in the gross acres.

	Gross	Net
Developed acreage	4,072	2,654
Undeveloped acreage	13,208	7,426
Total acreage	17,280	10,080

OIL AND GAS DRILLING ACTIVITY

The following table sets forth the gross and net number of productive, dry and total exploratory wells and development wells that Flextrend Development has drilled in each of the respective years:

	Year Ended December 31,					
	1994		1995		1996	
	Gross	Net	Gross	Net	Gross	Net
EXPLORATORY						
Productive	--	--	--	--	1.00	0.50
Dry	--	--	--	--	--	--
Total	--	--	--	--	1.00	0.50
DEVELOPMENT						
Productive	--	--	1.00	0.75	12.00	7.75
Dry	--	--	--	--	3.00	1.75
Total	--	--	1.00	0.75	15.00	9.50

As of March 14, 1997, Flextrend Development owned 14 gross (9 net) producing wells and is in the process of completing one gross (0.5 net) development well.

MAJOR ENCUMBRANCES

All of the operating assets in which the Partnership owns an interest are owned by subsidiaries or Equity Investees of the Partnership. Substantially all of the assets of the Partnership (primarily its interest in its subsidiaries) and its subsidiaries are pledged as collateral to secure obligations under the Partnership Credit Facility, as hereinafter defined. In addition, certain of the Equity Investees currently have, and others are expected to have, credit facilities pursuant to which substantially all of such Equity Investees' assets are or would be pledged. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources".

REGULATION

The oil and gas industry is extensively regulated by federal and state authorities in the United States. Legislation affecting the oil and gas industry is under constant review and statutes are constantly being adopted, expanded or amended. Further, numerous departments and agencies, both federal and state, have issued rules and regulations binding on the oil and gas industry and its individual members, some of which carry substantial penalties for the failure to comply. The regulatory burden on the oil and gas industry increases its cost of doing business.

General. The design, construction, operation and maintenance by the Gas Pipelines of certain of their gas transmission facilities are subject to regulation by the Department of Transportation under the Natural Gas Pipeline Safety Act of 1968 as amended (the "NGPSA"). Operations in offshore federal waters are regulated by the Department of Interior and the FERC. Under the Outer Continental Shelf Lands Act (the "OCSLA"), as implemented by the FERC, pipelines that transport natural gas across the Outer Continental Shelf ("OCS") must offer nondiscriminatory transportation of natural gas on behalf of others. Substantially all of the pipeline network owned by the Pipelines is located in federal waters in the Gulf, and the related rights-of-way were granted by the federal government, the agencies of which oversee such pipeline operations. Federal rights-of-way require compliance with detailed federal regulations and orders which regulate such operations.

Poseidon is subject to regulation under the Hazardous Liquid Pipeline Safety Act ("HLPSA"). Operations in offshore federal waters are regulated by the Department of the Interior. In addition, under the OCSLA, as implemented by the FERC, pipelines that transport crude oil across the OCS must offer nondiscriminatory access to other potential shippers of crude. Poseidon is located in federal waters in the Gulf, and its right-of-way was granted by the federal government. Therefore, the FERC may assert that it has jurisdiction to compel Poseidon to grant access under the OCSLA to other shippers of crude oil and to apportion the capacity of the line among owner and non-owner shippers.

Rates. Each of the Regulated Pipelines (Stingray, HIOS and UTOS) is classified as a "natural gas company" by the NGA. Consequently, the FERC has jurisdiction over the Regulated Pipelines with respect to transportation of gas, rates and charges, construction of new facilities, extension or abandonment of service and facilities, accounts and records, depreciation and amortization policies and certain other matters. In addition, the Regulated Pipelines, where required, hold certificates of public convenience and necessity issued by the FERC covering their facilities, activities and services.

Under the NGA and the Natural Gas Policy Act of 1978, as amended (the "NGPA"), and the applicable FERC regulations, the Regulated Pipelines may not charge or collect more than the maximum rates on file with the FERC. FERC regulations permit natural gas pipelines to charge maximum rates that generally allow pipelines the opportunity to (i) recover operating expenses, (ii) recover the pipeline's undepreciated investment in property, plant and equipment ("rate base") and (iii) receive an overall allowed rate of return on the pipeline's rate base. The Partnership believes that even after the rate base of any Regulated Pipeline is substantially depleted, the FERC will allow such Regulated Pipeline to recover a reasonable return, whether through a management fee or otherwise.

Each of Stingray, HIOS and UTOS are currently operating under agreements with their respective customers that provide for rates that have been approved by the FERC and which should remain in effect through at least the fourth quarter of 1998. Stingray, HIOS and UTOS have each agreed to file new rate cases in the fourth quarter of 1998.

On May 28, 1992, Tarpon filed a petition requesting the FERC to declare its offshore system to be a gathering facility exempt from the FERC's jurisdiction and to vacate the order certificating the facilities. On July 20, 1992, the FERC denied Tarpon's petition. Tarpon filed a request for rehearing on November 17, 1992, and the FERC denied such request. Tarpon appealed the FERC's decision to the United States Court of Appeals for the District of Columbia

Circuit (the "D.C. Circuit") on November 20, 1992. The proceedings before the D.C. Circuit have been stayed pending action by the FERC with respect to a motion filed by Tarpon on February 23, 1993 requesting the FERC reopen and reconsider its orders rejecting Tarpon's petition, which motion was renewed on June 25, 1996. On March 13, 1997, the FERC issued an order declaring Tarpon's facilities exempt from NGA regulation under the gathering exception. Tarpon has agreed to continue service for its shippers on the terms and conditions, and at the rate reflected in its current tariff for at least two years from the date of the order.

None of the Green Canyon, Ewing Bank, Manta Ray Offshore or Viosca Knoll systems is currently considered a "natural gas company" under the NGA. Consequently, these companies are not subject to extensive FERC regulation under the NGA or the NGPA and are thus allowed to negotiate the rates and terms of service with their respective shippers, subject to the "equal access" requirements of the OCSLA, which requirements are administered by the FERC. The FERC has asserted its NGA rate jurisdiction over services performed through gathering facilities owned by a natural gas company (as defined in the NGA) when such services were performed "in connection with" transportation services provided by such natural gas company. Whether, and to what extent, the FERC should exercise any NGA rate jurisdiction it may be found to have over gathering facilities owned either by natural gas companies or affiliates thereof is subject to case-by-case review by the FERC. Based on current FERC policy and precedent, the Partnership does not anticipate that the FERC will assert or exercise any NGA rate jurisdiction over the Green Canyon, Ewing Bank, Manta Ray Offshore or Viosca Knoll systems, so long as the services provided through such lines are not performed "in connection with" transportation services performed through any of the Regulated Pipelines.

The FERC has generally disclaimed jurisdiction to set rates for oil pipelines in the OCS under the Interstate Commerce Act ("ICA"). Therefore, unless the FERC's jurisdiction is successfully invoked under OCSLA to remedy a denial of non-discriminatory access, or the FERC reverses its decision that the ICA does not apply to OCS oil pipelines, commencement of service on Poseidon will not subject it to rate regulation.

Production and Development. The production and development operations of the Partnership are subject to regulation at the federal and state levels. Such regulation includes requiring permits for the drilling of wells and maintaining bonding and insurance requirements in order to drill or operate wells, and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled and the plugging and abandoning of wells. The Partnership's production and development operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units, the density of wells that may be drilled, the levels of production, and the unitization or pooling of gas and oil properties.

The Partnership presently has interests in or rights to offshore leases located in federal waters. Federal leases are administered by the Minerals Management Service of the U.S. Department of the Interior ("MMS"). Individuals and entities must qualify with the MMS prior to owning and operating any leasehold or right-of-way interest in federal waters. Such qualification with the MMS generally involves filing certain documents with the MMS and obtaining an area-wide performance bond and, in some cases, supplemental bonds representing security deemed necessary by the MMS in excess of the area-wide bond requirements for facility abandonment and site clearance costs.

PIPELINE MAINTENANCE

Each of the Pipelines requires regular and thorough maintenance. The interior of the pipelines are maintained through the regular "pigging" of the lines. Pigging involves propelling through the line a large spherical object which collects, or pushes, any condensate and other liquids on the walls or at the bottom of the pipeline through the line and out the far end. More sophisticated pigging devices include those with scrapers, brushes and x-ray devices, however, such pigging devices are usually deployed only on an as needed basis. On a continual basis, corrosion inhibitors are injected into all of the systems through the gas stream. To prevent external corrosion of the pipe, sacrificial anodes are fastened to the pipeline itself at prescribed intervals, providing exterior corrosion protection from sea water. The platforms are painted to the waterline every three to five years to prevent atmospheric corrosion. Sacrificial anodes are also fastened to the platform legs below the waterline to prevent corrosion. A sacrificial anode is a zinc aluminum alloy fixture that is attached to the exterior of a steel object to attract the corrosive reaction that occurs between steel and saltwater to the fixture itself, thus protecting the steel object from corrosion. Remote operated vehicles or divers inspect the platforms below the waterline usually every five years.

The Stingray, HIOS, Viosca Knoll, Manta Ray Offshore and Poseidon systems include platforms that are manned on a continuous basis. The personnel onboard the platforms are responsible for site maintenance, operations of the

facilities on the platform, measurement of the gas stream at the source of production and corrosion control (pig launching and inhibitor injection).

OPERATIONAL HAZARDS AND INSURANCE

A pipeline may experience damage as a result of an accident or other natural disaster. The Partnership's production and development operations are subject to the usual hazards incident to the drilling and production of natural gas and crude oil, such as blowouts, cratering, explosions, uncontrollable flows of oil, natural gas or well fluids, fires, pollution, releases of toxic gas and other environmental hazards and risks. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damages and suspension of operations. To mitigate the impact of repair costs associated with such an accident or disaster, the Partnership maintains insurance of various types that it considers to be adequate to cover its operations. The Insurance Package covers all of the Partnership's assets in amounts that the Partnership considers reasonable, other than for the Partnership's 50% interest in the assets of Stingray, for which insurance is carried at the Stingray partnership level. The Insurance Package is subject to deductibles that the Partnership considers reasonable and not excessive. The Partnership's insurance does not cover every potential risk associated with operating pipelines or the drilling and production of oil and natural gas. Consistent with insurance coverage generally available to the industry, the Partnership's insurance policies do not provide coverage for losses or liabilities relating to pollution, except for sudden and accidental occurrences.

The occurrence of a significant event not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect the Partnership's operations and financial condition. Moreover, no assurance can be given that the Partnership will be able to maintain adequate insurance in the future at rates it considers reasonable.

ENVIRONMENTAL

General. The Partnership's operations are subject to extensive federal, state and local regulatory requirements relating to environmental affairs, health and safety, waste management and chemical products. To the Partnership's knowledge, the Pipelines are in substantial compliance, and are expected to continue to comply in all material respects, with applicable environmental laws, regulations and ordinances.

It is possible, however, that future developments, such as stricter environmental laws, regulations or enforcement policies could affect the handling, manufacture, use, emission or disposal of substances or wastes by the Partnership or the Pipelines. Moreover, some risk of environmental costs and liabilities is inherent in the Partnership's operations and products as it is with other companies engaged in similar or related businesses, and there can be no assurance that material costs and liabilities, including substantial fines and criminal sanctions for violation of environmental laws and regulations, will not be incurred by the Partnership.

Pipeline Transportation. In addition to the NGA, the NGPA and the OCSLA, several federal and state statutes and regulations may pertain specifically to the operations of the Pipelines. The Hazardous Materials Transportation Act, as amended, regulates materials capable of posing an unreasonable risk to health, safety and property when transported in commerce. The NGPSA and the HLPSA authorize the development and enforcement of regulations governing pipeline transportation of natural gas and hazardous liquids. While federal jurisdiction is exclusive over regulated pipelines, the statutes allow states to impose additional requirements for intrastate lines if compatible with federal programs. Both Texas and Louisiana have developed regulatory programs that parallel the federal program for the transportation of natural gas by pipelines.

Solid Waste. The Pipelines' operations may generate or transport both hazardous and nonhazardous solid wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act and comparable state statutes. Further, it is possible that some wastes that are currently classified as nonhazardous, perhaps including wastes currently generated during pipeline operations, may, in the future, be designated as "hazardous wastes," which are subject to more rigorous and costly disposal requirements. Such changes in the regulations may result in additional expenditures or operating expenses by the Partnership.

Hazardous Substances. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and comparable state statutes, also known as "Superfund" laws, impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons that contributed to the release of a "hazardous

substance" into the environment. These persons include the owner or operator of a site, and companies that transport, dispose of or arrange for the disposal of, the hazardous substances found at the site. CERCLA also authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. Despite the "petroleum exclusion" of Section 101 (14) that encompasses natural gas, the Partnership may generate or transport "hazardous substances" within the meaning of CERCLA, or comparable state statutes, in the course of its ordinary operations. Thus, the Partnership may be responsible under CERCLA or the state equivalents for all or part of the costs required to cleanup sites where a release has occurred.

Air. The Partnership's operations may be subject to the Clean Air Act ("CAA") and comparable state statutes. Amendments to the CAA were adopted in 1990 and contain provisions that may result in the gradual imposition of certain pollution control requirements with respect to air emissions from operations. The Environmental Protection Agency (the "EPA") and the states have been developing regulations to implement these requirements. The Partnership may be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining operating permits and approvals addressing other air emission-related issues. However, the Partnership does not believe its operations will be materially adversely affected by any such requirements.

Water. The Federal Water Pollution Control Act ("FWPCA") imposes strict controls against the unauthorized discharge of produced waters and other oil and gas wastes into navigable waters. The FWPCA provides for civil and criminal penalties for any unauthorized discharges of oil and other hazardous substances in reportable quantities and, along with the Oil Pollution Act of 1990 ("OPA"), imposes substantial potential liability for the costs of removal, remediation and damages. Similarly, the OPA imposes liability for the discharge of oil into or upon navigable waters or adjoining shorelines. Among other things, the OPA raises liability limits, narrows defenses to liability and provides more instances in which a responsible party is subject to unlimited liability. One provision of the OPA requires that offshore facilities establish and maintain evidence of financial responsibility of $150 million. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of an unauthorized discharge of petroleum or its derivatives into state waters. Further, the Coastal Zone Management Act authorizes state implementation and development of programs and management measures for nonpoint source pollution to restore and protect coastal waters.

Endangered Species. The Endangered Species Act ("ESA") seeks to ensure that activities do not jeopardize endangered or threatened plant and animal species, nor destroy or modify the critical habitat of such species. Under the ESA, exploration and production operations, as well as actions by federal agencies, may not significantly impair or jeopardize the species or its habitat. The ESA provides for criminal penalties for willful violations of the Act. Other statutes which provide protection to animal and plant species and thus may apply to the Partnership's operations are the Marine Mammal Protection Act, the Marine Protection and Sanctuaries Act, the Fish and Wildlife Coordination Act, the Fishery Conservation and Management Act, the Migratory Bird Treaty Act and the National Historic Preservation Act.

COMPETITION

Each of the Gas Pipelines is located in or near natural gas production areas that are served by other pipelines. As a result, each of the Partnership's systems face competition from both regulated pipelines and gathering systems with respect to its transportation services. Certain of these pipelines are not subject to the same level of rate and service regulation as, and may have a lower cost structure than, the Gas Pipelines, and other pipelines, such as long-haul transporters, have rate design alternatives unavailable to the Gas Pipelines. Consequently, such pipelines may be able to provide service on more flexible terms and at rates significantly below the rates offered by the Gas Pipelines. The Gas Pipelines' principal interstate pipeline competitors are Shell Offshore, Texaco Natural Gas, Inc., ANR Pipeline Company, Transco Energy Company, Trunkline Gas Co. ("Trunkline"), El Paso Tennessee Pipeline Co., Texas Eastern Transmission Corporation, Sea Robin Pipeline Company, Columbia Gas Transmission Corporation and their affiliates. Poseidon was built as a result of the Partnership's belief that additional sour crude oil capacity was required to transport new subsalt and deepwater oil production to shore. Poseidon's principal competitors for additional crude oil production will be the Texaco operated Eugene Island Pipeline System and the Shell operated Amberjack System. The Pipelines compete for new production with these and other competitors on the basis of geographic proximity to the production, cost of connection, available capacity, transportation rates and access to onshore markets. In addition, the ability of the Pipelines to access future reserves will be subject to the ability of the Pipelines or the producers to fund the anticipated

significant capital expenditures required to connect the new production. Several of the Pipelines' competitors are significantly larger and have more capital resources available to them than do the Pipelines.

The exploration and production of oil and gas is highly competitive. Increases in worldwide energy production capability, decreases in energy consumption as a result of conservation efforts, and the continued development of alternate energy sources have brought about substantial surpluses in oil and gas supplies in recent years resulting in substantial competition for the marketing of oil and gas. As a result, there have been reductions in oil and gas prices and delays in producing and marketing natural gas after it is discovered. Changes in government regulations relating to the production, transportation and marketing of gas have also resulted in the abandonment by many pipelines of long-term contracts for the purchase of gas, the development by gas producers of their own marketing programs to take advantage of new regulations requiring pipelines to transport natural gas for regulated fees and an increasing tendency to rely on short-term sales contracts priced at spot market prices. See "-- Regulation." Many of the Partnership's competitors have financial and other resources substantially in excess of those available to the Partnership and may, accordingly, be better positioned to acquire and exploit prospects, hire personnel and market production. In addition, many of the Partnership's larger competitors may be better able to withstand the effect of changes in factors such as worldwide oil and natural gas prices and levels of production, the cost and availability of alternative fuels and the application of government regulations, which affect demand for oil and natural gas production and are beyond the control of the Partnership.

EMPLOYEES

Leviathan and the Partnership depend primarily upon the employees of and management services provided by DeepTech International Inc. ("DeepTech"), an affiliate of the Partnership, under a management agreement (the "Management Agreement"). The Partnership reimburses Leviathan, as General Partner, for all reasonable general and administrative expenses, and other reasonable expenses, incurred by it and its affiliates, including DeepTech, for or on behalf of the Partnership, including, without limitation, a management fee paid by Leviathan to DeepTech under the Management Agreement. A subsidiary of the Partnership has eight full time employees, based in Houma, Louisiana, to perform operational functions for its gas pipeline and platform operations.

CUSTOMERS AND CONTRACTS

Principal Customers. See the Partnership's "Notes to Consolidated Financial Statements -- Note 13 -- Major Customers" for certain information regarding the Partnership's principal transportation customers. The Partnership sales all of its oil and gas production to Offshore Gas Marketing, Inc., an affiliate of the Partnership.

The Gas Pipelines transport gas under both firm and interruptible transportation service agreements. Under firm service agreements, a pipeline is obligated to transport up to a specified maximum quantity of gas without interruption, except upon occurrence of a force majeure event. Firm customers generally pay a two part rate, a demand charge and a commodity charge. The demand charge is payable monthly based on the maximum contract quantity the pipeline is obligated to transport, without regard to the quantity actually transported during such month. The commodity charge is payable monthly based on the actual quantity of gas transported during such month. Under interruptible contracts, a pipeline is usually obligated to transport up to a specified maximum quantity of gas, subject to availability of capacity, on a first-come, first-served basis. Interruptible customers pay only a one-part commodity rate that includes both the demand and commodity elements of the firm rate. Poseidon transports crude oil from the leases connected to the pipeline under long-term buy/sell agreements.

UNCERTAINTY OF FORWARD LOOKING STATEMENTS AND INFORMATION

This Annual Report contains certain forward looking statements and information that are based on management's beliefs as well as assumptions made by and information currently available to management. Such statements are typically punctuated by words or phrases such as "anticipate," "estimate," "project," "should," "may," "management believes," and words or phrases of similar import. Although management believes that such statements and expressions are reasonable and made in good faith, it can give no assurance that such expectations will prove to have been correct. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Among the key factors that may have a direct bearing on the Partnership's results of operations and financial condition are: (i) competitive practices in the industry in which the Partnership will compete, (ii) the impact of current and future laws and government

regulations affecting the industry in general and the Partnership's operations in particular, (iii) environmental liabilities to which the Partnership may become subject in the future that are not covered by an indemnity or insurance, (iv) the throughput levels achieved by the Pipelines and any future pipeline constructed by the Partnership, (v) the ability of the Partnership to access additional reserves to offset the natural decline in production from existing wells connected to the Pipelines, (vi) changes in transportation rates due to changes in government regulation and/or competitive factors, (vii) the impact of oil and natural gas price fluctuations, (viii) significant changes from expectations of capital expenditures and operating expenses and unanticipated project delays and (ix) the ability of the Equity Investees to make distributions to the Partnership.

CERTAIN DEFINITIONS

The following are abbreviations and words commonly used in the oil and gas industry and in this Annual Report.

"bbl" or "barrel" means barrel, a standard measure of volume for oil, condensate and natural gas liquids which equals 42 U.S. gallons.

"Bcf" means billion cubic feet (or thousand MMcf).

"Btu" means British thermal unit, a unit of heat measure with one btu being the amount of heat needed to raise the temperature of one pound of water one degree Fahrenheit.

"development well" means a well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

"gathering system" means a pipeline system connecting a number of wells, batteries or platforms to an interconnection with an interstate pipeline.

"gross" oil and natural gas wells or "gross" acres are the total number of wells or acres, respectively, in which the Partnership has an interest, without regard to the size of that interest.

"Mcf" means thousand cubic feet, a standard measure of volume for gas.

"MMcf" means million cubic feet.

"net" oil and natural gas wells or "net" acres are the total gross number of wells or acres, respectively, in which the Partnership has an interest multiplied times the Partnership's working interest in such wells or acres.

"OCS" means Outer Continental Shelf, an area offshore the United States over which the federal government has jurisdiction, which extends from the end of state territorial waters (three to nine nautical miles offshore, depending on the state) to 200 nautical miles from shore. The term OCS as used herein includes not only those areas on the Shelf itself, but those areas in the flextrend and the deepwater, to a limit of 200 nautical miles, as well.

"working interest" means an interest in an oil and gas lease that gives the owner of the interest the right to drill for and produce oil and gas on the leased acreage and requires the owner to pay a share of the costs of drilling and production operations. The share of production to which a working interest owner is entitled will always be smaller than the share of costs that the working interest owner is required to bear, with the balance of the production accruing to the owners of royalties. For example, the owner of a 100% working interest in a lease burdened only by a landowner's royalty of 12.5% would be required to pay 100% of the costs of a well but would be entitled to retain 87.5% of the production.

In this Annual Report, natural gas volumes are stated at the legal pressure base of the state or area in which the reserves are located and at 60 degrees Fahrenheit.

ITEM 3. LEGAL PROCEEDINGS

The Partnership is involved from time to time in various claims, actions, lawsuits and regulatory matters that have arisen in the ordinary course of business, including various rate cases and other proceedings before the FERC. See Items 1 & 2. "Business and Properties -- Regulation."

In particular, the Partnership is a defendant in a lawsuit filed by Transcontinental Gas Pipe Line Corporation ("Transco") in the 157th Judicial District Court, Harris County, Texas on August 30, 1996. Transco alleges that, pursuant to a platform lease agreement entered into on June 28, 1994, Transco has the right to expand its facilities and operations on the offshore platform by connecting additional pipeline receiving and appurtenant facilities. Transco has requested a declaratory judgment and is seeking damages. Management has denied Transco's request to expand its facilities and operations because the lease agreement prohibits such expansion and Transco's activities will interfere with the Manta Ray Offshore system and the Partnership's existing and planned activities on the platform. It is the opinion of management that adequate defenses exist and that the final disposition of this suit individually, and all of the Partnership's other pending legal proceedings in the aggregate, will not have a material adverse effect on the Partnership.

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

No matters were submitted to a vote of the security holders of the Partnership during the quarter ended December 31, 1996.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Preference Units are listed on the NYSE, which is the principal trading market for such securities, under the symbol "LEV." As of March 14, 1997, there were approximately 638 holders of record of the Preference Units. In December 1996, the Board of Directors for the General Partner approved a two for one split of the Preference and Common Units for the Unitholders of record as of the close of business on December 31, 1996. In connection with the Unit split, the General Partner, on behalf of itself and the limited partners of the Partnership, executed Amendment Number 1 to the Amended and Restated Agreement of Limited Partnership of the Partnership. The Amendment modifies two provisions of the Partnership Agreement and was entered into in accordance with the terms of the Partnership Agreement to preserve the relative rights and obligations of the partners following the distribution. The following table sets forth, as adjusted for the Unit split, the high and low sales prices for the Preference Units as reported on the NYSE and the cash distributions declared per Unit for the periods indicated.

	Preference Unit Price Range		
	High	Low	Distributions Declared per Unit
1995			
First Quarter	$ 13.13	$ 11.31	$ 0.30
Second Quarter	13.50	11.06	0.30
Third Quarter	13.44	11.81	0.30
Fourth Quarter	14.63	12.44	0.30
1996			
First Quarter	16.19	13.75	0.325
Second Quarter	18.00	15.69	0.35
Third Quarter	21.19	18.00	0.375
Fourth Quarter	22.81	20.75	0.40

ITEM 6. SELECTED FINANCIAL DATA

The following table presents (i) selected consolidated financial data of the Partnership for the years ended December 31, 1996, 1995 and 1994, for the period from commencement of operations on February 19, 1993 to December 31, 1993, and as of each of the periods then ended and (ii) selected consolidated financial data of Leviathan for the period from July 1, 1992 through February 18, 1993, for the fiscal year ended June 30, 1992, and as of June 30, 1992. The selected financial data of the Partnership at December 31, 1996 and 1995 and for the years ended December 31, 1996, 1995 and 1994 have been derived from the consolidated financial statements of the Partnership included elsewhere in this Annual Report. The selected financial data of the Partnership for the period from commencement of operations on February 19, 1993 to December 31, 1993 and at December 31, 1994 have been derived from the historical consolidated financial statements of the Partnership. The selected consolidated financial data of Leviathan for the period from July 1, 1992 through February 18, 1993 and for the fiscal year ended June 30, 1992 have been derived from the consolidated financial statements of Leviathan.

	The Partnership		
	Year Ended December 31,		
	1996	1995	1994
INCOME STATEMENT DATA:			
Transportation and platform services	$ 24,005	$ 20,547	$ 18,554
Equity in earnings	20,434	19,588	14,786
Oil and gas sales	47,068	1,858	796
Total revenue	91,507	41,993	34,136
Operating expenses	9,068	4,092	1,876
Depreciation, depletion and amortization	31,731	8,290	5,085
General and administrative expenses	788	1,273	2,269
Management fee and general and administrative expenses allocated from General Partner/parent	7,752	5,796	3,139
Operating income	42,168	22,542	21,767
Interest income and other	1,710	1,884	1,293
Interest and other financing costs	(5,560)	(833)	(912)
Minority interest in income	(427)	(251)	(216)
Income before income taxes	37,891	23,342	21,932
Income tax benefit	(801)	(603)	(136)
Net income	38,692	23,945	22,068
Net income per Unit (b)	1.57	0.97	1.02
Distributions per Unit (b)	1.35	1.20	1.20
BALANCE SHEET DATA (AT END OF PERIOD):			
Property, plant and equipment, net	286,555	285,275	126,802
Equity investments	107,838	82,441	80,560
Total assets	453,526	398,696	231,043
Long-term debt	227,000	135,780	8,000
Partners' capital:			
Preference unitholders	196,224	192,225	196,340
Common unitholder	(3,969)	(5,380)	(3,960)
General partner	(232)	(4)	51
Total partners' capital	192,023	186,841	192,431

	The Partnership	Leviathan	
	Period from February 19, 1993 (Commencement of Operations) through December 31, 1993	Period from July 1, 1992 through February 18, 1993	Year Ended June 30,1992
INCOME STATEMENT DATA:			
Transportation and platform services	$ 14,588	$ 7,227	$ --
Equity in earnings	9,351	7,326	12,126
Oil and gas sales	551	103	--
Total revenue	24,490	14,656	12,126
Operating expenses	1,534	664	--
Depreciation, depletion and amortization	2,679	1,003	--
General and administrative expenses	1,216	1,405	578
Management fee and general and administrative expenses allocated from General Partner/parent	1,728	1,272	1,934
Operating income	17,333	10,312	9,614
Interest income and other	187	351	303
Interest and other financing costs	(426)	(8,064)	(2,783)
Minority interest in income	(171)	--	--
Income before income taxes	16,923	2,599	7,134
Income tax expense	93	817	2,425
Utilization of net operating loss carryforwards	--	--	(228)
Net income	16,830	1,782	4,937
Net income per Unit (b)	0.91	--	--
Distributions per Unit (b)	0.70	--	--
BALANCE SHEET DATA (AT END OF PERIOD):			
Property, plant and equipment, net	63,313	(a)	--
Equity investments	50,747	(a)	26,110
Total assets	124,980	(a)	31,232
Long-term debt	8,000	(a)	15,512
Note payable to parent	--	(a)	1,251
Stockholders' equity	--	(a)	11,526
Partners' capital:			
Preference unitholders	115,061	(a)	--
Common unitholder	(3,024)	(a)	--
General partner	117	(a)	--
Total partners' capital	112,154	(a)	--

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(a) Balance sheet data as of February 18, 1993 related to Leviathan has been omitted as the information is not required.
(b) Per Unit amounts have been restated to reflect the Unit split.

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

The following discussion should be read in conjunction with the Partnership's consolidated financial statements and the notes thereto located elsewhere in this Annual Report and the information set forth under the heading "Selected Financial Data." The Partnership's principal sources of revenue are (i) platform access and processing fees and commodity charges related to its transportation services, (ii) equity earnings in investees and (iii) the sale of oil and gas production. The Partnership's principal costs include (i) expenses associated with the operation of its pipelines, platforms and equipment and its producing oil and gas wells, (ii) depreciation, depletion and amortization of its fixed assets and (iii) general and administrative expenses, including management fees allocated from the General Partner.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1996 COMPARED WITH YEAR ENDED DECEMBER 31, 1995

Revenue from transportation and platform services totaled $24.0 million for the year ended December 31, 1996 as compared with $20.5 million for the year ended December 31, 1995. The increase in transportation and platform services revenue of $3.5 million was comprised of (i) a $3.0 million increase in platform services from the Partnership's Viosca Knoll 817 platform, which was placed in service during the third quarter of 1995, (ii) a $2.6 million increase primarily from the Green Canyon system attributable to the connection of a new gas field located in Green Canyon Block 136 to the system and (iii) a decrease of $2.1 million attributable to decreases in throughput on the Ewing Bank and Tarpon systems due to normal production declines from the wells attached to such systems. Total transportation volumes for the gathering systems increased 15.4% from the year ended December 31, 1995 to the year ended December 31, 1996. This increase is primarily a result of increased throughput on the Green Canyon system as a result of the addition of Green Canyon Block 136 partially offset by lower production from the producing fields attached to the Ewing Bank, Tarpon and Manta Ray Offshore systems.

Revenue from Equity Investees totaled $20.4 million for the year ended December 31, 1996 as compared with $19.6 million for the year ended December 31, 1995. The increase of $0.8 million in revenue from Equity Investees primarily reflects increases of (i) $3.4 million from Viosca Knoll as a result of increased throughput on the system, (ii) $1.1 million from POPCO, which was placed in service in April 1996, and (iii) $0.7 million from West Cameron Dehy, which was placed in service in November 1995, offset by a decrease of $4.4 million related primarily to Stingray, HIOS and UTOS. Total gas transportation volumes for the Equity Investees increased 15.6% from the year ended December 31, 1995 to the year ended December 31, 1996 primarily as a result of increased throughput on the Viosca Knoll, HIOS and Stingray systems. Total oil transportation volumes for POPCO, which was placed in service in April 1996, totaled 7,528,000 barrels for the year ended December 31, 1996.

Revenue from oil and gas sales totaled $47.1 million for the year ended December 31, 1996 as compared with $1.9 million for the year ended December 31, 1995. The increase in oil and gas sales of $45.2 million is primarily attributable to the initiation of production from the Partnership's Viosca Knoll Block 817 lease in December 1995, the Garden Banks Block 72 lease in May 1996 and the Garden Banks Block 117 lease in July 1996. During the year ended December 31, 1996, the Partnership sold 15,730 MMcf of gas and 393,000 barrels of oil at average prices of $2.37 per Mcf and $21.76 per barrel, respectively. During 1995, the Partnership sold 392 MMcf of gas at an average price of $2.35 per Mcf.

Operating expenses for the year ended December 31, 1996 totaled $9.1 million as compared with $4.1 million for the year ended December 31, 1995. The $5.0 million increase in operating expenses is primarily attributable to the operation of new pipelines, platforms and oil and gas leases by the Partnership.

Depreciation, depletion and amortization totaled $31.7 million for the year ended December 31, 1996 as compared with $8.3 million for the year ended December 31, 1995. The $23.4 million increase in depreciation, depletion and amortization results primarily from depreciation and depletion on the oil and gas wells and facilities located on the Viosca Knoll Block 817, Garden Banks Block 72 and the Garden Banks Block 117 leases, depreciation on additional platforms and facilities constructed by the Partnership and accelerated depreciation on the Ewing Bank flow lines.

General and administrative expenses, including the management fee allocated from the General Partner, totaled $8.5 million for the year ended December 31, 1996 as compared with $7.1 million for the year ended December 31, 1995. The increase of $1.4 million primarily reflects (i) a $1.2 million reimbursement to DeepTech for certain tax

liabilities incurred by DeepTech as a result of the Partnership's public offering of an additional Preference Units in June 1994, (ii) a $0.8 million increase in management fees allocated by Leviathan to the Partnership as a result of increased operational activities and (iii) a $0.8 million increase in other general and administrative expenses of the Partnership, also as a result of increased Partnership activities, offset by a $1.4 million reimbursement from POPCO as a result of the Partnership's management of the initial phase of the construction of Poseidon.

During the year ended December 31, 1995, the Partnership recognized a $1.2 million gain on sale of certain oil and gas mineral leaseholds.

Interest income and other totaled $1.7 million for the year ended December 31, 1996 as compared with $0.6 million for the year ended December 31, 1995. The increase in interest income is primarily due to accrued interest of $1.1 million related to the $7.5 million that was added to the Payout Amount in connection with restructuring the demand charges payable to the Partnership from Tatham Offshore.

Interest and other financing costs, net of capitalized interest, for the year ended December 31, 1996 totaled $5.6 million as compared with $0.8 million for the year ended December 31, 1995. Interest and fees associated with the Partnership's credit facilities of $11.9 million and $5.3 million were capitalized in connection with construction projects and drilling activities in progress during the years ended December 31, 1996 and 1995, respectively.

Net income for the year ended December 31, 1996 totaled $38.7 million as compared with $23.9 million for the year ended December 31, 1995 as a result of the items discussed above. Net income per Unit for the year ended December 31, 1996 totaled $1.57 per Unit as compared with $0.97 per Unit for the year ended December 31, 1995.

YEAR ENDED DECEMBER 31, 1995 COMPARED WITH YEAR ENDED DECEMBER 31, 1994

Revenue from transportation and platform services totaled $20.5 million for the year ended December 31, 1995 as compared with $18.6 million for the year ended December 31, 1994. The increase in transportation and platform services revenue of $1.9 million resulted primarily from (i) a $1.4 million increase related to the Partnership receiving additional demand charge revenues from the Ewing Bank system in 1995 as compared with demand charge revenue during 1994 as a result of additional facilities installed by the Partnership in late 1994, (ii) a $0.9 million increase from the Partnership's Viosca Knoll 817 platform, which was placed in service in July 1995 and (iii) a $1.0 million increase from the Manta Ray Gathering System as a result of higher demand charges or throughputs; partially offset by a decrease of $1.4 million from the Tarpon and Green Canyon systems as a result of lower throughput on those systems. Total transportation volumes for the gathering systems decreased 2.3% from the year ended December 31, 1994 to the year ended December 31, 1995. This decrease is primarily a result of lower production from the producing fields attached to the Green Canyon and Tarpon systems partially offset by increased throughput on the Manta Ray Gathering System and the Ewing Bank system.

Revenue from Equity Investees totaled $19.6 million for the year ended December 31, 1995 as compared with $14.8 million for the year ended December 31, 1994. The increase of $4.8 million resulted primarily from (i) an increase in equity earnings from HIOS of $7.1 million as a result of higher tariffs collected by such pipeline as well as settlements of rate cases for HIOS which allowed HIOS to retain certain revenue that was collected subject to refund in prior periods and was partially offset by (ii) a decrease in equity earnings from Stingray of $4.0 million as a result of lower demand charge revenues on such system for 1995 caused by the expiration of firm transportation agreements with Natural Gas Pipeline Company of America and Trunkline in November 1994. In addition, equity earnings from the UTOS partnership declined $0.4 million primarily as a result of costs associated with the settlement of its rate case. Equity in earnings for the year ended December 31, 1994 also included $0.2 million from Viosca Knoll as compared with $2.2 million for the year ended December 31, 1995. The increase in equity earnings from Viosca Knoll reflects a full year's operation of the Viosca Knoll system during 1995 as compared with operations of only two months during 1994. Total gas transportation volumes for the Partnership's Equity Investees increased 7.3% from the year ended December 31, 1994 to the year ended December 31, 1995 primarily as a result of increased throughput on the Viosca Knoll, HIOS and UTOS systems.

Oil and gas sales for the year ended December 31, 1995 increased to $1.9 million from $0.8 million for the year ended December 31, 1994. The increase in oil and gas sales was primarily a result of additional production from the Ewing Bank 914 #2 well and the initiation of production from the Viosca Knoll Block 817 lease in December 1995.

Operating expenses for the year ended December 31, 1995 totaled $4.1 million as compared with $1.9 million for the year ended December 31, 1994. The $2.2 million increase was primarily attributable to the operations of new pipelines, platforms and production equipment during 1995.

Depreciation, depletion and amortization totaled $8.3 million for the year ended December 31, 1995 as compared with $5.1 million for the year ended December 31, 1994. The $3.2 million increase was primarily attributable to the addition of new pipelines, platforms and production equipment.

General and administrative expenses, including the management fee allocated from the General Partner, totaled $7.1 million for the year ended December 31, 1995 as compared with $5.4 million for the year ended December 31, 1994. The $1.7 million increase reflects the amendment of the Management Agreement with the General Partner, effective July 1, 1994, to reimburse DeepTech for increased management services provided to the Partnership associated with the expansion of the Partnership's pipeline facilities and to more accurately provide for the reimbursement of DeepTech's expenses in providing management services. The increase also reflects management services associated with the Partnership's oil and gas activities during 1995.

Interest income and other for the year ended December 31, 1995 totaled $1.9 million as compared with interest income and other of $1.3 million for the year ended December 31, 1994. The $0.6 million increase in interest income and other resulted primarily from the gain which resulted from the sale of a minority working interest in an oil and gas lease of $1.2 million partially offset by a $0.6 million decrease in the amount of interest earned on the Partnership's cash balances.

Interest and other financing costs for the year ended December 31, 1995 totaled $0.8 million as compared with interest and other financing costs of $0.9 million for the year ended December 31, 1994.

Net income for the year ended December 31, 1995 totaled $23.9 million as compared with $22.1 million for the year ended December 31, 1994 as a result of the items discussed above. Net income per Unit for the year ended December 31, 1995 totaled $0.97 per Unit based on 24,366,894 Units outstanding during the period as compared with $1.02 per Unit based on 21,486,694 Units outstanding during the period for the year ended December 31, 1994.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Cash. The Partnership intends to satisfy its capital requirements and other working capital needs primarily from cash on hand, cash from continuing operations and borrowings under the Partnership Credit Facility (discussed below). Net cash provided by operating activities for the year ended December 31, 1996 totaled $50.2 million. At December 31, 1996, the Partnership had cash and cash equivalents of $16.5 million.

Cash from continuing operations is derived from (i) payments for gathering and transporting gas through the 100% owned pipelines, (ii) platform access and processing fees, (iii) cash distributions from Equity Investees and (iv) the sale of oil and gas attributable to the Partnership's interest in certain producing wells.

The Partnership's cash flows from operations will be affected by the ability of each Equity Investee to make distributions. Distributions from such entities are also subject to the discretion of their respective management committees. Further, each of Stingray, POPCO and Viosca Knoll is party to a credit agreement under which it has outstanding obligations that may restrict the payments of distributions to its owners. Distributions from Equity Investees during 1996 totaled $36.8 million including a one-time distribution of $12.5 million from Viosca Knoll in December 1996.

In December 1995, Stingray amended an existing term loan agreement to provide for aggregate outstanding borrowings of up to $29.0 million in principal amount. The agreement requires the payment of principal by Stingray of $1.45 million per quarter. As of December 31, 1996, Stingray had $23.2 million outstanding under its term loan agreement, which is principally secured by current and future gas transportation contracts between Stingray and its customers.

In April 1996, POPCO entered into a revolving credit facility (the "POPCO Credit Facility") with a group of commercial banks to provide up to $150.0 million for the construction of the second and third phases of Poseidon and for other working capital needs of POPCO. POPCO's ability to borrow money under the facility is subject to certain customary terms and conditions, including borrowing base limitations. As of December 31, 1996, POPCO

had $84.0 million outstanding under the POPCO Credit Facility. As of December 31, 1996, approximately $30.0 million of additional funds are currently available under the POPCO Credit Facility which is secured by a substantial portion of POPCO's assets and matures on April 30, 2001.

In December 1996, Viosca Knoll entered into a revolving credit facility (the "Viosca Knoll Credit Facility") with a syndicate of commercial banks to provide up to $100.0 million for the addition of compression to the Viosca Knoll system and for other working capital needs of Viosca Knoll, including funds for a one time distribution of $25.0 million to its partners. As of December 31, 1996, Viosca Knoll had $33.3 million outstanding under the Viosca Knoll Credit Facility. Viosca Knoll's ability to borrow money under the facility is subject to certain customary terms and conditions, including borrowing base limitations. The Viosca Knoll Credit Facility is secured by a substantial portion of Viosca Knoll's assets and matures on December 20, 2001.

Flextrend Development has initiated production from each of its oil and gas properties. The Viosca Knoll Block 817 project is currently producing a total of approximately 106 MMcf of gas and 340 barrels of oil per day. Flextrend Development owns a 75% working interest in this property, one-half of which is subject to certain reversionary rights. The Garden Banks Block 72 lease, which began producing in May 1996, is currently producing an average of 3,500 barrels of oil, 14 MMcf of gas and 550 barrels of water per day. The Garden Banks Block 117 #1 well, which began producing in July 1996, is currently producing an average of approximately 1,700 barrels of oil, 3 MMcf of gas and 3,700 barrels of water per day. Flextrend Development has drilled a second successful well at Garden Banks Block 117 which should be placed on production in April 1997. Flextrend Development owns a 50% working interest in each of these two properties, one-half of which is subject to certain reversionary rights.

The Partnership Credit Facility, as amended and restated in December 1996, is a revolving credit facility providing for up to $300.0 million of available credit subject to customary terms and conditions, including certain incurrence limitations. Proceeds from the Partnership Credit Facility are available to the Partnership for general partnership purposes, including financing of capital expenditures, for working capital, and subject to certain limitations, for paying distributions to the Unitholders. The Partnership Credit Facility can also be utilized to issue letters of credit as may be required from time to time. As of December 31, 1996, borrowings totaled $227.0 million under the Partnership Credit Facility bearing interest at an average floating rate of 6.6% per annum. There are no letters of credit currently outstanding under the Partnership Credit Facility. The Partnership Credit Facility is guaranteed by Leviathan and all of the Partnership's subsidiaries, is secured by substantially all of the assets of the Partnership and Leviathan's general partnership interest and Leviathan's interest in the Management Agreement and matures in December 1999.

Uses of Cash. The Partnership's capital requirements consist primarily of (i) quarterly distributions to holders of Preference Units and Common Units and to Leviathan as general partner, including incentive distributions, as applicable, (ii) expenditures for the maintenance of the pipelines and related infrastructure and the acquisition and construction of additional pipelines and related facilities for the gathering, transportation and processing of gas and oil in the Gulf, (iii) management fees and other operating expenses, (iv) contributions to Equity Investees and (v) debt service on its outstanding debt. In addition, Flextrend Development's future capital requirements will consist of expenditures related to the completion of the second well at Garden Banks Block 117.

For every full quarter since its inception, the Partnership has declared and subsequently paid a cash distribution to holders of Preference Units and Common Units in an amount equal to or exceeding the Minimum Quarterly Distribution per Unit per quarter. See Item 5. "Market for Registrant's Common Stock and Related Stockholder Matters". At the current distribution rate of $0.40 per Unit, the quarterly Partnership distributions total $10.3 million in respect of the Preference Units, Common Units and general partner interest ($41.3 million on an annual basis, including $12.4 million to Leviathan). The Partnership believes that it will be able to continue to pay at least the current quarterly distribution of $0.40 per Preference and Common Unit for the foreseeable future.

Distributions by the Partnership of its Available Cash are effectively made 98% to Unitholders and 2% to Leviathan, as general partner, subject to the payment of incentive distributions to Leviathan if certain target levels of cash distributions to Unitholders are achieved (the "Incentive Distributions"). As an incentive, the General Partner's interest in the portion of quarterly cash distributions in excess of $0.325 per Unit and less than or equal to $0.375 per Unit is increased to 15%. For quarterly cash distributions over $0.375 per Unit but less than or equal to $0.425 per Unit, the General Partner receives 25% of such incremental amount and for all quarterly cash distributions in excess of $0.425 per Unit, the General Partner receives 50% of the incremental amount. During the year ended

December 31, 1996, the General Partner received Incentive Distributions totaling $285,000. In February 1997, the General Partner received an Incentive Distribution of $381,000.

In February 1996, the Partnership and Texaco formed POPCO to construct, own and operate Poseidon. Pursuant to the terms of the organizational documents, the Partnership initially contributed assets, at net book value, related to the construction of the initial phase of Poseidon as well as certain dedication agreements and Texaco initially contributed an equivalent amount of cash as well as its rights under certain agreements. The Partnership has fully funded its portion of the capital requirements of POPCO for the construction of the first two phases of Poseidon. In July 1996, Marathon joined POPCO by contributing its interest in 58 miles of nearby crude oil pipelines and dedicating its portion of oil reserves attached to such pipelines to Poseidon for transportation. As a result, each of the Partnership and Texaco now owns a 36% interest in POPCO and Marathon owns the remaining 28% interest. The second phase of Poseidon was placed in service in December 1996. POPCO anticipates building a new 24-inch diameter pipeline from Calliou Island to Houma, Louisiana which should be operational in late 1997. The Partnership anticipates that the majority of POPCO's future capital requirements will be funded by borrowings under the POPCO Credit Facility.

In January 1997, the Partnership and affiliates of Marathon and Shell formed Nautilus to build and operate an interstate natural gas pipeline system, and Manta Ray Offshore to acquire, operate and extend an existing gathering system that will be connected to the Nautilus system, once it is constructed. Each of the two new companies was formed to serve growing production areas in the Green Canyon area of the Gulf. The total cost of the two systems, including the Manta Ray Offshore system which was contributed to Manta Ray Offshore by the Partnership, is approximately $270.0 million. The Nautilus system, a new jurisdictional interstate pipeline, will consist of a 30-inch line downstream from Ship Shoal Block 207 connecting to the Exxon Company USA operated Garden City gas processing plant. Upstream of the Ship Shoal 207 terminal, the existing Manta Ray Offshore gathering system will be extended into a broader gathering system that will serve shelf and deepwater production around Ewing Bank Block 873 to the east and Green Canyon Block 65 to the west. Affiliates of Marathon and Shell have committed to each of the Nautilus and Manta Ray Offshore systems significant deep water acreage positions in the area, including the recently announced Troika field (Green Canyon Block 244), and will provide the majority of the capital funding for the new construction. The Partnership will provide some funding in addition to its contribution of the Manta Ray Offshore system.

The Partnership anticipates that its capital expenditures and equity investments for 1997 will relate to continuing acquisition and construction activities as well as the completion of the second well at Garden Banks Block 117. The Partnership anticipates funding such cash requirements primarily with available cash flow and borrowings under the Partnership Credit Facility. The Partnership may contribute existing assets to new joint ventures as partial consideration for its ownership interest therein. The majority of the capital expenditures of POPCO and Viosca Knoll are anticipated to be funded by borrowings under their respective credit facilities. In addition, the majority of the capital requirements of Nautilus and Manta Ray Offshore are anticipated to be funded by the equity contributions of affiliates of Shell and Marathon. The Partnership's capital expenditures and equity investments for 1996 were $101.7 million.

Interest and other financing costs, including capitalized interest, related to the Partnership's credit facilities totaled $17.5 million for the year ended December 31, 1996. Such amount included commitment fees and amortization of debt issue costs of $1.2 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements and Supplementary Data required hereunder are included in this Annual Report as set in Item 14(a).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

GENERAL

The General Partner and the Partnership depend upon the employees of and management services provided by DeepTech under the Management Agreement. The Partnership reimburses the General Partner for reasonable general and administrative expenses, and other reasonable expenses, incurred by the General Partner and its affiliates, including DeepTech, for or on behalf of the Partnership, including, without limitation, fees paid by the General Partner to DeepTech pursuant to the Management Agreement.

Some of the officers and directors of the General Partner are also officers and directors of DeepTech and its affiliates. Such officers and directors may spend a substantial amount of time managing the business and affairs of the General Partner and may face a conflict regarding the allocation of their time between the Partnership and the other business interests of the General Partner, DeepTech and its affiliates. Subject to its fiduciary duties to the Partnership and its limited partners, the General Partner may retain, acquire and invest in businesses that compete with the Partnership, subject to certain limitations.

DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

The following table sets forth certain information as of March 14, 1997, regarding the executive officers and directors of the General Partner who provide services to the Partnership. The General Partner has appointed each of its officers to serve the Partnership in the same office or offices each such officer holds with the General Partner. Directors are elected annually by the General Partner's sole stockholder, Leviathan Holdings Company ("Leviathan Holdings"), and hold office until their successors are elected and qualified. Each executive officer named in the following table has been elected to serve until his successor is duly appointed or elected or until his or her earlier removal or resignation from office.

There is no family relationship among any of the executive officers or directors of the General Partner, and no arrangement or understanding exists between any executive officer and any other person pursuant to which he or she was or is to be selected as an officer.

NAME	AGE	POSITION(S)
Thomas P. Tatham	51	Chairman of the Board
Grant E. Sims	41	Director and Chief Executive Officer
James H. Lytal	39	Director and President
John H. Gray	55	Director and Chief Operating Officer
Donald V. Weir	55	Director and Secretary
Keith B. Forman	38	Director and Chief Financial Officer
Janet E. Sikes	43	Director and Treasurer
Dennis A. Kunetka	47	Senior Vice President
Charles M. Darling, IV	48	Director
Paul Thompson III	47	Director
George L. Ball	58	Director
William A. Bruckmann, III	45	Director

Thomas P. Tatham has served as Chairman of the Board of Leviathan and DeepTech since February 1989 and October 1989, respectively. Mr. Tatham served as Chief Executive Officer of Leviathan from February 1989 through June 1995 and has served as Chief Executive Officer of DeepTech since October 1989. In addition, Mr. Tatham has served as Chairman of the Board and Director of Tatham Offshore since its inception in 1988 and as Chief Executive Officer of Tatham Offshore since November 1995. Mr. Tatham has over 27 years experience in the oil and gas industry. He founded Mid American Oil Company in 1970 and served as Chairman of the Board and Chief Executive Officer until he sold his interest therein to Centex Corporation in 1979. In 1979, Mr. Tatham founded Tatham

Corporation to acquire Sugar Bowl Gas Corporation ("Sugar Bowl"), the second largest intrastate pipeline system in Louisiana. He served as Chairman of the Board of Tatham Corporation from 1979 to December 1983, at which time it sold the assets of Sugar Bowl to a joint venture between MidCon Corp. and Texas Oil and Gas, Inc. From 1984 to 1988, Mr. Tatham pursued personal investments in various industries, including the oil and gas industry. Mr. Tatham is also a director of J. Ray McDermott, S.A.

Grant E. Sims served as President of Leviathan from March 1994 through June 1995 and as Chief Executive Officer of Leviathan since July 1995. In addition, Mr. Sims has served as Senior Vice President of DeepTech since July 1993. Mr. Sims has also served as a Director of DeepTech and Leviathan since July 1993 and August 1994, respectively, and Offshore Gas Marketing, Inc., a subsidiary of DeepTech, from December 1992 to March 1994. Prior to joining DeepTech, Mr. Sims spent ten years with Transco in various capacities, most recently directing Transco's non-jurisdictional gas activities. Mr. Sims received a B.A. and Ph.D. in Economics from Texas A&M University.

James H. Lytal has served as a Director of Leviathan since August 1994 and as Senior Vice President of Leviathan from August 1994 to June 1995 and as President of Leviathan since July 1995. Prior to joining Leviathan, Mr. Lytal was Vice President Business - Development for American Pipeline Company from December 1992 to August 1994. Prior thereto, Mr. Lytal served as Vice President - - Business Development for United Gas Pipe Line Company from March 1991 to December 1992. Prior thereto, Mr. Lytal has served in various capacities in the oil and gas exploration and production and gas pipeline industries with Texas Oil and Gas, Inc. and American Pipeline Company from September 1980 to March 1991. Mr. Lytal holds a B.S. in Petroleum Engineering from the University of Texas.

John H. Gray has served as a Director of Leviathan since September 1991, as Chief Operating Officer of Leviathan since March 1994, and as President of Leviathan from August 1991 to March 1994. From August 1990 to August 1991, Mr. Gray was the owner of J.H. Gray Consulting, an oil and gas marketing consulting company. Prior thereto, Mr. Gray served as President of Torch Energy Marketing, Inc., an oil and gas marketing and natural gas pipeline company from August 1989 to August 1990, and Vice President of Oil and Gas Products of Tenneco Oil Exploration and Production from May 1984 to August 1989. Mr. Gray has a B.S. in Engineering from the Colorado School of Mines.

Donald V. Weir has served as a Director of Leviathan since 1989, Secretary of Leviathan since March 1994 and served as Chief Operating Officer of Leviathan from 1989 to March 1994. In addition, Mr. Weir has served as Chief Financial Officer and a Director of DeepTech since June 1991, Vice President of DeepTech since 1989, Secretary of DeepTech from 1989 to August 1993. In addition, Mr. Weir has served as Secretary and a Director of Tatham Offshore from 1988 through September 1995 and as Chief Financial Officer of Tatham Offshore from 1991 through September 1995. From 1988 until 1991, he served as a Vice President of Tatham Offshore. Prior to joining Leviathan, Mr. Weir served in various executive capacities with numerous entities owned and controlled by Mr. Tatham. Prior to joining Mr. Tatham's organizations in 1980, Mr. Weir was with Price Waterhouse LLP for 14 years.

Keith B. Forman has served as the Chief Financial Officer and as a Director of Leviathan since January 1992 and July 1992, respectively. Prior to joining Leviathan, Mr. Forman served as Vice President of the Natural Gas Pipeline Group of Manufacturers Hanover Trust Company which he joined in 1982. His account responsibility included interstate gas transmission companies and gas gathering companies. Mr. Forman has a B.A. in Economics and Political Science from Vanderbilt University.

Janet E. Sikes has served as a Director and Treasurer of Leviathan since September 1991 and as Secretary of DeepTech since August 1993, a Director of DeepTech since July 1993 and Treasurer of DeepTech since May 1991. Ms. Sikes has managed accounting, treasury, cash management and financial reporting functions for various entities owned and controlled by Mr. Tatham since 1981. Prior thereto, Ms. Sikes worked in the audit division of Price Waterhouse LLP, and for two years as the Assistant Controller of Ocean Marine Services, Inc. Ms. Sikes holds a B.B.A. from Texas A&M University and is a certified public accountant.

Dennis A. Kunetka has served as Senior Vice President--Corporate Finance and Investor Relations for DeepTech and Leviathan since August 1993 and as Senior Vice President--Corporate Finance for Tatham Offshore since October 1993. Prior to joining the Company, Mr. Kunetka served as Vice President and Controller of United Gas Pipe Line Company and its parent company, United Gas Holdings Corporation. Prior to joining United in 1984, Mr. Kunetka spent 11 years with Getty Oil Company in various tax, financial and regulatory positions. Mr. Kunetka holds B.B.A. and M.S.A. degrees from the University of Houston and a J.D. degree from South Texas College of Law and is a certified public accountant.

Charles M. Darling, IV has served as a Director of Leviathan and DeepTech since October 1989 and February 1989, respectively. Mr. Darling has been a partner in the law firm of Baker & Botts, L.L.P. since 1980, originally joining the firm in 1974. Mr. Darling has represented companies in the oil and gas industry for over 20 years.

Paul Thompson III has served as a Director of Leviathan and DeepTech since July 1992. Mr. Thompson has served as a Managing Director of Donaldson, Lufkin and Jenrette Securities Corporation ("DLJ") and the Chief Operating Officer of DLJ Bridge Finance, Inc., an affiliate of DLJ since 1987. Prior thereto, Mr. Thompson was a Vice President of The First Boston Corporation. Mr. Thompson is currently a Director of E-Z Serve Corporation, which operates convenience stores. Mr. Thompson received a B.S. degree from the University of Pennsylvania.

George L. Ball has served as a Director of Leviathan since June 1993. Mr. Ball is Chairman of Sanders Morris Mundy Inc. Previously, Mr. Ball served as Senior Executive Vice President at Smith Barney, Harris Upham & Co. Incorporated ("Smith Barney") and as a member of Smith Barney's Executive Committee and Board of Directors. From August 1991 through October 1992, Mr. Ball served as a consultant with J & W Seligman. Mr. Ball served as Chairman of the Board and Chief Executive Officer of Prudential Capital and Investment Services, Inc. and its primary subsidiary, Prudential Securities Incorporated, an investment banking and brokerage firm (collectively, "Prudential") from July 1981 through August 1991. Prior to joining Prudential, Mr. Ball was President of E.F. Hutton Group Inc. and E.F. Hutton Inc. Mr. Ball holds a B.A. degree, with honors, from Brown University.

William A. Bruckmann, III has served as a Director of Leviathan since June 1993. Mr. Bruckmann has served as Managing Director in the Global Oil and Gas Group of Chase Securities Inc. since June 15, 1985. During his 18 years with Chase Securities Inc. and predecessor companies (Chemical Bank and Manufacturer's Hanover Trust Company), Mr. Bruckmann has principally focused on financing domestic natural gas pipelines and independent oil and gas producing companies. Mr. Bruckmann holds a B.A. degree from the University of Virginia.

COMPENSATION OF DIRECTORS

Directors of the General Partner are entitled to reimbursement for their reasonable out-of-pocket expenses in connection with their travel to and from, and attendance at, meetings of the Board of Directors or committees thereof. Messrs. Thompson, Ball and Bruckmann are paid an annual fee of $36,000 plus $1,000 per meeting attended. Officers are elected by, and serve at the discretion of, the Board of Directors.

CONFLICTS AND AUDIT COMMITTEE

Messrs. Thompson, Ball and Bruckmann, who are neither officers nor employees of Leviathan nor any of its affiliates, serve as the Conflicts and Audit Committee of the Board of Directors of the General Partner (the "Conflicts and Audit Committee"). The Conflicts and Audit Committee provides two primary services. First, it advises the Board of Directors in matters regarding the system of internal controls and the annual independent audit, and reviews policies and practices of the General Partner and the Partnership. Second, the Conflicts and Audit Committee at the request of the General Partner, reviews specific matters as to which the General Partner believes there may be a conflict of interest in order to determine if the resolution of such conflict proposed by the General Partner is fair and reasonable to the Partnership. The Conflicts and Audit Committee only reviews matters concerning potential conflicts of interest at the request of the General Partner, which has sole discretion to determine which such matters to submit to such Committee. Any such matters approved by a majority vote of the Conflicts and Audit Committee will be conclusively deemed (i) to be fair and reasonable to the Partnership, (ii) approved by all limited partners of the Partnership and (iii) not a breach by the General Partner of any duties it may owe to the Partnership. However, it is possible that such procedure in itself may constitute a conflict of interest.

COMPENSATION OF THE GENERAL PARTNER AND DEEPTECH

The General Partner receives no remuneration in connection with its management of the Partnership other than: (i) distributions in respect of its general and limited partner interests in the Partnership and its nonmanaging interest in certain subsidiaries of the Partnership; (ii) Incentive Distributions in respect of its general partner interest, as provided in the Partnership Agreement and (iii) reimbursement for all direct and indirect costs and expenses incurred on behalf of the Partnership, all selling, general and administrative expenses incurred by the General Partner for or on behalf of the Partnership and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, the

Partnership, including, but not limited to the management fees paid by the General Partner to DeepTech under the Management Agreement.

LIMITATIONS ON DIRECTORS' AND OFFICERS' LIABILITY; INDEMNIFICATION

The Certificate of Incorporation of Leviathan limits the liability of the directors of Leviathan to Leviathan or its stockholder (in their capacity as directors but not in their capacity as officers) to the fullest extent permitted by the Delaware General Corporation Law (the "DGCL"). Accordingly, pursuant to the terms of the DGCL as presently in effect, directors of Leviathan will not be personally liable for monetary damages for breach of a director's fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to Leviathan or its stockholder, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. The Certificate of Incorporation also provides that if the DGCL is amended after the approval of the Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of Leviathan will be eliminated to the full extent permitted by the DGCL, as so amended.

In addition, the Amended and Restated Bylaws of Leviathan (as amended and restated, the "Bylaws"), in substance, require Leviathan to indemnify each person who is or was a director, officer, employee or agent of Leviathan to the full extent permitted by the laws of the State of Delaware in the event he or she is involved in legal proceedings by reason of the fact that he or she is or was a director, officer, employee or agent of Leviathan, or is or was serving at Leviathan's request as a director, officer, employee or agent of the Partnership and its subsidiaries, another corporation, partnership or other enterprise. Leviathan is also required to advance to such persons payments incurred in defending a proceeding to which indemnification might apply, provided the recipient provides an undertaking agreeing to repay all such advanced amounts if it is ultimately determined that he or she is not entitled to be indemnified. In addition, the Bylaws specifically provide that the indemnification rights granted thereunder are non-exclusive.

Leviathan has entered into indemnification agreements with its directors providing for indemnification to the full extent permitted by the laws of the State of Delaware. These agreements provide for specific procedures to better assure the directors' rights to indemnification, including procedures for directors to submit claims, for determination of directors' entitlement to indemnification (including the allocation of the burden of proof and selection of a reviewing party) and for enforcement of directors' indemnification rights.

ITEM 11. EXECUTIVE COMPENSATION

The executive officers of Leviathan are compensated by DeepTech and do not receive compensation from Leviathan or the Partnership for their services in such capacities with the exception of awards pursuant to the Unit Rights Appreciation Plan discussed below. However, Leviathan does make certain payments to DeepTech pursuant to the Management Agreement.

UNIT RIGHTS APPRECIATION PLAN

In 1995, the Partnership adopted the Unit Rights Appreciation Plan (the "Plan") to provide the Partnership with the ability of making awards of Unit Rights, as hereinafter defined, to certain officers and key employees of the Partnership or its affiliates as an incentive for these individuals to continue in the service of the Partnership or its affiliates.

Under the Plan, the Partnership may grant to senior officers of the Partnership or its affiliates, excluding the Chairman of the Board of Leviathan, currently Mr. Tatham, the right to purchase, or realize the appreciation in, a Preference Unit (a "Unit Right"), pursuant to the provisions of the Plan.

The Plan is administered by a committee of the Board of Directors of the General Partner (the "Board") comprised of two or more non-employee directors as defined by Rule 16 b-3 of the Exchange Act (the "Committee") provided that during the periods in which no such committee is appointed and empowered under the Plan, the Board shall be the Committee for all purposes under the Plan.

The aggregate number of Preference Units as to which Unit Rights may be issued pursuant to the Plan shall not exceed 400,000 Preference Units per calendar year and 4,000,000 Preference Units over the term of the Plan, subject to adjustment as to both limitations under certain circumstances. No participant may be granted more than 400,000 Unit

Rights in any calendar year. The exercise price of the Preference Units covered by the Unit Rights granted pursuant to the Plan shall be the closing price of the Preference Units as reported on the NYSE or, if the Preference Units are not traded on such exchange, as reported on any other national securities exchange on which the Preference Units are traded, on the date on which Unit Rights are granted pursuant to the Plan.

As of March 14, 1997, a total of 1,200,000 Unit Rights have been granted under the Plan representing 400,000 Unit Rights for each of the calendar years 1995, 1996 and 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

All of Leviathan's outstanding common stock, par value $0.10 per share, is owned by Leviathan Holdings. The common stock of Leviathan Holdings is owned 85.0% by DeepTech and 13.0% by directors of Leviathan as indicated in the following table, with the remaining 2.0% of the outstanding stock being owned by two individuals. Leviathan Holdings has no other class of capital stock outstanding.

The following table sets forth, as of February 14, 1997, the beneficial ownership of the outstanding equity securities of each of the Partnership, Leviathan Holdings and DeepTech by (i) each person who is known to the Partnership to beneficially own more than 5% of the outstanding Units of the Partnership, (ii) each director of Leviathan and (iii) all directors and executive officers of Leviathan as a group. A public trading market does not currently exist for the capital stock of Leviathan or Leviathan Holdings.

	PARTNERSHIP		LEVIATHAN HOLDINGS		DEEPTECH	
BENEFICIAL OWNER	NUMBER OF PREFERENCE UNITS	PERCENT OF CLASS	NUMBER OF SHARES OF COMMON STOCK	PERCENT OF CLASS	NUMBER OF SHARES OF COMMON STOCK	PERCENT OF CLASS
Leviathan(1)	(1)	(1)	--	--	--	--
DeepTech(2)	(2)	(2)	850	85%	--	--
Thomas P. Tatham(3)	40,000	*	30(4)	3	9,955,469(5)	45.5%
Grant E. Sims	24,000	*	--	--	745,000(6)	3.9
Charles M. Darling, IV	10,000(7)	*	50	5	519,481(8)	2.8
Keith B. Forman	600	*	--	--	31,625(9)	*
John H. Gray	--	*	50	5	85,000(10)	*
Janet E. Sikes	--	--	--	--	270,348(11)	1.5
Paul Thompson III	2,000	*	--	--	228,921(12)	1.2
Donald V. Weir	22,000	*	2.5	*	328,128(13)	1.8
James H. Lytal	1,016	*	--	--	22,500(14)	*
George L. Ball	1,000	*	--	--	--	--
William A. Bruckmann, III	--	--	--	--	--	--
Executive officers and directors of Leviathan as a group (12 persons)	101,616	*	132.5	13%	12,198,972(15)	54.0%

(1) The address for Leviathan is 7200 Texas Commerce Tower, 600 Travis Street, Houston, Texas 77002. Leviathan owns all 6,291,894 Common Units outstanding representing limited partner interests in the Partnership; the 1% general partner interest in the Partnership and a 1.0101% nonmanaging interest in each of the limited liability company subsidiaries of the Partnership, representing an effective 27.3% interest in the Partnership.

(2) The address for DeepTech is 7500 Texas Commerce Tower, 600 Travis Street, Houston, Texas 77002. Through DeepTech's effective 85% ownership of Leviathan through Leviathan Holdings, DeepTech owns an effective 23.2% interest in the Partnership.

(3) Mr. Tatham's address is 7500 Texas Commerce Tower, 600 Travis Street, Houston, Texas 77002.

(4) Excludes beneficial ownership of 850 shares of common stock owned by DeepTech. Mr. Tatham is Chairman and Chief Executive Officer of DeepTech and beneficially owns 45.5% of the outstanding DeepTech common stock.

(5) Includes warrants or options to purchase 3,291,666 shares of DeepTech common stock.

(6) Includes options to purchase 300,000 shares of DeepTech common stock.

(7) Includes 6,000 Preference Units held by Mr. Darling's wife and 4,000 Preference Units held by a trust for which Mr. Darling acts as trustee but excludes 3,000 Preference Units held in trust for Mr. Darling's children.

(8) Excludes 100,000 shares held in trust for Mr. Darling's children but includes 40,731 shares owned by a corporation of which Mr. Darling is a director and shareholder.

(9) Includes options to purchase 12,500 shares of DeepTech common stock.

(10) Includes options to purchase 75,000 shares of DeepTech common stock.

(11) Includes options to purchase 18,750 shares of DeepTech common stock.

(12) Includes 14,902 shares and warrants to purchase 37,500 shares allocated to employee benefit plans of Mr. Thompson and options to purchase 150,000 shares of DeepTech common stock.

(13) Includes options to purchase 81,250 shares of DeepTech common stock.

(14) Includes options to purchase 12,500 shares of DeepTech common stock.

(15) Includes options to purchase 3,986,666 shares of DeepTech common stock.

* Less than 1%.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

A discussion of certain agreements, arrangements and transactions between or among the Partnership, Leviathan, DeepTech, Tatham Offshore and certain other related parties is summarized in the Partnership's "Notes to Consolidated Financial Statements -- Note 3 -- Oil and Gas Properties" and "Notes to Consolidated Financial Statements -- Note 9 -- Related Party Transactions --" located elsewhere in this Annual Report. Also see "Directors and Executive Officers of the Registrant -- Conflicts and Audit Committee."

PART IV

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

(a) The following documents are filed as part of this Annual Report or incorporated by reference:

1. Financial Statements

As to financial statements and supplementary information, reference is made to "Index to Consolidated Financial Statements" on page F-1 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

None. All financial statement schedules are omitted because the information is not required, is not material or is otherwise included in the consolidated financial statements or notes thereto included elsewhere in this Annual Report on Form 10-K.

3. (a) Exhibits

Item Number	Description
3.1	-- Certificate of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).
3.2	-- Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 10.41 to Amendment No. 1 to DeepTech's Registration Statement on Form S-1, File No. 33-73538, and incorporated herein by reference).
3.3	-- Amendment Number 1 to the Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K dated December 31, 1996 and incorporated herein by reference).
4.1	-- Form of Certificate Evidencing Preference Units Representing Limited Partner Interests (filed as Exhibit 4.1 to Amendment No. 2 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).
4.2	-- Form of Certificate Evidencing Common Units Representing Limited Partner Interests (filed as Exhibit 4.2 to Amendment No. 2 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).
10.01	-- Master Gas Dedication Agreement, dated December 10, 1993, between the Partnership and Tatham Offshore (filed as Exhibit 10.29 to Amendment No. 2 to Tatham Offshore's Registration Statement on Form S-1, File No. 33-70120, and incorporated herein by reference).
10.02	-- Amendment to Master Gas Dedication Agreement dated April 21, 1995 between the Partnership and Tatham Offshore (filed as Exhibit 10.26 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, Commission File Number 0-23934 and incorporated herein by reference).
10.03	-- Amendment to Master Gas Dedication Agreement dated April 21, 1995 between the Partnership and Tatham Offshore (filed as Exhibit 10.27 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, Commission File Number 0-23934 and incorporated herein by reference).
10.04	-- Gathering Agreement, dated July 1, 1992, among Ewing Bank, Tatham Offshore, and DeepTech (filed as Exhibit 10.16 to Tatham Offshore's Registration Statement on Form S-1, File No. 33-70120, and incorporated herein by reference).
10.05	-- Letter Agreement dated March 22, 1995 between Ewing Bank and Tatham Offshore amending the Gathering Agreement dated July 1, 1992 (filed as Exhibit 10.44 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, Commission File Number 0-23934 and incorporated herein by reference).

10.06 -- Partnership Agreement of Stingray (filed as Exhibit 10.06 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.07 -- Amended and Restated General Partnership Agreement of UTOS (filed as Exhibit 10.07 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.08 -- Amended and Restated General Partnership Agreement of HIOS (filed as Exhibit 10.08 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.09 -- First Amended and Restated Management Agreement, effective as of July 1, 1992, between the Partnership and Leviathan (filed as Exhibit 10.1 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, Commission File Number 0-23934 and incorporated herein by reference).

10.10 -- Management Agreement, dated July 1, 1992, between DeepTech and Leviathan (filed as Exhibit 10.10 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.11 -- First Amendment to the Amended and Restated Management Agreement, dated as of January 1, 1995, between the Partnership and DeepTech (filed as Exhibit 10.76 to DeepTech's Registration Statement on Form S-1, File No. 33-88688, and incorporated herein by reference).

10.12 -- Simultaneous Exchange Agreement dated May 27, 1994 by and among Shell Offshore Inc., SOI Royalties Inc. and Forest Oil Corporation (filed as Exhibit 10.21 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.13 -- Service Agreement dated January 1, 1994 between LOGS and Deepwater Production Systems regarding Ship Shoal 332A Platform Operation (filed as Exhibit 10.23 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.14 -- Service Agreement dated January 1, 1994 between LOGS and Deepwater Production Systems, Inc. regarding Ship Shoal 331/332 Flowlines (filed as Exhibit 10.24 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.15 -- Service Agreement dated January 1, 1994 between LOGS and Deepwater Production Systems, Inc. regarding Ship Shoal 332A Platform Modifications (filed as Exhibit 10.25 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.16 -- Technology Services Agreement effective as of July 1, 1993 by and between Dover and the Partnership (filed as Exhibit 10.26 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.17 -- Letter Agreements dated August 24, 1994, between the Partnership and Placid Oil Company (filed as Exhibit 10.1 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.18 -- Letter Agreements dated August 24, 1994, between the Partnership and OPUBCO Resources, Inc. and Hi Production Company, Inc. (filed as Exhibit 10.2 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.19 -- Letter Agreements dated September 23, 1994, between the Partnership and Lamar Hunt Trust Estate (filed as Exhibit 10.4 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.20 -- Letter Agreements dated September 23, 1994, between the Partnership and Nelson Bunker Hunt Trust Estate (filed as Exhibit 10.5 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.21 -- Agreement for Purchase and Sale by and between Tatham Offshore, Inc., as Seller, and Flextrend Development Company, L.L.C., as Buyer, dated June 30, 1995 (filed as Exhibit 6(a) to the Partnership's Form 10-Q for the quarterly period ended June 30, 1995, and incorporated herein by reference).

10.22 -- Limited Liability Company Agreement of POPCO (filed as Exhibit 10.39 to the Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference).

10.23 -- Letter Agreement dated March 27, 1996, between the Partnership and Tatham Offshore related to the settlement of certain demand charges under transportation agreements (filed as Exhibit 10.40 to the Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference).

10.24* -- Second Amended and Restated Credit Agreement dated December 13, 1996 among Partnership, The Chase Manhattan Bank, as administrative agent, ING (U.S.) Capital Corporation, as co arranger, and the banks and other financial institutions from time to time party thereto.

10.25+ Leviathan Unit Rights Appreciation Plan.

21.1* -- List of Subsidiaries of the Partnership.

24.1 -- Power of Attorney (included on the signature pages of this Annual Report on Form 10-K).

* Filed herewith.
\+ Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to item 14(c) of Form 10-K.

(b) Reports on Form 8-K

On January 13, 1997, the Partnership filed a Current Report on Form 8-K dated December 31, 1996 with the Commission containing information on the split of Preference Units and Common Units under Item 5. "Other Events".

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LEVIATHAN GAS PIPELINE PARTNERS, L.P.,
(Registrant)

By: LEVIATHAN GAS PIPELINE COMPANY,
its General Partner

By: /s/ GRANT E. SIMS

Grant E. Sims
Chief Executive Officer
March 26, 1997

POWERS OF ATTORNEY

The undersigned directors and executive officers of LEVIATHAN GAS PIPELINE COMPANY, as General Partner of LEVIATHAN GAS PIPELINE PARTNERS, L.P. hereby constitute and appoint Thomas P. Tatham, Donald V. Weir and Dennis A. Kunetka, and each of them, with full power to act without the other and with full power of substitution, our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments (including post-effective amendments and amendments thereto) to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission and hereby ratify and confirm all that such attorneys-in-fact, or either of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date(s) indicated. All such capacities are with Leviathan Gas Pipeline Company, General Partner of the Registrant.

/s/ GEORGE L. BALL

George L. Ball
Director
March 26, 1997

/s/ KEITH B. FORMAN

Keith B. Forman
Director and Chief Financial Officer
March 26, 1997

/s/ WILLIAM A. BRUCKMANN, III

William A. Bruckmann, III
Director
March 26, 1997

/s/ JOHN H. GRAY

John H. Gray
Director and Chief Operating Officer
March 26, 1997

/s/ CHARLES M. DARLING, IV

Charles M. Darling, IV
Director
March 26, 1997

/s/ JAMES H. LYTAL

James H. Lytal
Director and President
March 26, 1997

/s/ JANET E. SIKES
- ---------------------------------
Janet E. Sikes
Director, Treasurer and Assistant Secretary
March 26, 1997

/s/ PAUL THOMPSON III
- ---------------------------------
Paul Thompson III
Director
March 26, 1997

/s/ GRANT E. SIMS
- ---------------------------------
Grant E. Sims
Director and Chief Executive Officer
March 26, 1997

/s/ DONALD V. WEIR
- ---------------------------------
Donald V. Weir
Director, Vice President and Secretary
(Principal Accounting Officer)
March 26, 1997

/s/ THOMAS P. TATHAM
- ---------------------------------
Thomas P. Tatham
Chairman of the Board
March 26, 1997

LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Unitholders of Leviathan Gas Pipeline Partners, L.P.
and the Board of Directors and Stockholders of
Leviathan Gas Pipeline Company, as General Partner

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of operations, of cash flows and of partners' capital present fairly, in all material respects, the financial position of Leviathan Gas Pipeline Partners, L.P. and its subsidiaries at December 31, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Partnership's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Houston, Texas
March 21, 1997

LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In thousands)

ASSETS	December 31, 1996	December 31, 1995
Current assets:		
Cash and cash equivalents	$ 16,489	$ 15,506
Accounts receivable	6,237	2,795
Accounts receivable from affiliates	14,107	6,595
Other current assets	859	762
Total current assets	37,692	25,658
Equity investments	107,838	82,441
Property and equipment:		
Pipelines	151,253	181,551
Platforms and facilities	72,461	71,586
Oil and gas properties, at cost, using successful efforts method	109,047	47,993
	332,761	301,130
Less accumulated depreciation, depletion and amortization	46,206	15,855
Property and equipment, net	286,555	285,275
Investment in affiliate	7,500	--
Other noncurrent receivable	8,531	--
Other noncurrent assets	5,410	5,322
Total assets	$ 453,526	$ 398,696
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities	$ 17,769	$ 70,717
Accounts payable to affiliates	3,504	178
Current portion of notes payable	--	2,000
Total current liabilities	21,273	72,895
Deferred federal income taxes	1,722	2,539
Deferred revenue	8,913	--
Notes payable	227,000	135,780
Other noncurrent liabilities	2,490	621
Total liabilities	261,398	211,835
Commitments and contingencies (Note 11)		
Minority interest	105	20
Partners' capital:		
Preference unitholders' interest	196,224	192,225
Common unitholder's interest	(3,969)	(5,380)
General partner's interest	(232)	(4)
	192,023	186,841
Total liabilities and partners' capital	$ 453,526	$ 398,696

The accompanying notes are an integral part of this financial statement.

LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per Unit amounts)

	Year ended December 31,		
	1996	1995	1994
Revenue:			
Oil and gas sales	$ 772	$ 936	$ 796
Oil and gas sales to affiliates	46,296	922	--
Transportation and platform services	13,974	10,696	11,594
Transportation and platform services to affiliates	10,031	9,851	6,960
Equity in earnings	20,434	19,588	14,786
	91,507	41,993	34,136
Costs and expenses:			
Operating expenses	9,068	4,092	1,876
Depreciation, depletion and amortization	31,731	8,290	5,085
General and administrative expenses	788	1,273	2,269
Management fee and general and administrative expenses allocated from general partner	7,752	5,796	3,139
	49,339	19,451	12,369
Operating income	42,168	22,542	21,767
Gains on sales of assets	--	1,247	113
Interest income and other	1,710	637	1,180
Interest and other financing costs	(5,560)	(833)	(912)
Minority interest in income	(427)	(251)	(216)
Income before income taxes	37,891	23,342	21,932
Income tax benefit	(801)	(603)	(136)
Net income	$ 38,692	$ 23,945	$ 22,068
Net income per Unit	$ 1.57	$ 0.97	$ 1.02
Weighted average number of Units outstanding	24,367	24,367	21,487

The accompanying notes are an integral part of this financial statement.

LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Year ended December 31,		
	1996	1995	1994
Cash flows from operating activities:			
Net income	$ 38,692	$ 23,945	$ 22,068
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of debt issue costs	1,351	687	219
Depreciation, depletion and amortization	31,731	8,290	5,085
Minority interest in income	427	251	216
Equity in earnings	(20,434)	(19,588)	(14,786)
Distributions from equity investments	36,823	24,642	15,070
Gains on sales of assets	--	(1,247)	(113)
Deferred income taxes and other	(936)	(640)	(528)
Other noncash items	(6,560)	152	218
Changes in operating working capital:			
Decrease (increase) in short-term investments	--	2,000	(2,000)
(Increase) decrease in accounts receivable	(3,442)	(1,663)	494
(Increase) decrease in accounts receivable from affiliates	(7,512)	(5,833)	667
(Increase) decrease in other current assets	(97)	67	(670)
(Decrease) increase in accounts payable and accrued liabilities	(23,190)	44,858	24,595
Increase (decrease) in accounts payable to affiliates	3,326	(1,035)	1,181
Net cash provided by operating activities	50,179	74,886	51,716
Cash flows from investing activities:			
Acquisition and development of oil and gas properties	(59,599)	(45,291)	--
Additions to pipelines, platforms and facilities	(30,095)	(121,405)	(68,301)
Equity investments	(12,027)	(6,936)	(30,097)
Proceeds from sales of assets	--	1,250	113
Net cash used in investing activities	(101,721)	(172,382)	(98,285)
Cash flows from financing activities:			
Offering of Partnership units, net of underwriting fees and commissions	--	--	85,500
Equity offering costs	--	--	(1,355)
Debt issue costs	(2,843)	(4,363)	(200)
Proceeds from notes payable	89,220	129,780	--
Distributions to partners	(33,852)	(29,837)	(26,201)
Net cash provided by financing activities	52,525	95,580	57,744
Net increase (decrease) in cash and cash equivalents	983	(1,916)	11,175
Cash and cash equivalents at beginning of year	15,506	17,422	6,247
Cash and cash equivalents at end of year	$ 16,489	$ 15,506	$ 17,422

Supplemental disclosures to the statement of cash flows - see Note 12.

The accompanying notes are an integral part of this financial statement.

LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(In thousands)

	Preference Unitholders	Common Unitholders	General Partner	Total
Partners' capital at December 31, 1993	$ 115,061	$ (3,024)	$ 117	$ 112,154
Offering of Partnership Units, net	84,145	--	--	84,145
Conversion of common units into a general partner interest	--	28	(28)	--
Net income for the year ended December 31, 1994	15,224	6,623	221	22,068
Cash distributions	(18,090)	(7,587)	(259)	(25,936)
Partners' capital at December 31, 1994	196,340	(3,960)	51	192,431
Net income for the year ended December 31, 1995	17,575	6,130	240	23,945
Cash distributions	(21,690)	(7,550)	(295)	(29,535)
Partners' capital at December 31, 1995	192,225	(5,380)	(4)	186,841
Net income for the year ended December 31, 1996	28,400	9,905	387	38,692
Cash distributions	(24,401)	(8,494)	(615)	(33,510)
Partners' capital at December 31, 1996	$ 196,224	$ (3,969)	$ (232)	$ 192,023
Limited Partnership Units outstanding at December 31, 1994, 1995 and 1996	18,075	6,292	-- (a)	24,367

(a) Leviathan Gas Pipeline Company owns a 1% general partner interest in Leviathan Gas Pipeline Partners, L.P.

The accompanying notes are an integral part of this financial statement.

LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Leviathan Gas Pipeline Partners, L.P. (the "Partnership"), a publicly held Delaware limited partnership formed in December 1992, is engaged in the gathering and transportation of natural gas and crude oil through its pipeline systems located in the Gulf of Mexico (the "Gulf") and in the development and production of oil and gas reserves from its proved properties. The Partnership's assets include interests in (i) eight natural gas pipeline systems, (ii) a crude oil pipeline system, (iii) five strategically located multi-purpose platforms, (iv) three producing oil and gas properties, (v) an overriding royalty interest and (vi) a dehydration facility. The Partnership's operating activities are conducted through fourteen subsidiaries.

Leviathan Gas Pipeline Company ("Leviathan"), a Delaware corporation and wholly-owned subsidiary of Leviathan Holdings Company ("Leviathan Holdings"), an 85%-owned subsidiary of DeepTech International Inc. ("DeepTech"), is the general partner of the Partnership. The remaining 15% of Leviathan Holdings is principally owned by members of the management of DeepTech. DeepTech also owns and controls several other operating subsidiaries which are engaged in various oil and gas related activities.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation

The accompanying consolidated financial statements include the accounts of those 50% or more owned subsidiaries controlled by the Partnership and Leviathan. Leviathan's approximate 1% nonmanaging interest in certain subsidiaries of the Partnership represents the minority interest in the Partnership's consolidated financial statements. Investments in which the Partnership owns a 20% to 50% ownership interest are accounted for using the equity method. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts from the prior year have been reclassified to conform to the current year's presentation. In addition, all number of Units and per Unit disclosures have been restated to reflect a two for one Preference and Common Unit split approved by the Board of Directors of Leviathan in December 1996 for the Unitholders of record as of the close of business on December 31, 1996.

Cash and cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Debt issue costs

Debt issue costs are capitalized and amortized over the life of the related indebtedness.

Property and equipment

Gathering pipelines, platforms and related facilities are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives ranging from 7 to 30 years. Maintenance and repair costs are expensed as incurred; additions, improvements and replacements are capitalized.

The Partnership accounts for its oil and gas exploration and production activities using the successful efforts method of accounting. Under this method, costs of successful exploratory wells, development wells and acquisitions of mineral leasehold interests are capitalized. Production, exploratory dry hole and other exploration costs, including geological and geophysical costs and delay rentals, are expensed as incurred. Unproved properties are assessed periodically and any impairment in value is recognized currently as depreciation, depletion and amortization expense.

Depreciation, depletion and amortization of the capitalized costs of producing oil and gas properties, consisting principally of tangible and intangible costs incurred in developing a property and costs of productive leasehold interests, are computed on the unit-of-production method. Unit-of-production rates are based on annual estimates of remaining

proved developed reserves or proved reserves, as appropriate, for each property. Repair and maintenance costs are charged to expense as incurred; additions, improvements and replacements are capitalized.

The Partnership adopted Statement of Financial Accounting Standard ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long- Lived Assets to be Disposed Of", effective January 1, 1996. SFAS No. 121 requires recognition of impairment losses on long-lived assets (including proved properties, wells, equipment and related facilities) if the carrying amount of such assets, grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows from other assets, exceeds the estimated undiscounted future cash flows of such assets. Measurement of any impairment loss is based on the fair value of the assets. Implementation of SFAS No. 121 did not have a material effect on the Partnership's financial position or results of operations.

Capitalization of interest

Interest and other financing costs are capitalized in connection with major construction and drilling activities as part of the cost of the asset and amortized over the related asset's estimated useful life.

Revenue recognition

Revenue from pipeline transportation of hydrocarbons is recognized upon receipt of the hydrocarbons into the pipeline systems. Revenue from oil and gas sales is recognized upon delivery in the period of production. Revenue from platform access and processing services is recognized in the period the services are provided.

Income taxes

The Partnership and its subsidiaries are not taxable entities. However, the taxable income or loss resulting from the operations of the Partnership will ultimately be included in the federal and state income tax returns of the general and limited partners and may vary substantially from the income or loss reported for financial reporting purposes.

Tarpon Transmission Company ("Tarpon") is and Manta Ray Gathering Systems, Inc. ("Manta Ray") was, prior to its liquidation in May 1996, a subsidiary of the Partnership subject to federal corporate income taxation. The Partnership accounts for income taxes of Tarpon and Manta Ray in accordance with SFAS No. 109, "Accounting for Income Taxes", which utilizes an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of other assets and liabilities. Resulting tax liabilities, if any, are borne by the Partnership.

Net income per unit

Net income per Unit is computed based upon the net income of the Partnership less an allocation of approximately 1% of the Partnership's net income to the general partner. The weighted average number of Units outstanding for the years ended December 31, 1996, 1995 and 1994 was 24,366,894 Units, 24,366,894 Units and 21,486,694 Units, respectively.

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the related reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions include those made in the areas of (i) Federal Energy Regulatory Commission ("FERC") regulations, (ii) oil and gas reserve disclosure, (iii) estimated useful lives of depreciable assets and (iv) potential environmental liabilities. Actual results could differ from those estimates. Management believes that its estimates are reasonable.

Other

The fair values of the financial instruments included in the Partnership's assets and liabilities approximate their carrying values.

The Partnership enters into commodity derivative transactions to hedge its exposure to price fluctuations on anticipated natural gas and crude oil sales transactions. Gains and losses on hedging activities are deferred and included in the results of operations in the period in which the hedged production is sold. See Note 11.

NOTE 3 - OIL AND GAS PROPERTIES:

On June 30, 1995, Flextrend Development Company, L.L.C. ("Flextrend Development"), a subsidiary of the Partnership, entered into a purchase and sale agreement (the "Purchase and Sale Agreement") with Tatham Offshore, Inc. ("Tatham Offshore"), an approximately 37%-owned affiliate of DeepTech. Pursuant to the Purchase and Sale Agreement, Flextrend Development acquired, subject to certain reversionary rights, a 75% working interest in Viosca Knoll Block 817, a 50% working interest in Garden Banks Block 72 and a 50% working interest in Garden Banks Block 117 (the "Assigned Properties") from Tatham Offshore for $30,000,000. All of the Assigned Properties are located offshore in the Gulf. Flextrend Development is entitled to retain all of the revenues attributable to the Assigned Properties until it has received net revenues equal to the Payout Amount (as defined below), whereupon Tatham Offshore is entitled to receive a reassignment of the Assigned Properties, subject to reduction and conditions as discussed below. "Payout Amount" is defined as an amount equal to all costs incurred by Flextrend Development with respect to the Assigned Properties (including the $30,000,000 acquisition cost paid to Tatham Offshore) plus interest thereon at a rate of 15% per annum. Effective February 1, 1996, the Partnership entered into an agreement with Tatham Offshore regarding certain transportation agreements that increases the amount recoverable from the Payout Amount by $7,500,000 plus interest (Note 9).

Effective December 10, 1996, Flextrend Development exercised its option to permanently retain 50% of the acquired working interest in all three Assigned Properties in exchange for forgiving 50% of the then-existing Payout Amount exclusive of the $7,500,000 plus interest added to the Payout Amount in connection with the restructuring of certain transportation agreements discussed above. Flextrend Development remains obligated to fund any further development costs attributable to Tatham Offshore's portion of the working interests, such costs to be added to the Payout Amount. Flextrend Development's election to retain 50% of the acquired working interest in all three of the Assigned Properties reduced the Payout Amount from $94,020,000 to $50,760,000. Subsequent to December 10, 1996, only 50% of the development and operating costs attributable to the Assigned Properties are added to the Payout Amount and 50% of the net revenue from the Assigned Properties will reduce the Payout Amount. As of December 31, 1996, the Payout Amount was $49,591,000 comprised of (a) the sum of (i) initial acquisition and transaction costs of $32,089,000, (ii) development and operating costs of $84,637,000, (iii) prepaid demand charges of $7,500,000 and (iv) interest of $13,094,000, reduced by (b) the sum of (i) net revenue of $44,469,000 and (ii) forgiveness of $43,260,000 of the Payout Amount as a result of Flextrend Development's decision to retain 50% of the acquired working interest in the Assigned Properties. Tatham Offshore and the Partnership have agreed that in the event Tatham Offshore furnishes the Partnership with a financing commitment from a lender with a credit rating BBB- or better covering 100% of the then outstanding Payout Amount, the interest rate utilized to compute the Payout Amount shall be adjusted from and after the date of such commitment to the interest rate specified in such commitment.

Presented below are costs incurred in the Partnership's oil and gas property acquisition, exploration and development activities, whether capitalized or expensed at the time these costs were incurred:

	Year ended December 31,	
	1996	1995
Acquisitions of proved properties	$ 3,553,000	$32,426,000
Development	57,501,000	12,865,000
Total costs incurred	$61,054,000(a)	$45,291,000(b)

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(a) Includes $6,296,000 of capitalized interest costs.
(b) Includes $740,000 of capitalized interest costs.

Investments in oil and gas properties at December 31, 1996 and 1995 were comprised of the following:

	December 31,	
	1996	1995
Proved properties	$ 38,681,000	$ 35,128,000
Wells, equipment and related facilities	70,366,000	12,865,000
Total capitalized costs	109,047,000	47,993,000
Accumulated depreciation, depletion and amortization	17,673,000	943,000
Net capitalized costs	$ 91,374,000	$ 47,050,000

NOTE 4 - EQUITY INVESTMENTS:

The Partnership owns interests of 50% in Viosca Knoll Gathering Company ("Viosca Knoll"), 36% in Poseidon Oil Pipeline Company, L.L.C. ("POPCO"), 50% in Stingray Pipeline Company ("Stingray"), 40% in High Island Offshore System ("HIOS"), 33 1/3% in U-T Offshore System ("UTOS") and 50% in West Cameron Dehydration Company ("West Cameron Dehy").

Leviathan contributed the equity interests in Stingray, HIOS and UTOS to the Partnership at its carrying value on February 19, 1993. The excess of the carrying amount of the investments accounted for using the equity method over the underlying equity in net assets as of December 31, 1996 is $31,125,000. Leviathan accounted for its acquisition of its interest in Stingray, HIOS and UTOS using the purchase method of accounting. The difference between the cost of the investments accounted for on the equity method and the underlying equity in net assets of Stingray, HIOS and UTOS at acquisition was assigned to property, plant and equipment and favorable firm transportation contracts and is being depreciated on a straight-line basis over the estimated 20-year lives of such property, plant and equipment and the lives of the related contracts, respectively. The majority of such contracts expired by December 1993. The 20-year depreciable life used for the regulated pipeline assets may be impacted by future rates approved by the FERC.

In May 1994, VK Deepwater Gathering Company, L.L.C. ("VK Deepwater"), a subsidiary of the Partnership, and EPEC Deepwater Gathering Company ("EPEC Deepwater"), a subsidiary of El Paso Tennessee Pipeline Co., formed Viosca Knoll, a Delaware general partnership owned 50% by VK Deepwater and 50% by EPEC Deepwater, to construct, own and operate an approximate 100-mile gathering system and related facilities extending from the Main Pass area through the Viosca Knoll area and terminating at points of interconnection with existing interstate pipelines. Viosca Knoll began the construction and installation of the pipeline system in June 1994 and placed the system in service in November 1994.

In February 1996, the Partnership and Texaco, Inc. formed POPCO, a Delaware limited liability company, which, at inception, was 50% owned by Poseidon Pipeline Company, L.L.C. ("Poseidon LLC"), a subsidiary of the Partnership, and 50% owned by Texaco Trading and Transportation Inc. ("Texaco Trading"), a subsidiary of Texaco, Inc. POPCO was formed to construct, own and operate the Poseidon Oil Pipeline ("Poseidon"). Pursuant to the terms of the organizational documents, Poseidon LLC initially contributed assets, at net book value, related to the construction of the initial phase of Poseidon as well as certain dedication agreements with producers and Texaco Trading initially contributed an equivalent amount of cash as well as its rights under certain agreements. In July 1996, Marathon Oil Company ("Marathon") joined POPCO by contributing its interest in 58 miles of nearby crude oil pipelines and dedicating its portion of oil reserves attached to such pipelines to Poseidon for transportation. As a result, each of the Partnership and Texaco Trading now owns a 36% interest in POPCO and Marathon owns the remaining 28% interest. Poseidon consists of approximately 200 miles of 16 to 24 inch diameter pipeline capable of delivering up to 400,000 barrels per day of sour crude oil production to multiple markets onshore Louisiana. The initial 117- mile segment, which extends easterly from Garden Banks Block 72 to Ship Shoal Block 332, was placed in service in April 1996. The second phase, an 83-mile segment, extending in a northerly direction from the Ship Shoal Block 332 Platform to Calliou Island, Louisiana, was placed in service in December 1996.

The summarized financial information for investments which are accounted for using the equity method is as follows:

SUMMARIZED HISTORICAL OPERATING RESULTS
FOR THE YEAR ENDED DECEMBER 31, 1996
(In thousands)

	HIOS	Viosca Knoll	Stingray	POPCO	West Cameron Dehy	UTOS	Total
Operating revenue	$ 46,875	$ 13,923	$ 24,146	$ 7,876	$ 1,686	$ 3,476	
Other income	171	--	1,186	339	10	48	
Operating expenses	(15,682)	(424)	(14,260)	(2,882)	(162)	(2,511)	
Depreciation	(4,775)	(2,269)	(7,057)	(1,893)	(16)	(560)	
Other expenses	96	(90)	(1,679)	(269)	--	--	
Net earnings	26,685	11,140	2,336	3,171	1,518	453	
Effective ownership percentage	40%	50%	50%	36%	50%	33.3%	
	10,674	5,570	1,168	1,142	759	151	
Adjustments:							
Depreciation (a)	783	--	669	--	--	2	
Contract amortization (a)	(105)	--	--	--	--	--	
Rate refund reserve	(417)	--	--	--	--	--	
Other	51	--	--	(13)	--	--	
Equity in earnings	$ 10,986	$ 5,570	$ 1,837	$ 1,129	$ 759	$ 153	$ 20,434
Distributions (b)	$ 11,400	$ 18,450	$ 1,923	$ 4,000	$ 650	$ 400	$ 36,823

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(a) Adjustments result from purchase price adjustments made in accordance with Accounting Principles Board ("APB") No. 16, "Business Combinations".
(b) Future distributions could be restricted by the terms of the equity investees' respective credit agreements.

SUMMARIZED HISTORICAL OPERATING RESULTS
(In thousands)

	FOR THE YEAR ENDED DECEMBER 31, 1995				
	HIOS	Stingray	Viosca Knoll	UTOS	Total
Operating revenue	$ 53,428	$ 26,020	$ 7,107	$ 5,195	
Other income	659	1,306	--	53	
Operating expenses	(19,360)	(13,993)	(520)	(2,828)	
Depreciation	(4,898)	(6,663)	(2,224)	(731)	
Other expenses	(151)	(1,245)	--	(18)	
Net earnings	29,678	5,425	4,363	1,671	
Effective ownership percentage	40%	50%	50%	33.3%	
	11,871	2,712	2,181	557	
Adjustments:					
Depreciation (a)	854	899	--	59	
Contract amortization (a)	(198)	--	--	--	
Rate refund reserve	417	--	--	--	
Other	168	57 (b)	--	11	
Equity in earnings	$ 13,112	$ 3,668	$ 2,181	$ 627	$ 19,588
Distributions	$ 15,200	$ 5,750	$ 2,825	$ 867	$ 24,642

	FOR THE YEAR ENDED DECEMBER 31, 1994				
	Stingray	HIOS	UTOS	Viosca Knoll	Total
Operating revenue	$ 34,666	$ 44,160	$ 7,125	$ 629	
Other income	294	216	169	--	
Operating expenses	(14,154)	(24,793)	(3,568)	(46)	

Depreciation	(8,573)	(4,573)	13	(238)	
Other expenses	(995)	(389)	(54)	--	
Net earnings	11,238	14,621	3,685	345	
Effective ownership percentage	50%	40%	33.3%	50%	
	5,619	5,848	1,227	172	
Adjustments:					
Depreciation (a)	2,019	705	(206)	--	
Contract amortization (a)	--	(581)	(17)	--	
Rate refund reserve	--	--	--	--	
Other	--	--	--	--	
Equity in earnings	$ 7,638	$ 5,972	$ 1,004	$ 172	$ 14,786
Distributions	$ 10,170	$ 3,600	$ 1,300	$ --	$ 15,070

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(a) Adjustments result from purchase price adjustments made in accordance with APB No. 16, "Business Combinations".
(b) Includes the results of West Cameron Dehy for December 1995 (inception of operations).

LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

SUMMARIZED HISTORICAL BALANCE SHEETS
(In thousands)

	HIOS December 31,		Viosca Knoll December 31,		Stingray December 31,	
	1996	1995	1996	1995	1996	1995
Current assets	$ 8,215	$ 7,868	$ 2,708	$ 1,657	$ 35,117	$39,144
Noncurrent assets	15,128	19,632	71,108	64,664	48,917	48,467
Current liabilities	2,153	4,640	661	3,508	35,495	31,089
Long-term debt	--	--	33,300	--	17,400	23,200
Other noncurrent liabilities	643	893	173	--	2,321	2,233

	POPCO December 31,	West Cameron Dehy December 31,		UTOS December 31,	
	1996	1996	1995	1996	1995
Current assets	$ 51,467	$ 424	$ 871	$ 4,211	$ 1,951
Noncurrent assets	165,052	679	695	3,305	3,907
Current liabilities	39,337	28	709	3,899	1,505
Long-term debt	84,000	--	--	--	--
Other noncurrent liabilities	--	--	--	--	--

NOTE 5 - REGULATORY MATTERS:

The FERC has jurisdiction over Tarpon (through March 13, 1997), Stingray, HIOS and UTOS (the "Regulated Pipelines") with respect to transportation of gas, rates and charges, construction of new facilities, extension or abandonment of service and facilities, accounts and records, depreciation and amortization policies and certain other matters. The Partnership's remaining systems (the "Unregulated Pipelines") are gathering facilities and as such are not currently subject to rate and certificate regulation by the FERC. However, the FERC has asserted that it has rate jurisdiction under the Natural Gas Act of 1938, as amended (the "NGA"), over services performed through gathering facilities owned by a natural gas company (as defined in the NGA) when such services were performed "in connection with" transportation services provided by such natural gas company. Whether, and to what extent, the FERC should exercise any NGA rate jurisdiction it may be found to have over gathering facilities owned either by natural gas companies or affiliates thereof is subject to case-by-case review by the FERC. Based on current FERC policy and precedent, the Partnership does not anticipate that the FERC will assert or exercise any NGA rate jurisdiction over the Unregulated Pipelines so long as the services provided through such lines are not performed "in connection with" transportation services performed through any of the Regulated Pipelines.

Poseidon is subject to regulation under the Hazardous Liquid Pipeline Safety Act ("HLPSA"). Operations in offshore federal waters are regulated by the Department of the Interior. In addition, under the Outer Continental Shelf Lands Act ("OCSLA"), as implemented by the FERC, pipelines that transport crude oil across the Outer Continental Shelf ("OCS") must offer nondiscriminatory access to other potential shippers of crude. Poseidon is located in federal waters in the Gulf, and its right-of-way was granted by the federal government. Therefore, the FERC may assert that it has jurisdiction to compel Poseidon to grant access under OCSLA to other shippers of crude oil and to apportion the capacity of the line among owner and non-owner shippers.

The FERC has generally disclaimed jurisdiction to set rates for oil pipelines in the OCS under the Interstate Commerce Act ("ICA"). Therefore, unless the FERC's jurisdiction is successfully invoked under OCSLA to remedy a denial of non-discriminatory access, or the FERC reverses its decision that the ICA does not apply to OCS oil pipelines, commencement of service on Poseidon will not subject it to rate regulation.

Rate Cases

Tarpon. On May 28, 1992, Tarpon filed a petition requesting the FERC to declare its offshore system to be a gathering facility exempt from FERC's jurisdiction and to vacate the order certificating the facilities. On July 20, 1992, the FERC denied Tarpon's petition. Tarpon filed a request for rehearing on November 17, 1992, and the FERC denied such request. Tarpon appealed the FERC's decision to the United States Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit") on November 20, 1992. The proceedings before the D.C. Circuit have been stayed pending action by the FERC with respect to a motion filed by Tarpon on February 23, 1993 requesting the FERC reopen and reconsider its orders rejecting Tarpon's petition, which motion was renewed on June 25, 1996. On March 13, 1997, the FERC issued an order declaring Tarpon's facilities exempt from NGA regulation under the gathering exception. Tarpon has agreed to continue service for its shippers on the terms and conditions, and at the rates reflected in its current tariff for at least two years from the date of the order.

Other. Each of Stingray, HIOS, and UTOS are currently operating under agreements with their respective customers that provide for rates that have been approved by the FERC and which should remain in effect through at least the fourth quarter of 1998. Stingray, HIOS and UTOS have each agreed to file a new rate case in the fourth quarter of 1998.

NOTE 6 - INDEBTEDNESS:

In February 1993, the Partnership entered into a revolving credit facility with a syndicate of commercial banks that provided a maximum $50.0 million commitment for borrowings, subject to certain borrowing base limitations (the "Partnership Credit Facility"). The Partnership Credit Facility was amended and restated in March 1995, February 1996, March 1996 and December 1996 and currently provides up to $300.0 million of available credit, subject to certain incurrence limitations. As of December 31, 1996 and 1995, funds borrowed under the Partnership Credit Facility totaled $227,000,000 and $113,500,000, respectively. The Partnership Credit Facility has a maturity of three years, which maturity can be extended in one-year increments for an additional three years. At the election of the Partnership, interest under the Partnership Credit Facility is determined by reference to the reserve- adjusted London interbank offer rate ("LIBOR"), the prime rate or the 90-day average certificate of deposit. The interest rate at December 31, 1996 and 1995 was 6.6% and 7.8% per annum, respectively. A commitment fee is charged on the unused and available to be borrowed portion of the credit facility. This fee varies between 0.25% and 0.375% per annum and is currently 0.30% per annum. Amounts advanced under the Partnership Credit Facility were used (i) to finance the Partnership's capital expenditures, including construction of platforms and pipelines, investments in equity investees and the acquisition and development of oil and gas properties and (ii) to repay all of the indebtedness incurred under the Flextrend Credit Facility (discussed below). Amounts remaining under the Partnership Credit Facility are available to the Partnership for general partnership purposes, including financing capital expenditures, for working capital, and subject to certain limitations, for paying distributions to Unitholders. The Partnership Credit Facility can also be utilized to issue letters of credit as may be required from time to time; however, no letters of credit are currently outstanding. All amounts due under the Partnership Credit Facility are guaranteed by Leviathan and each of the Partnership's subsidiaries, and are secured by Leviathan's 1% general partner interest in the Partnership, all of Leviathan's and the Partnership's equity interest in the Partnership's subsidiaries and most of the equipment, negotiable instruments and inventory and other personal property of the Partnership's subsidiaries.

On October 12, 1995, Flextrend Development and a syndicate of commercial lenders entered into a multiple-draw, term loan facility (the "Flextrend Credit Facility"). Subject to customary conditions and covenants, the Flextrend Credit Facility provided for borrowings of up to $32,000,000 (including a letter of credit facility of up to $5,000,000) at any time prior to March 31, 1996. Each loan under the credit facility accrued interest at a variable rate selected by Flextrend Development and determined by reference to LIBOR or the prime rate. As of December 31, 1995, $24,280,000 in principal was outstanding under the Flextrend Credit Facility and the interest rate related thereto was 11.9% per annum. As discussed above, all borrowings under the Flextrend Credit Facility were repaid in March 1996 in connection with the amendment and restatement of the Partnership Credit Facility.

Interest costs incurred by the Partnership in connection with its credit facilities totaled $17,470,000, $6,082,000 and $910,000 for the years ended December 31, 1996, 1995 and 1994, respectively. During the years ended December 31, 1996 and 1995, the Partnership capitalized $11,910,000 and $5,269,000, respectively, of such interest costs in connection with construction projects and drilling activities in progress during such periods. At December 31, 1996 and 1995, the unamortized portion of debt issue costs totaled $4,616,000 and $4,579,000, respectively.

NOTE 7 - PARTNERS' CAPITAL:

In June 1994, the Partnership completed the public offering of additional Preference Units representing limited partner interests in the Partnership. The net proceeds from the offering of $84,145,000 were utilized by the Partnership to fund a portion of certain capital projects, including its investment in Viosca Knoll and the construction of a platform facility.

In 1995, the Partnership adopted the Unit Rights Appreciation Plan (the "Plan") to provide the Partnership with the ability of making awards of Unit Rights, as hereinafter defined, to certain officers and key employees of the Partnership or its affiliates as an incentive for these individuals to continue in the service of the Partnership or its affiliates. Under

the Plan, the Partnership may grant to senior officers of the Partnership or its affiliates, excluding the Chairman of the Board of Leviathan, currently Mr. Thomas P. Tatham, with the right to purchase, or realize the appreciation of, a Preference Unit (a "Unit Right"), pursuant to the provisions of the Plan. The aggregate number of Preference Units as to which Unit Rights may be issued pursuant to the Plan shall not exceed 400,000 Preference Units per calendar year and 4,000,000 Preference Units over the term of the Plan, subject to adjustment as to both limitations under certain circumstances. No participant may be granted more than 400,000 Unit Rights in any calendar year. The exercise price of the Preference Units covered by the Unit Rights granted pursuant to the Plan shall be the closing price of the Preference Units as reported on the New York Stock Exchange or, if the Preference Units are not traded on such exchange, as reported on any other national securities exchange on which the Preference Units are traded, on the date on which Unit Rights are granted pursuant to the Plan. As of March 14, 1997, a total of 1,200,000 Unit Rights have been granted under the Plan representing 400,000 Unit Rights for each of the calendar years 1995, 1996 and 1997.

As of December 31, 1996, 1995 and 1994, all of the Preference Units of the Partnership were held by the public, representing an effective limited partner interest in the Partnership of 72.7%. Leviathan, as owner of the Common Units, its general partner interest and its nonmanaging interest in certain subsidiaries of the Partnership, owned the remaining effective interest in the Partnership of 27.3%.

NOTE 8 - CASH DISTRIBUTIONS:

The Partnership makes quarterly distributions of 100% of its Available Cash, as defined in the Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement"), to the Unitholders and Leviathan. Available Cash consists generally of all the cash receipts of the Partnership plus reductions in reserves less all of its cash disbursements and net additions to reserves. Leviathan has broad discretion to establish cash reserves that it determines are necessary or appropriate to provide for the proper conduct of the business of the Partnership including cash reserves for future capital expenditures, to stabilize distributions of cash to the Unitholders and Leviathan, to reduce debt or as necessary to comply with the terms of any agreement or obligation of the Partnership. The Partnership expects to make distributions of Available Cash within 45 days after the end of each quarter to Unitholders of record on the applicable record date, which will generally be the last business day of the month following the close of such calendar quarter.

The distribution of Available Cash of the Partnership for each quarter within the Preference Period, as defined in the Partnership Agreement, is subject to the preferential rights of the holders of Preference Units to receive the Minimum Quarterly Distribution, as defined in the Partnership Agreement, for such quarter, plus any arrearages in the payment of the Minimum Quarterly Distribution for prior quarters, before any distribution of Available Cash is made to holders of Common Units for such quarter. The Common Units are not entitled to arrearages in the payment of the Minimum Quarterly Distribution. In general, the Preference Period is defined to mean the period commencing on February 19, 1993 and continuing through at least March 31, 1998.

Since commencement of operations on February 19, 1993 through December 31, 1996, the Partnership has made distributions to the Unitholders equal to and in excess of the Minimum Quarterly Distribution of $0.275 per Unit. See Note 17.

Distributions by the Partnership of its Available Cash are effectively made 98% to Unitholders and 2% to Leviathan, subject to the payment of incentive distributions to Leviathan if certain target levels of cash distributions to Unitholders are achieved (the "Incentive Distributions"). As an incentive, the general partner's interest in the portion of quarterly cash distributions in excess of $0.325 per Unit and less than or equal to $0.375 per Unit is increased to 15%. For quarterly cash distributions over $0.375 per Unit but less than or equal to $0.425 per Unit, the general partner receives 25% of such incremental amount and for all quarterly cash distributions in excess of $0.425 per Unit, the general partner receives 50% of the incremental amount. During the year ended December 31, 1996, the general partner received Incentive Distributions totaling $285,000. In January 1997, the Partnership declared a cash distribution of $0.40 per Unit. As a result, in February 1997, the general partner received an Incentive Distribution of $381,000.

NOTE 9 - RELATED PARTY TRANSACTIONS:

Management Fees

Substantially all of the individuals who perform the day-to-day financial, administrative, accounting and operational functions for Leviathan as well as those who are responsible for the direction and control of the Partnership are employed by DeepTech. DeepTech entered into management agreements with each of its subsidiaries including Leviathan in its capacity as general partner of the Partnership. The management fee charged to Leviathan is intended to approximate the amount of resources allocated by DeepTech in providing various operational, financial, accounting and administrative services on behalf of Leviathan and the Partnership. The management agreement has an initial term expiring on June 30, 1997, and may be terminated thereafter upon 90 days notice by either party. Pursuant to the terms of the Partnership Agreement, Leviathan is entitled to reimbursement of all reasonable general and administrative expenses and other reasonable expenses incurred by Leviathan and its affiliates for or on behalf of the Partnership including, but not limited to, amounts payable by Leviathan to DeepTech under the management agreement.

In connection with the completion of the offering of additional Preference Units in June 1994, Leviathan amended its management agreement with DeepTech effective July 1, 1994 in consideration for the increase in management services associated with the planned expansion of facilities and to more accurately provide for the reimbursement of expenses incurred by DeepTech in providing management services to Leviathan and the Partnership. As amended, the management agreement provided for a management fee of $2,000,000 a year plus 40% of DeepTech's unreimbursed selling, general and administrative expenses. Effective November 1, 1995 and July 1, 1996, primarily as a result of the increased oil and gas activities of the Partnership, Leviathan again amended its management agreement with DeepTech to provide for an annual management fee of 45.3% and 54%, respectively, of DeepTech's overhead. Leviathan charged the Partnership $6,590,000, $5,796,000 and $3,139,000 pursuant to its management agreement with DeepTech for the years ended December 31, 1996, 1995 and 1994, respectively.

Leviathan is also required to reimburse DeepTech for certain tax liabilities resulting from, among other things, additional taxable income allocated to Leviathan due to (i) the issuance of additional Preference Units (including the sale of the Preference Units by the Partnership pursuant to the second public offering) and (ii) the investment of such proceeds in additional acquisitions or construction projects. During the year ended December 31, 1996, Leviathan charged the Partnership $1,162,000 to compensate DeepTech for additional taxable income allocated to Leviathan.

Effective July 1, 1995, DeepTech established deferred mandatory compensation arrangements for the Chief Executive Officer and certain senior executives of DeepTech. Pursuant to the terms of such arrangements, participants deferred all or a portion of their cash salary until no later than July 1, 1996. During each month in the deferral period, each participant was entitled to receive options to purchase a number of shares of either DeepTech or Tatham Offshore or Preference Units of the Partnership equal to a percentage (ranging from 100% to 300% times their cash salary) divided by the lesser of the closing price on June 30, 1995 (DeepTech - $4.00, Tatham Offshore - $3.50 and the Partnership - $23.75) or the average closing price for the applicable month. Options were exercisable only by cancellation of the participant's cash salary. Each participant earned credits equal to a multiple, based on the option elected, of their deferred cash salary. Any participant, except the Chief Executive Officer of DeepTech, could have received all or a portion of their salary in cash if they did not elect to exercise any options. Upon termination of the compensation arrangements in June 1996, no options had been exercised to purchase any of the Preference Units of the Partnership.

Sales, Transportation and Platform Access Agreements

General. In December 1993, the Partnership entered into a master gas dedication arrangement with Tatham Offshore (the "Master Dedication Agreement"). Under the Master Dedication Agreement, Tatham Offshore has dedicated all production from its Garden Banks, Viosca Knoll, Ewing Bank and Ship Shoal leases as well as certain adjoining areas of mutual interest to the Partnership for transportation. In exchange, the Partnership has agreed to install the pipeline facilities necessary to transport production from the areas and certain related facilities and to provide transportation services with respect to such production. Tatham Offshore has agreed to pay certain fees for transportation services and facilities access provided under the Master Dedication Agreement. Pursuant to the terms of the Purchase and Sale

Agreement with Tatham Offshore (Note 3), Flextrend Development has assumed all of Tatham Offshore's obligations under the Master Dedication Agreement and certain ancillary agreements with respect to the Assigned Properties.

Ewing Bank Gathering System. Pursuant to a gathering agreement (the "Ewing Bank Gathering Agreement") among Tatham Offshore, DeepTech, and a subsidiary of the Partnership, Tatham Offshore has dedicated all natural gas and crude oil produced from eight of its Ewing Bank leases for gathering and redelivery by the Partnership and is obligated to pay a demand and a commodity rate for shipment of all oil and gas under this agreement. The Ewing Bank Gathering Agreement requires Tatham Offshore to pay certain demand charges and a commodity charge equal to 4% of the market price of production actually transported. For the years ended December 31, 1996, 1995 and 1994, Tatham Offshore paid the Partnership demand and commodity charges of $349,000, $7,626,000 and $6,232,000, respectively, under this agreement. The Partnership also receives revenue from the oil and gas production from the Ewing Bank 914 #2 well as a result of its 7.13% overriding royalty interest in the well. In March 1996, the Partnership settled all remaining unpaid demand charge obligations under the Ewing Bank Gathering Agreement in exchange for certain consideration as discussed below.

Ship Shoal. Pursuant to the Master Dedication Agreement, the Partnership and Tatham Offshore have entered into a gathering and processing agreement (the "Ship Shoal Agreement") pursuant to which the Partnership constructed a gathering line from Tatham Offshore's Ship Shoal Block 331 lease to interconnect with a third-party pipeline at the Partnership's platform located on Ship Shoal Block 332. In addition, the Partnership is operating the refurbished platform located at Ship Shoal Block 332 to process production from Ship Shoal Block 331. Pursuant to the terms of the Ship Shoal Agreement, and in consideration for constructing the interconnect, refurbishing the platform and for providing access to the processing facilities, Tatham Offshore was required to pay the Partnership a demand charge of $113,000 per month over a five-year period ending June 1999 and has dedicated all production from its Ship Shoal 331 lease and eight additional surrounding leases for gathering and processing by the Partnership. The Ship Shoal Agreement remains in effect for the productive life of the reserves or, if earlier, the expiration of 20 years from date of first production. During late 1994, all of Tatham Offshore's wells at Ship Shoal 331 experienced completion and production problems. As a result, the Partnership received only demand charges under this agreement during 1995. For the years ended December 31, 1995 and 1994, the Partnership received $1,360,000 and $728,000, respectively, from Tatham Offshore for fees related to the Ship Shoal Agreement. In March 1996, the Partnership settled all remaining unpaid demand charge obligations under this transportation agreement in exchange for certain consideration as discussed below.

VK 817 Platform. Tatham Offshore is also obligated to pay certain platform access and processing fees to the Partnership. For the years ended December 31, 1996 and 1995, the Partnership received $1,896,000 and $823,000, respectively, from Tatham Offshore as platform access and processing fees related to the Partnership's platform located in Viosca Knoll Block 817.

Transportation Agreements Settled. Tatham Offshore was obligated to make demand charge payments to the Partnership pursuant to certain transportation agreements discussed above. Under these agreements, the Partnership was entitled to receive demand charges of $8,100,000 in 1996, $6,000,000 in 1997, $3,000,000 in 1998 and $700,000 in 1999. In addition to the demand charges, Tatham Offshore is obligated to pay commodity charges, based on the volume of oil and gas transported or processed, under these agreements.

Production problems at Ship Shoal Block 331 and reduced oil production from the Ewing Bank 914 #2 well affected Tatham Offshore's ability to pay the demand charge obligations under agreements relative to these properties. As a result, effective February 1, 1996, the Partnership agreed to release Tatham Offshore from all remaining demand charge payments under the Ewing Bank Gathering Agreement and the Ship Shoal Agreement, a total of $17,800,000. Tatham Offshore remains obligated to pay the commodity charges under these agreements as well as all platform access and processing fees associated with the Viosca Knoll Block 817 lease. In exchange, the Partnership received 7,500 shares of Tatham Offshore Senior Preferred Stock (the "Senior Preferred Stock"), which is presented on the accompanying consolidated balance sheet at December 31, 1996 as investment in affiliate. The Senior Preferred Stock has a liquidation preference of $1,000 per share, is senior in liquidation preference to all other classes of Tatham Offshore stock and has a 9% cumulative dividend, payable quarterly. Commencing on October 1, 1998 and for a period of 90 days thereafter, the Partnership has the option to exchange the remaining liquidation preference amount and accrued

but unpaid dividends for shares of Tatham Offshore's Series A 12% Convertible Exchangeable Preferred Stock (the "Series A Preferred Stock") with an equivalent market value. Further, the Partnership has made an irrevocable offer to Tatham Offshore to sell all or any portion of the Senior Preferred Stock to Tatham Offshore or its designee at a price equal to $1,000 per share, plus interest thereon at 9% per annum less the sum of any dividends paid thereon. The Series A Preferred Stock is convertible into Tatham Offshore common stock based on a fraction, the numerator of which is the liquidation preference value plus all accrued but unpaid dividends and the denominator of which is $0.653 per share. In addition, the sum of $7,500,000 was added to the Payout Amount under the Purchase and Sale Agreement. By adding $7,500,000 to the Payout Amount, the Partnership is entitled to an additional $7,500,000 plus interest at the rate of 15% per annum from revenue attributable to the Assigned Properties prior to reconveying any interest in the Assigned Properties to Tatham Offshore. In addition, Tatham Offshore waived its remaining option to prepay the then-existing Payout Amount and receive a reassignment of its working interests. Tatham Offshore and the Partnership also agreed that in the event Tatham Offshore furnishes the Partnership with a financing commitment from a lender with a credit rating of BBB- or better covering 100% of the then outstanding Payout Amount, then the interest rate utilized to compute the Payout Amount shall be adjusted from and after the date of such commitment to the interest rate specified in such commitment. Tatham Offshore granted the Partnership the right to utilize the Ship Shoal Block 331 platform and related facilities at a rental rate of $1.00 per annum for such period as the platform is owned by Tatham Offshore and located on Ship Shoal Block 331, provided such use does not interfere with lease operations or other activities of Tatham Offshore. In addition, Tatham Offshore granted the Partnership a right of first refusal relative to a sale of the platform.

Oil and gas sales. The Partnership has agreed to sell all of its oil and gas production to Offshore Gas Marketing, Inc. ("Offshore Marketing"), an affiliate of the Partnership, on a month to month basis. The agreement with Offshore Marketing provides Offshore Marketing fees equal to 2% of the sales value of crude oil and condensate and $0.015 per dekatherm of natural gas for selling the Partnership's production. During the years ended December 31, 1996 and 1995, the Partnership had oil and gas sales to Offshore Marketing in the amount of $46,296,000 and $922,000, respectively.

Other

POPCO entered into certain additional agreements with a subsidiary of the Partnership which provide for POPCO's use of certain pipelines and platforms owned by such subsidiary for fees which consisted of a monthly rental fee of $100,000 per month for the period from February 1996 to January 1997 and reimbursement of $2,000,000 of capital expenditures incurred in readying one of the platforms for use.

Poseidon LLC managed the construction and installation of the initial 117 mile segment of Poseidon, which was placed in service in April 1996, and Texaco Trading managed the construction and installation of the remaining pipelines and facilities comprising Poseidon, which was placed in service in December 1996. Each of Poseidon LLC and Texaco Trading earned a performance fee of $1,400,000 for managing the construction of a portion of Poseidon, which fee may be adjusted if either party manages the construction of any additional facilities. Through December 31, 1996, Poseidon LLC has received $1,400,000 in performance fees from POPCO.

During the years ended December 31, 1996 and 1995, Viosca Knoll charged Flextrend Development $3,229,000 and $86,000, respectively, for transportation services related to transporting production from the Viosca Knoll Block 817 lease. During the year ended December 31, 1996, POPCO charged Flextrend Development $1,056,000 for transportation services related to transporting production from the Garden Banks Block 72 and 117 leases.

In addition, for the year ended December 31, 1996, Viosca Knoll reimbursed $254,000 to the Partnership for costs incurred by the Partnership in connection with the acquisition and installation of a booster compressor on the Partnership's Viosca Knoll 817 platform.

For the year ended December 31, 1996, the Partnership charged Viosca Knoll $249,000 for platform access fees related to the Viosca Knoll 817 platform.

Pursuant to a management agreement between Viosca Knoll and the Partnership, the Partnership charges Viosca Knoll a base fee of $100,000 annually in exchange for Leviathan providing financial, accounting and administrative services on behalf of Viosca Knoll. For each of the years ended December 31, 1996 and 1995, Leviathan charged Viosca Knoll $100,000 in accordance with this management agreement.

During the year ended December 31, 1996, Flextrend Development was charged $7,223,000 by Sedco Forex Division of Schlumberger Technology Corporation ("Sedco Forex") for contract drilling services rendered by the semisubmersible drilling rig, the FPS Laffit Pincay, at its Garden Banks Block 117 project. The FPS Laffit Pincay is owned by an affiliate of DeepTech and managed by Sedco Forex.

The Chairman of the Board of Leviathan and DeepTech, Mr. Tatham, also serves as a director of J. Ray McDermott, S.A. ("McDermott"). Certain of the Partnership's subsidiaries have contracted with certain subsidiaries of McDermott for construction and installation of pipelines and related facilities in the ordinary course of business. As of December 31, 1996 and 1995, the Partnership owed such subsidiaries $152,000 and $46,242,000, respectively. During the years ended December 31, 1996 and 1995, the Partnership had incurred $30,627,000 and $56,821,000, respectively, pursuant to such contractual arrangements.

Mr. Charles M. Darling IV, a director of Leviathan and DeepTech, is a partner in a legal firm that provides legal services to the Partnership. During the years ended December 31, 1996 and 1995, the Partnership incurred $203,000 and $116,000, respectively, for these services.

Leviathan is also entitled to distributions in respect of its general and limited partner interests in the Partnership, its nonmanaging interest in certain subsidiaries of the Partnership, and Incentive Distributions in respect to its general partner interest in the Partnership (Note 8).

During the year ended December 31, 1994, Deepwater Production Systems, Inc., a subsidiary of DeepTech, provided certain engineering services with regard to the construction and installation of the Ship Shoal area gathering lines and refurbishment of a platform in the aggregate amount of $654,000. In addition, Dover Technology, Inc., which is 50% owned by DeepTech, performed certain technical and geophysical services for the Partnership in the aggregate amount of $240,000, $58,000 and $93,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 10 - INCOME TAXES:

The Partnership (other than its subsidiaries, Tarpon and Manta Ray) is not subject to federal income taxes. Therefore, no recognition has been given to income taxes other than income taxes related to Tarpon and Manta Ray. The tax returns of the Partnership are subject to examination and if such examinations result in adjustments to distributive shares of taxable income or loss, the tax liability of partners could be adjusted accordingly.

The tax attributes of the Partnership's net assets flow directly to each individual partner. Individual partners will have different investment bases depending upon the timing and price of acquisition of partnership units. Further, each partner's tax accounting, which is partially dependent upon his/her tax position, may differ from the accounting followed in the consolidated financial statements. Accordingly, there could be significant differences between each individual partner's tax basis and his/her share of the net assets reported in the consolidated financial statements.

SFAS No. 109 requires the use of the liability method under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Partnership does not have access to information about each individual partner's tax attributes in the Partnership, and the aggregate tax bases cannot be readily determined. Accordingly, management does not believe that, in the Partnership's circumstances, the aggregate difference would be meaningful information.

Tarpon is and Manta Ray was, prior to its liquidation in May 1996, a subsidiary of the Partnership which files separate federal income tax returns. The income tax benefit recorded for the years ended December 31, 1996, 1995 and 1994 equals $801,000, $603,000 and $136,000, respectively, and is entirely related to Tarpon. The benefit equals Tarpon's

book loss times the effective statutory rate for such period. The Partnership's deferred income tax liability at December 31, 1996 and 1995 of $1,722,000 and $2,539,000, respectively, is entirely related to the differences in the tax and book bases of the pipeline assets of Tarpon. In May 1996, Manta Ray was merged with and into a subsidiary of the Partnership. Manta Ray had no taxable income for the respective periods prior to its liquidation.

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Credit Facilities

Each of Stingray, POPCO and Viosca Knoll are parties to a credit agreement under which it has outstanding obligations that may restrict the payment of distributions to its partners.

In December 1995, Stingray amended an existing term loan agreement (the "Stingray Credit Agreement") to provide for aggregate outstanding borrowings of up to $29,000,000 in principal amount. The Stingray Credit Agreement requires the payment of principal by Stingray of $1,450,000 per quarter. As of December 31, 1996, Stingray had $23,200,000 outstanding under the Stingray Credit Agreement at a related interest rate of 6.22% per annum. On the earlier to occur of December 31, 2000 or the accelerated due date pursuant to the Stingray Credit Agreement, if Stingray has not settled all amounts due under the Stingray Credit Agreement, the Partnership is obligated to pay the lesser of (i) $8,500,000, (ii) the aggregate amount of distributions received from Stingray subsequent to December 1, 1993, or (iii) its 50% partnership interest in any outstanding amounts due pursuant to the Stingray Credit Agreement.

In April 1996, POPCO entered into a revolving credit facility (the "POPCO Credit Facility") with a group of commercial banks to provide up to $150.0 million for the construction of the second and third phases of Poseidon and for other working capital needs of POPCO. As of December 31, 1996, POPCO had $84,000,000 outstanding under the POPCO Credit Facility bearing interest at a floating rate of approximately 6.9% per annum. POPCO's ability to borrow money under the facility is subject to certain customary terms and conditions, including borrowing base limitations. The POPCO Credit Facility is secured by a substantial portion of POPCO's assets and matures on April 30, 2001.

In December 1996, Viosca Knoll entered into a revolving credit facility (the "Viosca Knoll Credit Facility) with a syndicate of commercial banks to provide up to $100,000,000 for the addition of compression to the Viosca Knoll system and for other working capital needs of Viosca Knoll, including funds for a one time distribution of $25,000,000 to its partners. In December 1996, the Partnership received a $12,500,000 distribution from Viosca Knoll as a result of its 50% working interest. As of December 31, 1996, Viosca Knoll has $33,300,000 outstanding under the Viosca Knoll Credit Facility bearing interest at a floating rate of approximately 6.69% per annum. Viosca Knoll's ability to borrow money under the Viosca Knoll Credit Facility is subject to certain customary terms and conditions, including borrowing base limitations. The Viosca Knoll Credit Facility is secured by a substantial portion of Viosca Knoll's assets and matures on December 20, 2001. If Viosca Knoll fails to pay any principal, interest or other amounts due pursuant to the Viosca Knoll Credit Facility, the Partnership is obligated to pay up to a maximum of $2,500,000 in settlement of 50% of Viosca Knoll's obligations under the Viosca Knoll Credit Facility Agreement.

Hedging Activities

The Partnership hedges a portion of its oil and natural gas production to reduce the Partnership's exposure to fluctuations in market prices of oil and natural gas and to meet certain requirements of the Partnership Credit Facility. The Partnership uses various financial instruments whereby monthly settlements are based on differences between the prices specified in the instruments and the settlement prices of certain futures contracts quoted on the New York Mercantile Exchange ("NYMEX") or certain other indices. The Partnership settles the instruments by paying the negative difference or receiving the positive difference between the applicable settlement price and the price specified in the contract. The instruments utilized by the Partnership differ from futures contracts in that there is no contractual obligation which requires or allows for the future delivery of the product. Gains or losses on hedging activities are recognized as oil and gas sales in the period in which the hedged production is sold.

At December 31, 1996, the Partnership had open natural gas hedges on approximately 47,300 MMbtu of natural gas per day for calendar 1997 at an average price of $2.45 per MMbtu. In addition, as of December 31, 1996, the Partnership had entered into commodity swap transactions for a total of 10,000 MMbtu per day for calendar 1998 at a fixed price to be determined at the Partnership's option equal to the December 1997 Natural Gas Futures Contract on the NYMEX as quoted at any time during 1997 to and including the last three trading days of the December 1997 contract minus $0.14 per MMbtu. Subsequent to December 31, 1996, the Partnership hedged an additional 10,000 MMbtu per day for calendar 1998 at an average fixed price of $2.20 per MMbtu.

At December 31, 1996, the Partnership had open crude oil hedges on approximately 660 barrels per day for calendar 1997 at an average price of $21.00 per barrel. In January 1997, the Partnership hedged an additional 400 barrels of oil per day for the period March 1997 through December 1997 at an average price of $23.04 per barrel. In February 1997, the Partnership hedged 250 barrels of oil per day for calendar year 1998. This February 1997 contract allows the Partnership to determine the contract price as follows: (i) a one-time election of a price equal to the January 1998 Natural Gas Futures Contract on the NYMEX as quoted at any time during 1997 to and including the last three trading days of the January 1998 contract multiplied by 8.5 or (ii) the arithmetic average of the closing settlement price of the NYMEX West Texas Intermediate for the applicable pricing period.

If the Partnership had settled its open natural gas and crude oil hedging positions as of December 31, 1996, based on the settlement prices of the NYMEX futures contracts applicable to the Partnership's open hedging positions of natural gas and crude oil at December 31, 1996, the Partnership would have recognized a loss of approximately $2.3 million. Through March 10, 1997, the Partnership has paid $4.6 million to settle open hedging positions for January through March 1997. If the Partnership's remaining open natural gas and crude oil hedging positions were settled as of March 10, 1997, based on the settlement prices of the NYMEX futures contracts applicable to the Partnership's open hedging positions of natural gas and crude oil as of that date, the Partnership would have recognized a gain of $1.5 million. The actual gains or losses realized by the Partnership from its hedging activities may vary significantly from the foregoing estimates due to the volatility of the futures markets.

Other

In the ordinary course of business, the Partnership is subject to various laws and regulations. In the opinion of management, compliance with existing laws and regulations will not materially affect the financial position or operations of the Partnership. Various legal actions which have arisen in the ordinary course of business are pending with respect to the pipeline interests and other assets of the Partnership. Management believes that the ultimate disposition of these actions, either individually or in the aggregate, will not have a material adverse effect on the consolidated financial position or results of operations of the Partnership.

NOTE 12 - SUPPLEMENTAL DISCLOSURES TO THE STATEMENTS OF CASH FLOWS:

	Year ended December 31,		
	1996	1995	1994
	(In thousands)		
Cash paid for interest, net of amounts capitalized	$ 2,890	$ --	$ 693
Cash paid for income taxes	$ 20	$ 13	$ 90

Supplemental disclosures of noncash investing and financing activities:

	Year ended December 31,		
	1996	1995	1994
	(In thousands)		
Amortization of demand charges under certain transportation agreements	$ (6,087)	$ --	$ --
Increase in investment in affiliate	(7,500)	--	--
Increase in other noncurrent receivable	(8,531)	--	--
Increase in deferred revenue	15,000	--	--
	$ 7,118	$ --	$ --

NOTE 13 - MAJOR CUSTOMERS:

Transportation revenue from major customers was as follows:

	Percentage of transportation revenue for the year ended December 31, 1996					
	Unregulated Pipelines and Tarpon	Stingray(a)	HIOS(a)	UTOS(a)	Viosca Knoll (a)	POPCO (a)
ANR Pipeline Company	--	--	36%	--	--	--
Chevron U.S.A.	--	15%	--	--	--	--
Coral Energy Resources, L.P.	--	16%	--	--	--	--
Delmar Operating, Inc.	--	--	--	--	24%	--
Flextrend Development (affiliated company)	--	--	--	--	23%	14%
Marathon Oil Company	--	--	--	--	--	44%
Occidental Crude Sales, Inc.	--	--	--	--	--	13%
Producers Energy Marketing, L.L.C.	--	--	--	16%	--	--
Shell Gas Trading Company	17%	--	--	--	--	--
Shell Offshore, Inc.	--	--	--	--	37%	--
Tatham Offshore (affiliated company)	30%	--	--	--	--	--
Texaco Trading and Transportation, Inc.	--	--	--	--	--	22%
Texas Gas Transmission Corporation	--	--	20%	--	--	--
Union Oil Company of California	--	22%	--	--	--	--

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(a) Expressed as a percentage of historical transportation revenue for each entity for each period. See Note 4 for operating revenue and equity in earnings of Stingray, HIOS, UTOS, Viosca Knoll and POPCO for the year ended December 31, 1996.

	Percentage of transportation revenue for the year ended December 31, 1995				Percentage of transportation revenue for the year ended December 31, 1994				
	Unregulated Pipelines and Tarpon	Stingray(a)	HIOS(a)	Viosca Knoll(a)	Unregulated Pipelines and Tarpon	Stingray(b)	HIOS(a)	UTOS(b)	Viosca Knoll(b)
Aquila Energy Corporation	--	--	--	--	--	--	--	22%	--
Chevron U.S.A	--	15%	--	--	--	--	--	--	--
Delmar Operating, Inc.	--	--	--	31%	--	--	--	--	13%
Koch Gateway Pipeline Company	--	--	--	--	--	--	--	10%	--
Murphy Oil USA, Inc.	--	--	--	11%	--	--	--	--	18%
Natural Gas Pipeline Company of America (c)	--	--	--	--	--	18%	--	--	--
Shell Gas Trading Company	19%	11%	--	--	--	--	--	--	--
Shell Offshore, Inc.	--	--	--	46%	--	--	--	--	65%
Shell Oil Company	--	--	--	--	25%	--	--	--	--
Tatham Offshore (affiliated company)	45%	--	--	--	37%	--	--	--	--
Texas Gas Transmission Corporation	--	--	24%	--	--	--	21%	--	--
Trunkline Gas Company (c)	--	--	--	--	--	18%	--	--	--
Union Oil Company of California	--	22%	--	--	--	--	--	--	--

(a) Expressed as a percentage of historical transportation revenue for each partnership for each period. See Note 4 for operating revenue and equity in earnings of Stingray, HIOS and Viosca Knoll for the year ended December 31, 1995.
(b) Expressed as a percentage of historical transportation revenue for each partnership for each period. See Note 4 for operating revenue and equity in earnings of Stingray, HIOS, UTOS and Viosca Knoll for the year ended December 31, 1994.
(c) Stingray's transportation contracts with Natural Gas Pipeline Company of America and Trunkline Gas Company expired on November 29, 1994.

NOTE 14 - BUSINESS SEGMENT INFORMATION

The Partnership's operations consist of two segments: (i) pipeline transportation and platform services and (ii) development and production of proved oil and gas reserves. All of the Partnership's operations are conducted in the Gulf. The following table summarizes certain financial information for each business segment.

	Transportation and Platform Services	Oil and Gas	Subtotal	Consolidating Eliminations	Total
	(In thousands)				
YEAR ENDED DECEMBER 31, 1996: (a)					
Operating revenue	$ 34,057	$ 47,068	$ 81,125	$(10,052)	$ 71,073
Operating expenses	(4,270)	(14,850)	(19,120)	10,052	(9,068)
Depreciation, depletion and amortization	(15,002)	(16,729)	(31,731)	--	(31,731)
Operating income	$ 14,785	$ 15,489	$ 30,274	$ --	$ 30,274

(a) The Partnership's activities related to the production of oil and gas reserves commenced in December 1995 and therefore financial information for each business segment is only presented for the year ended December 31, 1996.

NOTE 15 - SUBSEQUENT EVENTS (UNAUDITED):

In January 1997, the Partnership and affiliates of Marathon and Shell Oil Company ("Shell") formed Nautilus Pipeline Company, L.L.C. ("Nautilus") to acquire, build and operate an interstate natural gas pipeline system, and Manta Ray Offshore Gathering Company, L.L.C. ("Manta Ray Offshore") to acquire, operate and extend an existing gathering system that will be connected to the Nautilus system, once it is constructed. Each of the two new companies was formed to serve growing production areas in the Green Canyon area of the Gulf. The total cost of the two systems, including the Manta Ray Offshore system which was contributed to Manta Ray Offshore by the Partnership, is approximately $270.0 million. The Nautilus system, a new jurisdictional interstate pipeline, will consist of a 30-inch

line downstream from Ship Shoal Block 207 connecting to the Exxon Company USA operated Garden City gas processing plant. Upstream of the Ship Shoal 207 terminal, the existing Manta Ray Offshore gathering system will be extended into a broader gathering system that would serve shelf and deepwater production around Ewing Bank Block 873 to the east and Green Canyon Block 65 to the west. Affiliates of Marathon and Shell have committed to each of the Nautilus and Manta Ray Offshore systems significant deep water acreage positions in the area, including the recently announced Troika field (Green Canyon Block 244), and will provide the majority of the capital funding for the new construction. The Partnership will provide some funding in addition to the contribution of the Manta Ray Offshore system.

NOTE 16 - SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED):

Oil and gas reserves

The following table represents the Partnership's net interest in estimated quantities of developed and undeveloped reserves of crude oil, condensate and natural gas and changes in such quantities at fiscal year end 1996 and 1995. Estimates of the Partnership's reserves at December 31, 1996 and 1995 have been made by the independent engineering consulting firm, Netherland & Sewell Associates, Inc., and by the Partnership's reservoir engineers. Net proved reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserve volumes that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are proved reserve volumes that are expected to be recovered from new wells on undrilled acreage or from existing wells where a significant expenditure is required for recompletion.

Estimates of reserve quantities are based on sound geological and engineering principles, but, by their very nature, are still estimates that are subject to substantial upward or downward revision as additional information regarding producing fields and technology becomes available.

	Oil/Condensate (barrels)	Natural Gas (MCF)
	(In thousands)	
Proved reserves-- December 31, 1994	561	815
Revisions of previous estimates	(14)	(24)
Purchase of reserves in place	3,822	60,975
Production	(46)	(474)
Proved reserves-- December 31, 1995	4,323	61,292
Revisions of previous estimates	(734)	(4,823)
Extensions, discoveries and other additions	294	3,832
Production	(421)	(15,787)
Proved reserves-- December 31, 1996	3,462	44,514
Proved developed reserves-- December 31, 1994	247	376
Proved developed reserves-- December 31, 1995	187	30,671
Proved developed reserves-- December 31, 1996	3,149	44,075

In general, estimates of economically recoverable oil and natural gas reserves and of the future net revenue therefrom are based upon a number of variable factors and assumptions, such as historical production from the subject properties, the assumed effects of regulation by governmental agencies and assumptions concerning future oil and gas prices, future operating costs and future plugging and abandonment costs, all of which may vary considerably from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of the future net revenue expected therefrom, prepared by different engineers or by the same engineers at

different times, may vary substantially. The meaningfulness of such estimates is highly dependent upon the assumptions upon which they are based.

Furthermore, the Partnership's wells have only been producing for a short period of time and, accordingly, estimates of future production are based on this limited history. Estimates with respect to proved undeveloped reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than upon actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves. A significant portion of the Partnership's reserves is based upon volumetric calculations.

Future net cash flows

The standardized measure of discounted future net cash flows relating to the Partnership's proved oil and gas reserves is calculated and presented in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing Activities." Accordingly, future cash inflows were determined by applying year-end oil and gas prices, as adjusted for hedging and other fixed price contracts in effect, to the Partnership's estimated share of future production from proved oil and gas reserves. The average prices utilized in the calculation of the standardized measure of discounted future net cash flows at December 31, 1996 were $22.55 per barrel of oil and $2.88 per MCF of gas. The Partnership received an average of $22.24 per barrel and $2.42 per MCF for its February 1997 oil and gas production, respectively. Future production and development costs were computed by applying year-end costs to future years. As the Partnership is not a taxable entity, no future income taxes were provided. A prescribed 10% discount factor was applied to the future net cash flows.

In the Partnership's opinion, this standardized measure is not a representative measure of fair market value, and the standardized measure presented for the Partnership's proved oil and gas reserves is not representative of the reserve value. The standardized measure is intended only to assist financial statement users in making comparisons between companies.

	December 31,	
	1996	1995
	(In thousands)	
Future cash inflows	$ 206,311	$ 193,593
Future production costs	13,019	12,004
Future development costs	5,328	33,007
Future income tax expenses	--	--
Future net cash flows	187,964	148,582
Annual discount at 10% rate	32,326	33,412
Standardized measure of discounted future net cash flows	$ 155,638	$ 115,170

	December 31, 1996		
	Proved Developed	Proved Undeveloped	Total
	(In thousands)		
Undiscounted estimated future net cash flows from proved reserves before income taxes	$ 179,154	$ 8,810	$ 187,964
Present value of future net cash flows from proved reserves before income taxes, discounted at 10%	$ 150,817	$ 4,821	$ 155,638

The following are the principal sources of change in the standardized measure:

	1996	1995
	(In thousands)	
Beginning of year	$ 115,170	$ 6,734
Sales and transfers of oil and gas produced, net of production costs	(40,420)	(1,685)
Net changes in prices and production costs	45,358	(156)
Extensions, discoveries and improved recovery, less related costs	17,077	--
Oil and gas development costs incurred during the year	57,501	12,865(a)
Changes in estimated future development costs	(29,421)	--
Revisions of previous quantity estimates	(19,686)	(176)
Purchase of reserves in place	--	97,188(b)
Accretion of discount	11,517	673
Changes in production rates, timing and other	(1,458)	(273)
End of year	$ 155,638	$ 115,170

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(a) Excludes aggregate capital costs of $62,900,000 attributable to multipurpose platforms completed during 1995 at Viosca Knoll Block 817 and Garden Banks Block 72 which are to function as both drilling and production platforms as well as pipeline junction platforms for the Partnerships' transportation operations.
(b) See Note 3 for discussion of Purchase and Sale Agreement with Tatham Offshore.

NOTE 17 - SUPPLEMENTAL QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

	Year 1996				
	Quarter Ended				
	March 31	June 30	September 30	December 31	Year
	(In thousands, except for per Unit data)				
Revenue	$ 19,637	$ 18,562	$ 24,214	$ 29,094	$ 91,507
Gross profit (a)	$ 12,437	$ 10,792	$ 13,246	$ 14,232	$ 50,707
Net income	$ 10,910	$ 9,161	$ 10,006	$ 8,615	$ 38,692
Net income per Unit	$ 0.44	$ 0.37	$ 0.41	$ 0.35	$ 1.57
Weighted average number of Units outstanding	24,367	24,367	24,367	24,367	24,367
Distributions declared per Unit	$ 0.325	$ 0.35	$ 0.375	$ 0.40	$ 1.45

	Year 1995				
	Quarter Ended				
	March 31	June 30	September 30	December 31	Year
	(In thousands, except for per Unit data)				
Revenue	$ 8,475	$ 10,800	$ 12,266	$ 10,452	$ 41,993
Gross profit (a)	$ 5,415	$ 7,873	$ 9,372	$ 6,951	$ 29,611
Net income	$ 3,932	$ 7,130	$ 7,255	$ 5,628	$ 23,945
Net income per Unit	$ 0.16	$ 0.29	$ 0.29	$ 0.23	$ 0.97
Weighted average number of Units outstanding	24,367	24,367	24,367	24,367	24,367
Distributions declared per Unit	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 1.20

	Year 1994				
	Quarter Ended				
	March 31	June 30	September 30	December 31	Year
	(In thousands, except for per Unit data)				
Revenue	$ 8,401	$ 8,228	$ 9,841	$ 7,666	$ 34,136
Gross profit (a)	$ 6,812	$ 6,964	$ 7,850	$ 5,549	$ 27,175
Net income	$ 5,692	$ 5,727	$ 6,631	$ 4,018	$ 22,068
Net income per Unit	$ 0.29	$ 0.30	$ 0.27	$ 0.16	$ 1.02
Weighted average number of Units outstanding	18,427	18,689	24,367	24,367	21,487
Distributions declared per Unit	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 1.20

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(a) Represent revenue less operating and depreciation, depletion and amortization expenses.

[DELOITTE & TOUCHE LLP LETTERHEAD]

INDEPENDENT AUDITORS' REPORT

To the Management Committee
High Island Offshore System
Detroit, Michigan

We have audited the accompanying statements of financial position of High Island Offshore System as of December 31, 1996 and 1995, and the related statements of income, changes in partners' equity, and cash flows for the years then ended. These financial statements are the responsibility of the High Island Offshore System'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 audits 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, such financial statements present fairly, in all material respects, the financial position of High Island Offshore System as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

February 14, 1997

HIGH ISLAND OFFSHORE SYSTEM

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 1996 AND 1995

	1996	1995
ASSETS		
GAS TRANSMISSION PLANT	$ 370,130,378	$ 369,987,946
Less - accumulated depreciation	355,589,997	350,958,736
Net gas transmission plant	14,540,381	19,029,210
CURRENT ASSETS		
Cash and cash equivalents	3,285,926	2,902,029
Accounts receivable	4,717,178	4,662,968
Prepayments	211,842	303,286
Total current assets	8,214,946	7,868,283
DEFERRED CHARGES AND OTHER ASSETS	587,595	602,968
TOTAL ASSETS	$ 23,342,922	$ 27,500,461
PARTNERS' EQUITY AND LIABILITIES		
PARTNERS' EQUITY	$ 20,547,089	$ 21,967,615
NON CURRENT LIABILITIES		
Unamortized rate reductions for excess deferred federal income taxes	500,334	802,158
CURRENT LIABILITIES		
Accounts payable	1,850,778	3,287,144
Provision for regulatory matters	--	1,050,623
Unamortized rate reductions for excess deferred Federal income taxes	302,021	302,021
Total current liabilities	2,152,799	4,639,788
AMOUNTS EQUIVALENT TO ACCUMULATED DEFERRED INCOME TAXES		
Generated by partnership	2,605,743	3,261,097
Payable by partners	(2,463,043)	(3,170,197)
	142,700	90,900
TOTAL PARTNERS' EQUITY AND LIABILITIES	$ 23,342,922	$ 27,500,461

See notes to the financial statements.

HIGH ISLAND OFFSHORE SYSTEM

STATEMENTS OF INCOME AND STATEMENTS OF PARTNERS' EQUITY
YEARS ENDED DECEMBER 31, 1996 AND 1995

STATEMENTS OF INCOME	1996	1995
OPERATING REVENUES		
Transportation services	$ 46,751,153	$ 53,129,509
Other	124,079	298,884
Total operating revenues	46,875,232	53,428,393
OPERATING EXPENSES		
Operation and maintenance	15,548,824	19,205,686
Depreciation	4,775,405	4,898,132
Federal income tax payable by partners		
Currently payable	10,200,591	9,735,370
Deferred	(1,008,978)	333,048
Property taxes	133,662	154,112
Total operating expenses	29,649,504	34,326,348
NET OPERATING INCOME	17,225,728	19,102,045
OTHER INCOME AND INCOME DEDUCTIONS		
Other income, net of income taxes	171,395	658,829
Interest on bank credit agreement	--	(75,811)
Interest on rate refund obligation	96,624	(75,528)
Total other income and income deductions	268,019	507,490
NET INCOME	$ 17,493,747	$ 19,609,535

STATEMENTS OF PARTNERS' EQUITY		
BALANCE AT BEGINNING OF PERIOD	$ 21,967,615	$ 29,633,084
Net income	17,493,747	19,609,535
Federal income taxes payable by partners	9,283,903	10,423,172
Excess deferred federal income taxes refundable to shippers	301,824	301,824
Distributions to partners	(28,500,000)	(38,000,000)
BALANCE AT END OF PERIOD	$ 20,547,089	$ 21,967,615

See notes to the financial statements.

HIGH ISLAND OFFSHORE SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1996 AND 1995

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 17,493,747	$ 19,609,535
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	4,775,405	4,898,132
Increase in current and deferred income taxes	9,283,903	10,423,172
(Increase) decrease in accounts receivable	(353,633)	6,416,090
Decrease (increase) in prepayments	91,444	(185,815)
Decrease in deferred charges and other	67,173	31,178
Decrease in provision for regulatory matters	(1,050,623)	(6,793,622)
Decrease in interest on bank credit agreement	--	(31,815)
(Decrease) increase in accounts payable	(1,213,656)	2,005,907
Cash provided by operating activities	29,093,760	36,372,762
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(209,863)	(819,941)
Proceeds from sale of equipment	--	425,000
Cash used in investing activities	(209,863)	(394,941)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments under bank credit agreement	--	(3,250,000)
Distributions to partners	(28,500,000)	(38,000,000)
Cash used in financing activities	(28,500,000)	(41,250,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING PERIOD	383,897	(5,272,179)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,902,029	8,174,208
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,285,926	$ 2,902,029

See notes to the financial statements.

HIGH ISLAND OFFSHORE SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1996 AND 1995

1. FORMATION AND OWNERSHIP STRUCTURE

Description and Business Purpose

High Island Offshore System ("HIOS" or the "Company") is a Delaware partnership. The partners, each of which has a 20% interest in HIOS, are companies affiliated with three pipeline companies as follows:

Partner	Affiliated Pipeline Company
American Natural Offshore Company	ANR Pipeline Company
NATOCO, Inc.	Natural Gas Pipeline Company of America
Texam Offshore Gas Transmission, L.L.C.	Leviathan Gas Pipeline Partners, L.P.
Texas Offshore Pipeline System, Inc.	ANR Pipeline Company
Transco Offshore Pipeline Company, L.L.C.	Leviathan Gas Pipeline Partners, L.P.

HIOS owns a 203.4 mile undersea gas transmission system in the Gulf of Mexico which provides transportation services as authorized by the Federal Energy Regulatory Commission ("FERC"). HIOS' major transportation customers include natural gas marketers and producers, and interstate natural gas pipeline companies. The Company extends credit for transportation services provided to these customers. The concentrations of customers, described above, may affect the Company's overall credit risk in that the customers may be similarly affected by changes in economic, regulatory and other factors.

HIOS is managed by a committee consisting of representatives from each of the partner companies. HIOS has no employees. ANR Pipeline Company ("ANR") operates the system on behalf of HIOS under an agreement which provides that services rendered to HIOS will be reimbursed at cost ($9.6 million for 1996 and $10.6 million for 1995).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company is regulated by and subject to the regulations and accounting procedures of the FERC. In addition, the Company meets the criteria and, accordingly, follows the accounting and reporting requirements of Statement of Financial Accounting Standards No. 71 for regulated enterprises.

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 the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Depreciation

Annual depreciation and negative salvage provisions are computed on a straight-line basis using rates of depreciation which vary by type of property. The annual composite depreciation rates were approximately 1.29% and 1.33% for 1996 and 1995, respectively, which include a provision for negative salvage of .2% for offshore facilities.

Income Taxes

Income taxes are the responsibility of the partners and are not normally reflected in the financial statements of partnerships. The FERC requires that HIOS record an allowance for income taxes computed as if it were a corporation.

Statement of Cash Flows

For purposes of these financial statements, the Company considers short-term investments to be cash equivalents. The Company had short-term investments in the amount of $3.1 million and $1.5 million at December 31, 1996 and 1995 respectively. The Company made no cash payments for interest in 1996 and paid $.1 million in 1995.

3. REGULATORY MATTERS

The settlement of Docket No. RP92-50 on December 28, 1992, provided that HIOS was obligated to refund to its shippers certain reimbursements it received from U-T Offshore System (UTOS) and from ANR related to charges HIOS paid for liquid separation, dehydration and natural gas measurement facilities at UTOS' Cameron Meadows plant and ANR's Grand Chenier plant. UTOS is equally owned by affiliates of ANR, Natural Gas Pipeline Company of America, and Leviathan Gas Pipeline Partners L.P. The disposition of reimbursements received by HIOS in 1993 was subject to a revised refund plan filed by HIOS with the FERC. As a result of a settlement reached in September 1996, HIOS made refunds of $442,000.

On June 11, 1993, HIOS filed a settlement with the FERC to recover the cost of purchasing line pack gas owned by HIOS's firm shippers to assist it in complying with FERC Order No. 636. The settlement was approved by the FERC on October 12, 1993. Under the terms of the settlement, HIOS compensated the firm shippers who previously owned the line pack through periodic payments totaling $1,129,834 which HIOS collected from the current shippers via a limited term surcharge which was placed in effect on November 1, 1993.

On April 22, 1996, HIOS filed with the FERC final reports of line pack surcharge collections and payments which reflect the completion of the line pack cost recovery and disbursement process. Revised tariff sheets were also filed to reflect the removal of the line pack commodity surcharge provisions contained in Section 15 of the General Terms and Conditions and related provisions of HIOS' tariff.

On March 1, 1994, HIOS submitted a rate filing at Docket No. RP94-162 to the FERC to increase its transportation rates with a requested effective date of April 1, 1994. On March 31, 1994, the FERC issued an order which suspended the effectiveness of these rates until September 1, 1994, subject to refund.

On September 18, 1995 the FERC issued an Order accepting the settlement of the rate filing at Docket No. RP94-162 and on October 16, 1995 the FERC issued a clarification that approved rates would be placed into effect on December 1, 1995. Accordingly, HIOS filed revised tariff sheets on November 17, 1995, to be effective on December 1, 1995. The settlement provided for a lower cost of service than filed, a reduction in transportation rates and conversion of HIOS' tariff from a volumetric to a thermal based tariff. In addition, the settlement provided that no refund would be required for amounts collected for transportation services provided from September 1, 1994 through November 30. 1995. As a result of the settlement, HIOS restored $4.1 million, net of tax, reserved in 1994 for potential rate refunds, to income in 1995.

4. INCOME TAXES

Federal income taxes are included in the Statements of Income as follows:

	Year Ended December 31	
	1996	1995
Operating Expenses	$ 9,192,000	$10,068,000
Other Income	92,000	355,000
Total Federal income taxes	$ 9,284,000	$10,423,000

A reconciliation of the statutory Federal income tax rate to total Federal income taxes payable by partners is as follows:

	Year Ended December 31	
	1996	1995
Federal income tax rate of 35% for 1996 and 1995 applied to book income before all income tax provisions	$ 9,372,000	$10,511,000
Depreciation of the allowance for equity funds used during construction	111,000	111,000
Amortization of excess deferred Federal income taxes	(199,000)	(199,000)
Total Federal income taxes	$ 9,284,000	$10,423,000

Deferred income taxes are provided for all significant transactions recognized as a component of income in different periods for financial and tax reporting purposes. As these differences reverse the related deferrals are credited or charged to income. Following is a summary of all deferred income taxes provided:

	Year Ended December 31	
	1996	1995
Book depreciation in excess of tax depreciation	$(1,226,000)	$ (1,065,000)
Rate refund obligation	368,000	2,378,000
Amortization of excess deferred Federal income taxes	(199,000)	(199,000)
Other	48,000	(781,000)
Total deferred income taxes	$(1,009,000)	$ 333,000

5. BANK CREDIT AGREEMENT

As of July 28, 1995, HIOS paid the final installment of $750,000 and retired its Bank Credit Agreement, the interest rate on which was fixed through a swap agreement at 5.65%.

6. VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash invested on a temporary basis at short term market rates of interest approximates the fair market value of the investments.

7. RELATED PARTY TRANSACTIONS

Transportation revenues derived from affiliated pipeline companies were $16.7 million for 1996 and $17.7 million for 1995. Accounts receivable balances due from these affiliates for transportation services amounted to $1.5 million at December 31, 1996, and $1.1 million at December 31, 1995.

Both ANR and UTOS provide separation, dehydration and measurement services to HIOS. HIOS incurred charges for these services of $2.8 million in 1996 and $3.6 million in 1995 from ANR and $1.4 million in 1996 and $2.3 million in 1995 from UTOS. The agreements under which these services were provided expired in May 1995.

In February 1996, the Company reached an agreement with ANR, which was approved by the FERC, which provides that rates charged by ANR would be $2.8 million for calendar year 1996, $2.5 million per year for calendar years 1997, 1998 and 1999 and $2.2 million for calendar year 2000. The rate would be negotiated for calendar year 2001 and thereafter.

The Company agreed with UTOS to an interim extension of the agreement on a month to month basis pending the completion of new agreement.

Amounts due to ANR were $27,000 and $400,000 at December 31, 1996, and 1995 respectively and amounts due to UTOS were $86,000 and $104,000 at December 31 1996, and 1995, respectively.

8. LITIGATION

Lawsuits and other proceedings which have arisen in the ordinary course of business are pending or threatened against the Company. A natural gas producer has filed a claim on behalf of the U.S. government in the U.S. District Court for the District of Columbia under the federal False Claims Act. The Second Amended Complaint filed on May 24, 1996, against seventy defendants, including HIOS, alleges that the defendants' methods of measuring the heating content and volume of natural gas purchased from federally-owned or Indian properties have caused underpayment of royalties to the U.S. government. HIOS, together with the other pipeline defendants has filed a motion to dismiss. The Court will hear oral arguments on this motion on March 12, 1997. Although no assurances can be given and no determination can be made at this time as to the outcome of any particular lawsuit or proceeding, the Company believes there are meritorious defenses to substantially all such claims and that any liability which may finally be determined should not have a material adverse effect on the Company's financial position or results of operations.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	-- Certificate of Limited Partnership of the Partnership (filed as Exhibit 3.1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).
3.2	-- Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 10.41 to Amendment No. 1 to DeepTech's Registration Statement on Form S-1, File No. 33-73538, and incorporated herein by reference).
3.3	-- Amendment Number 1 to the Amended and Restated Agreement of Limited Partnership of the Partnership (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K dated December 31, 1996 and incorporated herein by reference).
4.1	-- Form of Certificate Evidencing Preference Units Representing Limited Partner Interests (filed as Exhibit 4.1 to Amendment No. 2 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).
4.2	-- Form of Certificate Evidencing Common Units Representing Limited Partner Interests (filed as Exhibit 4.2 to Amendment No. 2 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).
10.01	-- Master Gas Dedication Agreement, dated December 10, 1993, between the Partnership and Tatham Offshore (filed as Exhibit 10.29 to Amendment No. 2 to Tatham Offshore's Registration Statement on Form S-1, File No. 33-70120, and incorporated herein by reference).
10.02	-- Amendment to Master Gas Dedication Agreement dated April 21, 1995 between the Partnership and Tatham Offshore (filed as Exhibit 10.26 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, Commission File Number 0-23934 and incorporated herein by reference).
10.03	-- Amendment to Master Gas Dedication Agreement dated April 21, 1995 between the Partnership and Tatham Offshore (filed as Exhibit 10.27 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, Commission File Number 0-23934 and incorporated herein by reference).
10.04	-- Gathering Agreement, dated July 1, 1992, among Ewing Bank, Tatham Offshore, and DeepTech (filed as Exhibit 10.16 to Tatham Offshore's Registration Statement on Form S-1, File No. 33-70120, and incorporated herein by reference).
10.05	-- Letter Agreement dated March 22, 1995 between Ewing Bank and Tatham Offshore amending the Gathering Agreement dated July 1, 1992 (filed as Exhibit 10.44 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, Commission File Number 0-23934 and incorporated herein by reference).

10.06 -- Partnership Agreement of Stingray (filed as Exhibit 10.06 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.07 -- Amended and Restated General Partnership Agreement of UTOS (filed as Exhibit 10.07 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.08 -- Amended and Restated General Partnership Agreement of HIOS (filed as Exhibit 10.08 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.09 -- First Amended and Restated Management Agreement, effective as of July 1, 1992, between the Partnership and Leviathan (filed as Exhibit 10.1 to DeepTech's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, Commission File Number 0-23934 and incorporated herein by reference).

10.10 -- Management Agreement, dated July 1, 1992, between DeepTech and Leviathan (filed as Exhibit 10.10 to Amendment No. 1 to the Partnership's Registration Statement on Form S-1, File No. 33-55642, and incorporated herein by reference).

10.11 -- First Amendment to the Amended and Restated Management Agreement, dated as of January 1, 1995, between the Partnership and DeepTech (filed as Exhibit 10.76 to DeepTech's Registration Statement on Form S-1, File No. 33-88688, and incorporated herein by reference).

10.12 -- Simultaneous Exchange Agreement dated May 27, 1994 by and among Shell Offshore Inc., SOI Royalties Inc. and Forest Oil Corporation (filed as Exhibit 10.21 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.13 -- Service Agreement dated January 1, 1994 between LOGS and Deepwater Production Systems regarding Ship Shoal 332A Platform Operation (filed as Exhibit 10.23 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.14 -- Service Agreement dated January 1, 1994 between LOGS and Deepwater Production Systems, Inc. regarding Ship Shoal 331/332 Flowlines (filed as Exhibit 10.24 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.15 -- Service Agreement dated January 1, 1994 between LOGS and Deepwater Production Systems, Inc. regarding Ship Shoal 332A Platform Modifications (filed as Exhibit 10.25 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.16 -- Technology Services Agreement effective as of July 1, 1993 by and between Dover and the Partnership (filed as Exhibit 10.26 to the Partnership's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1993 and incorporated herein by reference).

10.17 -- Letter Agreements dated August 24, 1994, between the Partnership and Placid Oil Company (filed as Exhibit 10.1 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.18 -- Letter Agreements dated August 24, 1994, between the Partnership and OPUBCO Resources, Inc. and Hi Production Company, Inc. (filed as Exhibit 10.2 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.19 -- Letter Agreements dated September 23, 1994, between the Partnership and Lamar Hunt Trust Estate (filed as Exhibit 10.4 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.20 -- Letter Agreements dated September 23, 1994, between the Partnership and Nelson Bunker Hunt Trust Estate (filed as Exhibit 10.5 to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994 and incorporated herein by reference).

10.21 -- Agreement for Purchase and Sale by and between Tatham Offshore, Inc., as Seller, and Flextrend Development Company, L.L.C., as Buyer, dated June 30, 1995 (filed as Exhibit 6(a) to the Partnership's Form 10-Q for the quarterly period ended June 30, 1995, and incorporated herein by reference).

10.22 -- Limited Liability Company Agreement of POPCO (filed as Exhibit 10.39 to the Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference).

10.23 -- Letter Agreement dated March 27, 1996, between the Partnership and Tatham Offshore related to the settlement of certain demand charges under transportation agreements (filed as Exhibit 10.40 to the Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference).

10.24* -- Second Amended and Restated Credit Agreement dated December 13, 1996 among Partnership, The Chase Manhattan Bank, as administrative agent, ING (U.S.) Capital Corporation, as co arranger, and the banks and other financial institutions from time to time party thereto.

10.25+ Leviathan Unit Rights Appreciation Plan.

21.1* -- List of Subsidiaries of the Partnership.

24.1 -- Power of Attorney (included on the signature pages of this Annual Report on Form 10-K).

27* -- Financial Data Schedule.

* Filed herewith.

\+ Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to item 14(c) of Form 10-K.

EXHIBIT 10.24

EXECUTION COUNTERPART

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SECOND AMENDED AND RESTATED
CREDIT AGREEMENT

among

LEVIATHAN GAS PIPELINE PARTNERS, L.P.,

THE SEVERAL LENDERS
FROM TIME TO TIME PARTIES HERETO,

THE CHASE MANHATTAN BANK,
as Administrative Agent

and

ING (U.S.) CAPITAL CORPORATION,
as Co-Arranger

Dated as of March 23, 1995,
as amended and restated
through March 26, 1996,
as further amended and restated
through December 13, 1996

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Schedules

Exhibits

SECOND AMENDED AND RESTATED CREDIT AGREEMENT, dated as of March 23, 1995, as amended and restated through March 26, 1996, as further amended and restated through December 20, 1996 (this "Agreement"), among LEVIATHAN GAS PIPELINE PARTNERS, L.P., a Delaware limited partnership (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (the "Lenders"), THE CHASE MANHATTAN BANK, a New York banking corporation, as administrative agent for the Lenders hereunder (in such capacity, the "Administrative Agent") and ING (U.S.) CAPITAL CORPORATION, a Delaware corporation, as co-arranger for the Lenders ("ING" or the "Co-Arranger").

W I T N E S S E T H :

WHEREAS, the Borrower, certain of the Lenders, the Administrative Agent (as successor to Chemical Bank) and ING (in its capacity as co-agent thereunder) are parties to the Amended and Restated Credit Agreement, dated as of March 23, 1995, as amended and restated through March 26, 1996 (and as further amended prior to the date hereof, the "Existing Credit Agreement");

WHEREAS, the Borrower has requested that the Existing Credit Agreement be amended and restated (a) to provide for additional financial institutions as lenders (the "New Lenders"), (b) to increase the aggregate revolving credit commitments to $300,000,000, (c) to eliminate the term loan facility, and (d) otherwise to amend the Existing Credit Agreement and restate it in its entirety as more fully set forth herein;

WHEREAS, the Lenders, the Administrative Agent and ING are willing to so amend and restate the Existing Credit Agreement, and the New Lenders are willing to become parties hereto, but only on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree that on the Closing Date (as hereinafter defined) the Existing Credit Agreement shall be amended and restated in its entirety as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Additional Clawbacks": as defined in subsection 8.4(e).

"Affiliate": as to any Person, any other Person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (i) vote 10% or more of the

securities having ordinary voting power for the election of directors of such Person or (ii) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Aggregate Outstanding Revolving Credit Extensions of Credit": as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Credit Loans made by such Lender then outstanding and (b) such Lender's Commitment Percentage of the L/C Obligations then outstanding.

"Agreement": the Existing Credit Agreement, as amended and restated by this Agreement, as further amended, supplemented or otherwise modified from time to time.

"Alternate Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City (each change in the Prime Rate to be effective on the date such change is publicly announced); "Base CD Rate" shall mean the sum of (a) the product of (i) the Three-Month Secondary CD Rate and (ii) a fraction, the numerator of which is one and the denominator of which is one minus the C/D Reserve Percentage and (b) the C/D Assessment Rate; "Three-Month Secondary CD Rate" shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board of Governors of the Federal Reserve System (the "Board") through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 A.M., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by the Administrative Agent from three New York City negotiable certificate of deposit dealers of recognized standing selected by it; "C/D Assessment Rate" means for any day as applied to any Revolving Credit Loan, the net annual assessment rate (rounded upward to the nearest 1/100th of 1%) determined by Chase to be payable on such day to the Federal Deposit Insurance Corporation or any successor ("FDIC") for FDIC's insuring time deposits made in Dollars at offices of Chase in the United States; and "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the

day of such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Base CD Rate or the Federal Funds Effective Rate, or both, for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms thereof, the Alternate Base Rate shall be determined without regard to clause (b) or (c), or both, of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate shall be effective on the effective day of such change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate, respectively.

"Alternate Base Rate Loans": Revolving Credit Loans the rate of interest applicable to which is based upon the Alternate Base Rate.

"Annualized EBITDA": (a) at any date of determination thereof prior to April 30, 1997, the product of (i) Consolidated EBITDA for the period of two consecutive fiscal quarters ended on September 30, 1996 times (ii) two, and (b) at any date of determination thereof from and after April 30, 1997 but prior to May 31, 1997, the product of (i) Consolidated EBITDA for the period of three consecutive fiscal quarters ended on December 31, 1996 times (ii) 4/3.

"Applicable Margin": for each Type of Revolving Credit Loan and the Commitment Fee payable pursuant to subsection 2.5 at any time, the rate per annum based on the ratio of Consolidated Total Indebtedness of the Borrower at such time to Consolidated EBITDA for the most recently ended Calculation Period (the "Leverage Ratio") as set forth under the relevant column heading below:

Leverage Ratio	Eurodollar Loans	Alternate Base Rate Loans	Commitment Fee
Less than or equal to 2.5	.625%	0%	.250%
Greater than 2.5 but less than or equal to 3.0	.750%	0%	.250%
Greater than 3.0 but less than or equal to 3.5	1.00%	0%	.300%
Greater than 3.5 but less than 4.0	1.25%	0%	.375%
Greater than or equal to 4.0	1.50%	0%	.375%

The Applicable Margin and Commitment Fee for any date shall be determined by reference to the Leverage Ratio as of the last day of the fiscal quarter most recently ended as of such date and for the Calculation Period ended on such last day, and any change (x) shall become effective upon the delivery to the Administrative Agent of a certificate of a Responsible Officer of the Borrower (which certificate may be delivered prior to delivery of the relevant financial statements or may be incorporated in the certificate delivered pursuant to subsection 7.2(b)) with respect to the financial statements to be delivered pursuant to subsection 7.1 for the most recently ended fiscal quarter (a) setting forth in reasonable detail the calculation of the Leverage Ratio at the end of such fiscal quarter and (b) stating that the signer has reviewed the terms of this Agreement and other Loan Documents and has made, or caused to be made under his or her supervision, a review in reasonable detail of the transactions and condition of the Borrower and the Restricted Subsidiaries during the accounting period, and that the signer does not have knowledge of the existence as at the date of such officers' certificate of any Event of Default or Default, and (y) shall apply (i) in the case of the Alternate Base Rate Loans, to Alternate Base Rate Loans outstanding on such delivery date or made on and after such delivery date and (ii) in the case of the Eurodollar Loans, to Eurodollar Loans made on and after such delivery date. It is understood that the foregoing certificate of a Responsible Officer shall be permitted to be delivered prior to, but in no event later than, the time of the actual delivery of the financial statements required to be delivered pursuant to subsection 7.1. Notwithstanding the foregoing, at any time prior to which the first certificate is required to be delivered under subsection 7.2(b) (or prior to the time a certificate as described in this definition is first delivered to the Administrative Agent) and at any time during which the Borrower has failed to deliver the certificate required under subsection 7.2(b) with respect to a fiscal quarter following the date the delivery thereof is due, the Leverage Ratio shall be deemed, solely for the purposes of this definition, to be greater than 4.5 until such time as Borrower shall deliver such compliance certificate.

"Application": an application, in such form as the Issuing Bank may specify, requesting the Issuing Bank to open a Letter of Credit.

"Available Revolving Credit Commitment": as to any Lender at any time, an amount equal to the excess, if any, of (a) the amount of such Lender's Revolving Credit Commitment over (b) such Lender's Aggregate Outstanding Revolving Credit Extensions of Credit.

"Borrower Pledge Agreement": the Amended and Restated Pledge and Security Agreement made by the Borrower in favor of the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit C hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Borrower Security Agreement": the Amended and Restated Security Agreement made by the Borrower in favor of the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit D hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Borrowing Date": any Business Day specified in a notice pursuant to subsection 2.3 or 3.2 as a date on which the Borrower requests the Lenders to make Loans or the Issuing Bank to issue a Letter of Credit hereunder.

"Business": as defined in subsection 5.17.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

"Calculation Period": each period of four consecutive fiscal quarters of the Borrower.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing. In addition, with respect to the Borrower "Capital Stock" shall include the Preference Units, the Common Units and the General Partnership Interest.

"Cash Equivalents": (i) marketable direct obligations issued or unconditionally guaranteed by the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having the highest rating obtainable from either Standard & Poor's Ratings Services (or any successor

statistical rating organization) ("S&P"), or Moody's Investors Service, Inc. (or any successor statistical rating organization) ("Moody's"); (iii) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having the highest rating obtainable from either S&P or Moody's; (iv) certificates of deposit or banker's acceptances maturing within one year from the date of acquisition thereof issued by (x) any Lender, (y) any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia having combined capital and surplus of not less than $250,000,000 or (z) any bank which has a short-term commercial paper rating meeting the requirements of clause (iii) above (any such Lender or bank, a "Qualifying Lender"); (v) eurodollar time deposits having a maturity of less than one year purchased directly from any Lender (whether such deposit is with such Lender or any other Lender hereunder) or issued by any Qualifying Lender; and (vi) repurchase agreements and reverse repurchase agreements with a term of not more than 14 days with any Qualifying Lender relating to marketable direct obligations issued or unconditionally guaranteed by the United States.

"C/D Reserve Percentage": for any day as applied to any Alternate Base Rate Loan, 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) (the "Board"), for determining the maximum reserve requirement for a Depositary Institution (as defined in Regulation D of the Board) in respect of new non-personal time deposits in Dollars having a maturity of 30 days or more.

"Change in Control": the acquisition by any Person or two or more Persons acting in concert (other than the management of DeepTech as of the Closing Date and the shareholders of DeepTech as of the Closing Date) of beneficial ownership (within the meaning of Rule 13d-3, promulgated by the Securities and Exchange Commission and now in effect under the Securities Exchange Act of 1934, as amended) of 50% or more of the issued and outstanding shares of voting stock of DeepTech.

"Chase": The Chase Manhattan Bank.

"Closing Date": the date on which the conditions set forth in subsection 6.1 are first satisfied or waived, which shall occur on or prior to December 31, 1996.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Collateral": the "Collateral" as defined in the several Security Documents.

"Commitment Percentage": as to any Lender at any time, with respect to any credit to be extended under, payment or prepayment to be made under, conversion or continuation under, participation in a Letter of Credit issued under, or other matter with respect to, the Revolving Credit Commitments, a percentage, the numerator of which is such Lender's Revolving Credit Commitment and the denominator of which is the aggregate Revolving Credit Commitments then in effect.

"Commodity Hedging Program: any hedge agreement designed to protect the Borrower or any of its Subsidiaries against fluctuations in Petroleum prices.

"Common Unit": a partnership interest of a limited partner of the Borrower representing a fractional part of the partnership interests of all limited partners of the Borrower and having the rights and obligations specified with respect to Common Units in the Partnership Agreement.

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"Confirmation of Guarantees and Security Documents": the Confirmation of the Guarantees and the Security Documents, substantially in the form of Exhibit B.

"Consolidated EBITDA": for any period, the Consolidated Net Income ((i) including earnings and losses from discontinued operations, except to the extent that any such losses represent reserves for losses attributable to the planned disposition of material assets, (ii) excluding extraordinary gains, and gains and losses arising from the sale of material assets, and (iii) including other non-recurring losses) for such period, plus (x) the aggregate amount of cash distributions received by the Borrower and its consolidated Subsidiaries (excluding Unrestricted Subsidiaries) from unconsolidated entities, Unrestricted Subsidiaries or Joint Ventures, and (y) to the extent reflected as a charge in the statement of Consolidated Net Income for such period, the sum of (a) interest expense, amortization of debt discount and debt issuance costs (including the write-off of such costs in connection with prepayments of debt) and commissions, discounts and other fees and charges associated with standby letters of credit, (b) taxes measured by income accrued as an expense during such period, (c) depreciation, depletion, and amortization expense, and (d) non-cash compensation expense resulting from the accounting treatment applied, in accordance with GAAP, to management's equity interest minus the equity of the Borrower and its consolidated Subsidiaries (excluding Unrestricted Subsidiaries) in the earnings of unconsolidated entities.

"Consolidated Net Income": for any period, the net income or net loss of the Borrower and its consolidated Subsidiaries (excluding Unrestricted Subsidiaries) for such period determined in accordance with GAAP on a consolidated basis.

"Consolidated Net Worth": as of the date of determination, all items which in conformity with GAAP would be included under shareholders' equity on a consolidated balance sheet of the Borrower and its consolidated Subsidiaries (excluding Unrestricted Subsidiaries) at such date.

"Consolidated Tangible Net Worth": as of the date of determination, Consolidated Net Worth after deducting therefrom the following:

(a) goodwill, including any amounts (however designated on the balance sheet) representing the cost of acquisitions of Subsidiaries in excess of underlying tangible assets;

(b) patents, trademarks, copyrights;

(c) leasehold improvements not recoverable at the expiration of a lease; and

(d) deferred charges (including, but not limited to, unamortized debt discount and expense, organization expenses and experimental and development expenses, but excluding prepaid expenses).

"Consolidated Total Capitalization": as to any Person at any time, the sum of (a) all amounts which would be included in stockholders' equity, partners' capital or any other equity accounts on a consolidated balance sheet of such Person and its consolidated Subsidiaries (excluding, in the case of the Borrower, Unrestricted Subsidiaries) at such time prepared in accordance with GAAP, and (b) the Consolidated Total Indebtedness of such Person at such time.

"Consolidated Total Indebtedness": as to any Person at any time, all Indebtedness of such Person and its consolidated Subsidiaries (excluding, in the case of the Borrower, Unrestricted Subsidiaries) at such time.

"Contractual Obligation": as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"DeepTech": DeepTech International Inc., a Delaware corporation.

"Default": any of the events specified in Section 9, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Demand Charge Rearrangement": any amendment, supplement, replacement, renewal, cancellation or other modification to any agreement effective prior to March 1, 1996, between the Borrower and/or any of its Subsidiaries and Tatham Offshore, Inc., relating to oil and gas properties in which Tatham Offshore, Inc. owns an interest and which properties are located in the Garden Banks, Ship Shoal, Viosca Knoll or Ewing Bank area of the Outer Continental Shelf; provided that, the Borrower and the Restricted Subsidiaries shall not make any payments or distributions of cash or other property to or for the benefit of Tatham Offshore, Inc. in connection with the Demand Charge Rearrangement.

"Distribution Loan": a Revolving Credit Loan the proceeds of which are used to pay, in whole or in part, distributions on the Preference Units, the Common Units or the General Partnership Interest. To the extent any "Distribution Loans" (as

defined in the Existing Credit Agreement) were outstanding on the Closing Date and were refinanced with the proceeds of Revolving Credit Loans hereunder, such Revolving Credit Loans shall be deemed to be Distribution Loans under this Agreement.

"Documents": as defined in subsection 5.20(b).

"Dollars" and "$": dollars in lawful currency of the United States of America.

"Environmental Laws": any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes, as now or may at any time hereafter be in effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by a member bank of such System.

"Eurodollar Base Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum equal to the rate at which Chase is offered Dollar deposits at or about 10:00 A.M., New York City time, two Working Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations in respect of its Eurodollar Loans are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of its Eurodollar Loan to be outstanding during such Interest Period.

"Eurodollar Loans": Revolving Credit Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

"Eurodollar Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

$$\frac{\text{Eurodollar Base Rate}}{1.00 - \text{Eurocurrency Reserve Requirements}}$$

"Event of Default": any of the events specified in Section 9, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Ewing Bank": Ewing Bank Gathering Company, L.L.C., a Delaware limited liability company.

"Existing Credit Agreement": as defined in the recitals hereto.

"Expiry Date": with respect to any Letter of Credit at any time, the then stated expiration date of such Letter of Credit as set forth in such Letter of Credit.

"FASB 121": Statement of Financial Accounting Standards No. 121 of the Financial Accounting Standards Board, as the same may be amended and interpreted by the Financial Accounting Standards Board.

"FERC": the Federal Energy Regulatory Commission and any successor thereto.

"Financing Lease": any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on a balance sheet of the lessee.

"Flextrend": Flextrend Development Company, L.L.C., a Delaware limited liability company.

"GAAP": generally accepted accounting principles in the United States of America in effect from time to time.

"Garden Banks Write-Down": any write-offs or charges pursuant to FASB 121 as a result of investments in the Subject Properties known as Garden Banks 117.

"General Partner": Leviathan in its capacity as the general partner of the Borrower.

"General Partnership Interest": all general partnership interests in the Borrower.

"Governmental Approval": any authorization, consent, approval, license, lease, ruling, permit, tariff, rate, certification, exemption, filing, variance, claim, order, judgment, decree, publication, notice to, declaration of or with or registration by or with any Governmental Authority.

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Green Canyon": Green Canyon Pipe Line Company, L.L.C., a Delaware limited liability company.

"Guarantee Obligation": as to any Person (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith.

"Guarantees": collectively, the Leviathan Guarantee and the Subsidiaries Guarantee.

"Hazardous Materials": any hazardous materials, hazardous wastes, hazardous constituents, hazardous or toxic substances, petroleum products (including crude oil or

any fraction thereof), defined or regulated as such in or under any Environmental Law.

"HIOS": High Island Offshore System, a Delaware general partnership.

"Incurrence Limitation": (a) on any date of determination prior to May 30, 1997, the greater of (i) $250,000,000 and (ii) the product of (x) 3.25 multiplied by (y) the Annualized EBITDA on such date of determination, and (b) from and after May 30, 1997, an amount not to exceed the product of (i) 3.25 multiplied by (ii) the Consolidated EBITDA for the most recently ended Calculation Period for which financial statements have been delivered pursuant to subsection 7.1.

"Indebtedness": of any Person at any date, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices and which in any event are no more than 120 days past due or, if more than 120 days past due, are being contested in good faith and adequate reserves with respect thereto have been made on the books, of such Person), (b) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument, (c) all obligations of such Person under Financing Leases, (d) all obligations of such Person in respect of outstanding letters of credit (other than commercial letters of credit with an initial maturity date of less than 90 days), acceptances and similar obligations issued or created for the account of such Person and (e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Interest Payment Date": (a) as to any Alternate Base Rate Loan, the last day of each March, June, September and December, commencing December 31, 1996, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, and (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day which is three months or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period.

"Interest Period": with respect to any Eurodollar Loan:

(i) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in its

notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent not less than three Working Days prior to the last day of the then current Interest Period with respect thereto;

provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(1) if any Interest Period pertaining to a Eurodollar Loan would otherwise end on a day that is not a Working Day, such Interest Period shall be extended to the next succeeding Working Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Working Day;

(2) any Interest Period that would otherwise extend beyond the Revolving Credit Termination Date shall end on the Revolving Credit Termination Date;

(3) any Interest Period pertaining to a Eurodollar Loan that begins on the last Working 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 such Interest Period) shall end on the last Working Day of a calendar month; and

(4) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Revolving Credit Loan.

"Issuing Bank": Chase, in its capacity as issuer of any Letter of Credit.

"Joint Venture": any Person in which the Borrower and/or its Subsidiaries hold less than a majority of the equity interests, and which does not constitute a Subsidiary of the Borrower, whether direct or indirect.

"L/C Commitment Amount": $40,000,000.

"L/C Commitment Percentage": as to any L/C Participant at any time, the percentage determined under paragraph (a) of the definition of "Commitment Percentage" in this subsection 1.1.

"L/C Obligations": at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired amount of the Letters of Credit and (b) the

aggregate amount of drawings under the Letters of Credit which have not then been reimbursed pursuant to subsection 3.5(a).

"L/C Participants": the collective reference to all Lenders with Revolving Credit Commitments (other than the Issuing Bank).

"Lenders": as defined in the preamble to this Agreement.

"Letters of Credit": as defined in subsection 3.1(a).

"Leverage Ratio": as defined in the definition of "Applicable Margin".

"Leviathan": Leviathan Gas Pipeline Company, a Delaware corporation.

"Leviathan Guarantee": the Amended and Restated Guarantee made by Leviathan in favor of the Administrative Agent, for the benefit of the Lenders, substantially in the form of Exhibit E hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Leviathan Pledge Agreement (LLC)": the Amended and Restated Pledge and Security Agreement made by Leviathan in favor of the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit F hereto, with respect to Leviathan's limited liability company interests in the Subsidiaries, as the same may be amended, supplemented or otherwise modified from time to time.

"Leviathan Pledge Agreement (GP)": the Amended and Restated Pledge Agreement made by Leviathan in favor of the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit G hereto, with respect to Leviathan's General Partnership Interest, as the same may be amended, supplemented or otherwise modified from time to time.

"Leviathan Pledge Agreements": collectively, the Leviathan Pledge Agreement (LLC) and the Leviathan Pledge Agreement (GP).

"Leviathan Security Agreement": the Amended and Restated Security Agreement, made by Leviathan in favor of the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit H hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority, preferential arrangement or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Financing Lease having substantially the same economic effect as any of the foregoing).

"Loan Documents": this Agreement, the Revolving Credit Notes, the Guarantees, the Security Documents, the Applications and the Confirmation of Guarantees and Security Documents.

"Loan Parties": the Borrower, Leviathan, the Subsidiary Guarantors and each other Affiliate of the Borrower or Leviathan that from time to time is party to a Loan Document.

"LOTS: Leviathan Oil Transport Systems, L.L.C., a Delaware limited liability company.

"Majority Lenders": at any time, the holders of at least 50% of the aggregate Revolving Credit Commitments then in effect.

"Management Agreement": the First Amended and Restated Management Agreement, dated as of June 27, 1994, between DeepTech and the General Partner, as amended by the First Amendment thereto dated as of January 1, 1995, and as further amended, modified or supplemented from time to time in accordance with subsection 8.9.

"Manta Ray": Manta Ray Gathering Company, L.L.C., a Delaware limited liability company.

"Manta Ray Gathering System": the assets described on Schedule II and any additional natural gas pipelines and related facilities designed to gather natural gas volumes in the Ship Shoal, South Timbalier, Grand Isle, Ewing Bank, Green Canyon and other areas.

"Material Adverse Effect": a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects of the Borrower and its Restricted Subsidiaries taken as a whole, (b) the ability of any Loan Party to perform its obligations under this Agreement or any of the Revolving Credit Notes or any of the other Loan Documents or (c) the validity or enforceability of this Agreement or any of the Revolving Credit Notes or any of the other Loan Documents or the rights or remedies of the Administrative Agent or the Lenders hereunder or thereunder.

"Material Environmental Amount": an amount payable by the Borrower and/or its Subsidiaries in excess of $5,000,000 for remedial costs, compliance costs, compensatory damages, punitive damages, fines, penalties or any combination thereof.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any

Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Nautlilus Pipeline System": the natural gas pipelines and related facilities designed to transport natural gas volumes from Ship Shoal Block 207 to points onshore in Garden City, St. Mary Parish, Louisiana.

"Nautilus/Manta Ray Ventures": one or more limited liability companies formed or to be formed by the Borrower, Shell Seahorse Company, Marathon Gas Transmission Inc. and certain of their affiliates, the purpose of each of which shall be to acquire, construct and operate the Manta Ray Gathering System and the Nautilus Pipeline System.

"Net Debt Proceeds": 100% of the cash proceeds from the incurrence by the Borrower or any of its Restricted Subsidiaries of any Indebtedness pursuant to subsection 8.2(f), net of all reasonable out-of-pocket fees (including investment banking fees), commissions, costs and other reasonable out-of-pocket expenses incurred in connection with such issuance or sale. For purposes of calculating "Net Debt Proceeds", fees, commissions and other costs and expenses payable to the Borrower or any of its Affiliates shall be disregarded.

"Net Equity Proceeds": 100% of the cash proceeds from the issuance or sale by the Borrower or any of its Restricted Subsidiaries of any equity securities, net of all reasonable out-of-pocket fees (including investment banking fees), commissions, costs and other reasonable out-of-pocket expenses incurred in connection with such issuance or sale. For purposes of calculating "Net Equity Proceeds", fees, commissions and other costs and expenses payable to the Borrower or any of its Affiliates shall be disregarded.

"Non-Recourse Obligations": Indebtedness, Guarantee Obligations and other obligations of any type (a) as to which neither the Borrower nor any Restricted Subsidiary (i) is obligated to provide credit support in any form, or (ii) is directly or indirectly liable, and (b) no default with respect to which (including any rights which the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any Indebtedness or Guarantee Obligation of the Borrower or any Restricted Subsidiary to declare a default on such Indebtedness or Guarantee Obligation of the Borrower or any Restricted Subsidiary or cause the payment of any such Indebtedness to be accelerated or payable prior to its stated maturity or cause any such Guarantee Obligation to become payable.

"Participants": as defined in subsection 11.6(b).

"Partnership Agreement": the Amended and Restated Agreement of Limited Partnership of the Borrower among the partners of the Borrower substantially in the form previously provided to the Lenders, as amended, modified and supplemented from time to time in accordance with subsection 8.9.

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted L/C Obligations": at any time the aggregate then undrawn and unexpired amount of all then outstanding letters of credit issued for the account of the Borrower or any of its Restricted Subsidiaries (other than the Letters of Credit) plus the aggregate amount of drawings under any letters of credit issued for the account of the Borrower or any of its Restricted Subsidiaries which have not then been reimbursed, provided that the sum of such amounts shall not exceed $1,000,000, provided that all such obligations shall be unsecured.

"Person": an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Petroleum": oil, gas and other liquid or gaseous hydrocarbons, including, without limitation, all liquefiable hydrocarbons and other products which may be extracted from gas and gas condensate by the processing thereof in a gas processing plant.

"Pipeline Partnership Agreement": with respect to each Joint Venture, the partnership agreement, certificate of incorporation, by-laws, limited liability company agreement or other constitutive documents of such Joint Venture, as each of the same may be further amended, supplemented or otherwise modified in accordance with subsection 8.9.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreements": collectively, the Borrower Pledge Agreement, the Leviathan Pledge Agreements and any other pledge agreement executed and delivered pursuant to subsection 8.17.

"Poseidon": Poseidon Pipeline Company, L.L.C., a Delaware limited liability company.

"Poseidon Venture": Poseidon Oil Pipeline Company, L.L.C., a Delaware limited liability company.

"Preference Unit": a partnership interest in the Borrower representing a fractional part of the partnership interests of all limited partners of the Borrower and having the rights and obligations specified with respect to Preference Units in the Partnership Agreement.

"Properties": the facilities and properties owned, leased or operated by the Borrower or any of its Subsidiaries or any Joint Venture.

"Purchasing Lenders": as defined in subsection 11.6(c).

"Redesignated Subsidiary": as defined in subsection 7.11(c).

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System as in effect from time to time.

"Reimbursement Obligation": the obligation of the Borrower to reimburse the Issuing Bank pursuant to subsection 3.5(a) for amounts drawn under the Letters of Credit.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, other than those events as to which the thirty day notice period is waived under subsections .13, .14, .16, .18, .19 or .20 of PBGC Reg. Section 2615.

"Required Lenders": at any time, the holders of at least 60% of the aggregate Revolving Credit Commitments then in effect.

"Requirement of Law": as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Reserve Report": a report in form and substance reasonably satisfactory to the Administrative Agent certified, in the case of the report delivered as of December 31 in any year, by Netherland Sewell, Ryder Scott, H.J. Gruy or another independent petroleum engineer acceptable to the Administrative Agent and, in the case of the report delivered as of June 30 in any year, by the principal financial officer of the Borrower, setting forth (a) the amount of and projected production of Petroleum from the proven Petroleum reserves attributable to the Subject Properties and (b) the projected future net income taking into account sales revenues, lease operating expenses, associated production taxes and capital costs, and setting forth the net present value attributable to such reserves attributable to the Subject Properties as of

the date of such report (in each case determined using pricing assumptions reasonably satisfactory to the Administrative Agent).

"Responsible Officer": the Chief Executive Officer, the Chief Operating Officer, the President, the Chief Financial Officer, the Treasurer or any vice president of the General Partner or the Borrower.

"Restricted Payment": as defined in subsection 8.7.

"Restricted Subsidiary": any Subsidiary of the Borrower other than an Unrestricted Subsidiary. Subject to the right to redesignate certain Restricted Subsidiaries as Unrestricted Subsidiaries in accordance with clause (a)(i) of the definition of "Unrestricted Subsidiary", all of the Subsidiaries of the Borrower as of the date hereof are Restricted Subsidiaries.

"Revolving Credit Commitment": as to any Lender, the obligation of such Lender to make Revolving Credit Loans to and/or issue or participate in Letters of Credit issued on behalf of the Borrower hereunder in an aggregate principal and/or face amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule I under the heading "Revolving Credit Commitment", as such amount may be reduced from time to time in accordance with the provisions of this Agreement.

"Revolving Credit Commitment Period": the period from and including the date hereof to but not including the Revolving Credit Termination Date or such earlier date on which the Revolving Credit Commitments shall terminate as provided herein.

"Revolving Credit Loans": as defined in subsection 2.1.

"Revolving Credit Note": as defined in subsection 2.2.

"Revolving Credit Termination Date": the third anniversary of the Closing Date, as such termination date may from time to time be extended pursuant to subsection 2.7, and any other date on which the Revolving Credit Commitments are terminated.

"Security Agreements": collectively, the Borrower Security Agreement, the Leviathan Security Agreement and the Subsidiary Security Agreements.

"Sailfish": Sailfish Pipeline Company, L.L.C., a Delaware limited liability company.

"Security Documents": collectively, the Pledge Agreements and the Security Agreements.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Stingray": Stingray Pipeline Company, a Louisiana general partnership.

"Stingray Holding": Stingray Holding, L.L.C., a Delaware limited liability company.

"Subject Properties": the Properties containing Petroleum in which Borrower or any Restricted Subsidiary owns an interest, including, but not limited to, those known as Viosca Knoll 817, Garden Banks 72 and Garden Banks 117 in the Gulf of Mexico.

"Subsidiaries Guarantee": the Amended and Restated Subsidiaries Guarantee made by the Subsidiary Guarantors in favor of the Administrative Agent, for the benefit of the Lenders, substantially in the form of Exhibit J hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Subsidiary": as to any Person, a corporation, partnership or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Subsidiary Guarantors": collectively, Ewing Bank, Flextrend, Green Canyon, LOTS, Manta Ray, Poseidon, Stingray Holding, Tarpon, THC, TOGT, TOPC, VK Deepwater, VK Main Pass, Sailfish and any other Subsidiary of the Borrower which, from time to time, may become party to the Subsidiaries Guarantee.

"Subsidiary Security Agreement": each Security Agreement made by each of the Subsidiary Guarantors (including any security agreement executed and delivered pursuant to subsection 8.17) in favor of the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit K hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Tarpon": Tarpon Transmission Company, a Texas corporation.

"THC": Transco Hydrocarbons Company, L.L.C., a Delaware limited liability company.

"TOGT": Texam Offshore Gas Transmission, L.L.C., a Delaware limited liability company.

"TOPC": Transco Offshore Pipeline Company, L.L.C., a Delaware limited liability company.

"Tranche": the collective reference to Eurodollar Loans the Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Revolving Credit Loans shall originally have been made on the same day).

"Transferee": as defined in subsection 11.6(f).

"Type": as to any Revolving Credit Loan, its nature as an Alternate Base Rate Loan or a Eurodollar Loan.

"Uniform Customs": the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time.

"Unrestricted Subsidiary": any Subsidiary of the Borrower (a) which (i) in the case of any Subsidiary which owns an interest in Stingray, HIOS, UTOS or Viosca Knoll, is designated by the Borrower in a written notice to the Administrative Agent after the date hereof as an Unrestricted Subsidiary, or (ii) becomes a Subsidiary of the Borrower after the date hereof and at the time it becomes a Subsidiary, is designated as an Unrestricted Subsidiary, in each case under subclause (i) or (ii) of this clause (a) pursuant to a written notice from the Borrower to the Administrative Agent, (b) which has not acquired any assets (other than cash made available pursuant to this Agreement) from the Borrower or any Restricted Subsidiary, and (c) which has no Indebtedness, Guarantee Obligations or other obligations other than Non-Recourse Obligations or Guarantee Obligations permitted pursuant to subsections 8.4(d) and (e) to the extent the applicable guarantor has guaranteed payment of the obligations of the Borrower under this Agreement.

"UTOS": U-T Offshore System, a Delaware general partnership.

"Viosca Knoll": Viosca Knoll Gathering Company, a Delaware joint venture.

"VK Deepwater": VK Deepwater Gathering Company, L.L.C., a Delaware limited liability company.

"VK Main Pass": VK-Main Pass Gathering Company, L.L.C., a Delaware limited liability company.

"West Cameron": West Cameron Dehydration Company, L.L.C., a Delaware limited liability company.

"Working Day": any Business Day on which dealings in foreign currencies and exchange between banks may be carried on in London, England.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Revolving Credit Notes or any certificate or other document made or delivered pursuant hereto.

(b) As used herein and in the Revolving Credit Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Borrower and its Subsidiaries not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. AMOUNT AND TERMS OF REVOLVING CREDIT COMMITMENTS

2.1 Revolving Credit Commitments. (a) Subject to the terms and conditions hereof, each Lender severally agrees to make revolving credit loans ("Revolving Credit Loans") to the Borrower from time to time during the Revolving Credit Commitment Period in an aggregate principal amount at any one time outstanding which, when added to such Lender's Commitment Percentage of the then outstanding L/C Obligations, does not exceed the amount of such Lender's Revolving Credit Commitment, provided that no such Revolving Credit Loan shall be made if, after giving effect thereto, subsection 2.4 would be contravened, and provided, further, that no such Revolving Credit Loan which would be a Distribution Loan shall be made if, after giving effect thereto, subsection 2.8 would be contravened. During the Revolving Credit Commitment Period the Borrower may use the Revolving Credit Commitments by borrowing, prepaying the Revolving Credit Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof.

(b) The Revolving Credit Loans may from time to time be (i) Eurodollar Loans, (ii) Alternate Base Rate Loans or (iii) a combination thereof, as determined by the Borrower and notified to the Administrative Agent in accordance with subsections 2.3 and 4.2, provided that no Revolving Credit Loan shall be made as a Eurodollar Loan after the day that is one month prior to the Revolving Credit Termination Date.

(c) The revolving credit loans outstanding on the Closing Date under the Existing Credit Agreement shall continue to be outstanding and shall be continued under this Agreement.

2.2 Revolving Credit Notes. The Revolving Credit Loans made by each Lender shall be evidenced by a promissory note of the Borrower, substantially in the form of

Exhibit A, with appropriate insertions as to payee, date and principal amount (a "Revolving Credit Note"), payable to the order of such Lender and in a principal amount equal to the lesser of (a) the amount of the initial Revolving Credit Commitment of such Lender and (b) the aggregate unpaid principal amount of all Revolving Credit Loans made by such Lender. Each Lender is hereby authorized to record the date, Type and amount of each Revolving Credit Loan made by such Lender, each continuation thereof, each conversion of all or a portion thereof to another Type, the date and amount of each payment or prepayment of principal thereof, whether such Revolving Credit Loan is a Distribution Loan and, in the case of Eurodollar Loans, the length of each Interest Period with respect thereto, on the schedules annexed to and constituting a part of its Revolving Credit Note, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded, provided that failure by any Lender to make any such recordation shall not affect the obligations of the Borrower under the Revolving Credit Notes or this Agreement. Each Revolving Credit Note shall (x) be dated the Closing Date, (y) be stated to mature on the Revolving Credit Termination Date, and (z) provide for the payment of interest in accordance with subsection 4.4.

2.3 Procedure for Revolving Credit Borrowing. The Borrower may borrow under the Revolving Credit Commitments during the Revolving Credit Commitment Period on any Working Day, if all or any part of the requested Revolving Credit Loans are to be initially Eurodollar Loans, or on any Business Day, otherwise, provided that the Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 10:00 A.M., New York City time, (a) three Working Days prior to the requested Borrowing Date, if all or any part of the requested Revolving Credit Loans are to be initially Eurodollar Loans, or (b) one Business Day prior to the requested Borrowing Date, otherwise), specifying (i) the amount to be borrowed, (ii) the requested Borrowing Date, (iii) whether the borrowing is to be of Eurodollar Loans, Alternate Base Rate Loans or a combination thereof, (iv) if the borrowing is to be entirely or partly of Eurodollar Loans, the respective amounts of such Type of Revolving Credit Loan and the respective lengths of the initial Interest Periods therefor, and (v) whether such requested Revolving Credit Loans are Distribution Loans. Each borrowing under the Revolving Credit Commitments shall be in an amount equal to (x) in the case of Alternate Base Rate Loans, $500,000 or a whole multiple thereof (or, if the then Available Revolving Credit Commitments are less than $500,000, such lesser amount) and (y) in the case of Eurodollar Loans, $1,000,000 or a whole multiple of $100,000 in excess thereof. Upon receipt of any such notice from the Borrower, the Administrative Agent shall promptly notify each Lender thereof. Each Lender will make the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Borrower at the office of the Administrative Agent specified in subsection 11.2 prior to 11:00 A.M., New York City time, on the Borrowing Date requested by the Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

2.4 Limitations on Revolving Credit Loans. No requested Revolving Credit Loan shall be made if the sum of the Aggregate Outstanding Revolving Credit Extensions of Credit (after giving effect to such requested Revolving Credit Loan) plus the aggregate amount of Additional Clawbacks then outstanding plus the aggregate amount of Permitted L/C Obligations outstanding immediately prior to giving effect to such Revolving Credit Loan would exceed the lesser of (a) the then aggregate Revolving Credit Commitments or (b) the Incurrence Limitation then in effect.

2.5 Commitment Fee. The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee for the period from and including the date hereof to the Revolving Credit Termination Date, computed at the rate per annum equal to:

(a) the then Applicable Margin therefor as set forth under the column heading "Commitment Fee" on the average daily amount of the lesser of: (i) the Available Revolving Credit Commitment of such Lender or (ii) an amount equal to such Lender's Commitment Percentage of (x) the Incurrence Limitation then in effect minus (y) the Aggregate Outstanding Revolving Credit Extensions of Credit, plus

(b) 1/8% on the average daily amount equal to such Lender's Commitment Percentage of (i) the Revolving Credit Commitments minus (ii) the Incurrence Limitation then in effect,

during the period for which payment is made, payable quarterly in arrears on the last day of each March, June, September and December, commencing December 31, 1996 and on the Revolving Credit Termination Date or such earlier date as the Revolving Credit Commitments shall terminate as provided herein, commencing on the first of such dates to occur after the date hereof.

2.6 Termination or Reduction of Revolving Credit Commitments. (a) The Borrower shall have the right, upon not less than five Business Days' notice to the Administrative Agent, to terminate the Revolving Credit Commitments or, from time to time, to reduce the amount of the Revolving Credit Commitments, provided that no such termination or reduction shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Credit Loans made on the effective date thereof, the aggregate principal amount of the Revolving Credit Loans then outstanding, when added to the then outstanding L/C Obligations, would exceed the Revolving Credit Commitments then in effect. Any such reduction shall be in an amount equal to $1,000,000 or a whole multiple thereof.

(b) Any reduction of Revolving Credit Commitments pursuant to subsection 2.6(a) above or 4.1(b) shall reduce permanently the Revolving Credit Commitments then in effect.

2.7 Extensions of Revolving Credit Termination Date. The Borrower may, by irrevocable written notice to the Administrative Agent received no later than 120 days

prior to the Revolving Credit Termination Date then in effect, request the Lenders to change such Revolving Credit Termination Date to the date 364 days following such then scheduled Revolving Credit Termination Date. Upon receipt of any such notice, the Administrative Agent shall promptly notify each Lender thereof. Each Lender may consent or refuse to consent to such change, in its sole discretion, at any time on or prior to the date which is 60 days prior to the Revolving Credit Termination Date then in effect. Upon the receipt by the Administrative Agent of the written consent of each of the Lenders to such change in the Revolving Credit Termination Date on or prior to 2:00 p.m., New York time, on the date which is 60 days prior to the Revolving Credit Termination Date then in effect, the Revolving Credit Termination Date shall be changed to such subsequent date 364 days following the Revolving Credit Termination Date then in effect, and the term "Revolving Credit Termination Date" for all purposes of this Agreement and the other Loan Documents shall thereupon be deemed to refer to such subsequent date.

2.8 Limitations on Distribution Loans. The proceeds of each Distribution Loan must be applied to the payment of distributions on the Preference Units, the Common Units or the General Partner Interest on the Borrowing Date for such Distribution Loans. The aggregate principal amount of Distribution Loans at any time outstanding shall not exceed $7,500,000. To the extent that any Distribution Loans are outstanding at any time, any repayment of principal of any Revolving Credit Loan by the Borrower at such time shall be deemed to be a repayment of the principal of such Distribution Loans.

SECTION 3. LETTERS OF CREDIT

3.1 Issuance of Letters of Credit. (a) Subject to the terms and conditions hereof, the Issuing Bank, in reliance on the agreements of the other Lenders set forth in subsection 3.3(a), agrees to issue letters of credit (the "Letters of Credit") for the account of the Borrower on any Business Day during the Revolving Credit Commitment Period in such form as may be approved from time to time by the Issuing Bank; provided that the Issuing Bank shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (1) the L/C Obligations would exceed the L/C Commitment or (2) the Available Revolving Credit Commitment would be less than zero or (3) the Aggregate Outstanding Revolving Credit Extensions of Credit plus the aggregate amount of Additional Clawbacks then outstanding plus the aggregate amount of Permitted L/C Obligations then outstanding would exceed the lesser of (i) the then aggregate Revolving Credit Commitments or (ii) the Incurrence Limitation then in effect.

(b) Each Letter of Credit shall:

(1) be denominated in Dollars and shall be either (A) a standby letter of credit issued to support obligations of the Borrower or any Restricted Subsidiary, contingent or otherwise, in connection with the working capital and business needs of the Borrower or such Restricted Subsidiary, as the case may be, in the ordinary course of business, or (B) a commercial letter of credit issued in respect of the purchase of

goods or services by the Borrower or any Restricted Subsidiary in the ordinary course of business; and

(2) expire no later than the earlier of (A) one year after the date of issuance or renewal thereof in accordance with the term of such Letter of Credit; provided that any Letter of Credit with a one-year tenure may be renewed for additional one-year periods and (B) five days prior to the Revolving Credit Termination Date.

(c) Each Letter of Credit shall be subject to the Uniform Customs and, to the extent not inconsistent therewith, the laws of the State of New York.

(d) The Issuing Bank shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Bank or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law.

(e) Letters of Credit issued under the Existing Credit Agreement which are outstanding on the Closing Date shall be deemed to be Letters of Credit issued under this Agreement on the Closing Date.

3.2 Procedure for Issuance of Letters of Credit. The Borrower may from time to time request that the Issuing Bank issue a Letter of Credit by delivering to the Issuing Bank at its address for notices specified herein an Application therefor, completed to the satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank may reasonably request. Upon receipt of any Application, the Issuing Bank will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Bank be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and the Borrower. The Issuing Bank shall furnish a copy of such Letter of Credit to the Borrower promptly following the issuance thereof.

3.3 Participations and Payments in Respect of the Letters of Credit. (a) The Issuing Bank irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Bank to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Bank, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's L/C Commitment Percentage in the Issuing Bank's obligations and rights under each Letter of Credit issued hereunder and the amount of each draft paid by the Issuing Bank thereunder.

(b) Each L/C Participant unconditionally and irrevocably agrees with the Issuing Bank that, if a draft is paid under any Letter of Credit for which the Issuing Bank is not reimbursed on the day of such payment in full by the Borrower in immediately available

funds, such Lender shall pay to the Issuing Bank upon demand at the Issuing Bank's address for notices specified herein an amount equal to such L/C Participant's L/C Commitment Percentage of the amount of such draft, or any part thereof, which is not so reimbursed. Each L/C Participant's obligation to make each such payment to the Issuing Bank, and the Issuing Bank's right to receive the same, are absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limiting the effect of the foregoing, the occurrence or continuance of a Default or Event of Default or the failure of any other L/C Participant to make any payment under this subsection, and each L/C Participant further agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each L/C Participant shall indemnify and hold harmless the Issuing Bank from and against any and all losses, liabilities (including, without limitation, liabilities for penalties), actions, suits, judgments, demands, costs and expenses (including reasonable attorneys' fees) resulting from any failure of such L/C Participant to provide, or from any delay in providing, the Issuing Bank with such L/C Participant's L/C Commitment Percentage of such payment in accordance with the provisions of this subsection, but no L/C Participant shall be so liable for any such failure on the part of any other L/C Participant.

(c) If any amount required to be paid by any L/C Participant to the Issuing Bank pursuant to subsection 3.3(a) in respect of any unreimbursed portion of any payment made by the Issuing Bank under any Letter of Credit is paid to the Issuing Bank within one Business Day after the date such payment is due, such L/C Participant shall pay to the Issuing Bank on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal funds rate, as quoted by the Issuing Bank, during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Bank, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to subsection 3.3(a) is not in fact made available to the Issuing Bank by such L/C Participant within one Business Day after the date such payment is due, the Issuing Bank shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Alternate Base Rate Loans hereunder. A certificate of the Issuing Bank submitted to any L/C Participant with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

(d) Whenever, at any time after the Issuing Bank has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with subsection 3.3(a), the Issuing Bank receives any payment related to such Letter of Credit (whether directly from the Borrower or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Issuing Bank will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Bank shall be required to be returned by the Issuing Bank, such L/C Participant shall return to the Issuing Bank the portion thereof previously distributed by the Issuing Bank to it.

3.4 Fees, Commissions and Other Charges. (a) The Borrower shall pay to the Administrative Agent, for the account of the Issuing Bank, a fronting fee with respect to each Letter of Credit for the period from and including the date of issuance thereof to but not including the Expiry Date thereof, computed at the rate of 1/8 of 1% per annum on the average daily amount of the undrawn and unexpired amount of such Letter of Credit. Such fronting fee shall be payable quarterly in advance on the date of issuance of each Letter of Credit and on the last day of each March, June, September and December thereafter. Such fee shall be nonrefundable.

(b) The Borrower shall pay to the Administrative Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit commission with respect to each Letter of Credit for the period from and including the date of issuance thereof to but not including the Expiry Date thereof, computed at the rate of the then Applicable Margin for Eurodollar Loans per annum on the average daily amount of the undrawn and unexpired amount of such Letter of Credit. Such commission shall be payable to the L/C Participants to be shared ratably among them in accordance with their respective L/C Commitment Percentages. Such commission shall be payable quarterly in advance on the date of issuance of each Letter of Credit and on the last day of each March, June, September and December thereafter. Such fee shall be nonrefundable.

(c) In addition to the foregoing fees and commissions, the Borrower shall pay or reimburse the Issuing Bank for such normal and customary costs and expenses as are incurred or charged by the Issuing Bank in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

(d) The Administrative Agent shall, promptly following its receipt thereof, distribute to the Issuing Bank and the L/C Participants all fees and commissions received by the Administrative Agent for their respective accounts pursuant to this subsection.

(e) The fees and commissions described in the preceding paragraphs (a) and (b) shall be based on a 360 day year. If any amounts in the preceding paragraphs (a) and (b) shall be payable on a day that is not a Working Day, such amount shall be extended to the next succeeding Working Day unless the result of such extension would be to carry such amount into another calendar month in which event such amount shall be payable on the immediately preceding Working Day.

3.5 Reimbursement Obligation of the Borrower. (a) The Borrower agrees to reimburse the Issuing Bank on each date on which the Issuing Bank notifies the Borrower of the date and amount of a draft presented under any Letter of Credit and paid by the Issuing Bank for the amount of (i) such draft so paid and (ii) any taxes, fees, charges or other costs or expenses incurred by the Issuing Bank in connection with such payment. Each such payment shall be made to the Issuing Bank at its address for notices specified herein in lawful money of the United States of America and in immediately available funds.

(b) Unless otherwise notified by the Borrower, each drawing under a Letter of Credit shall constitute a request by the Borrower to the Administrative Agent for a borrowing

pursuant to subsection 2.3 of Revolving Credit Loans which are Alternate Base Rate Loans in the amount of such drawing, subject to satisfaction of the conditions set forth in subsection 6.2. The Borrowing Date with respect to such borrowing shall be the date of such drawing.

(c) Interest shall be payable on any and all amounts remaining unpaid by the Borrower under this subsection from the date such amounts become payable (whether at stated maturity, by acceleration or otherwise) until payment in full at the rate which would be payable on any outstanding Alternate Base Rate Loans which were then overdue.

3.6 Obligations Absolute. (a) The Borrower's obligations under this Section 3 shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Borrower may have or have had against the Issuing Bank or any beneficiary of any Letter of Credit.

(b) The Borrower also agrees with the Issuing Bank that the Issuing Bank shall not be responsible for, and the Borrower's Reimbursement Obligations under subsection 3.5(a) shall not be affected by, among other things, (i) the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or (ii) any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or (iii) any claims whatsoever of the Borrower against any beneficiary of any Letter of Credit or any such transferee.

(c) The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Bank's gross negligence or willful misconduct.

(d) The Borrower agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence of willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Borrower and shall not result in any liability of the Issuing Bank to the Borrower.

3.7 Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the Issuing Bank shall promptly notify the Borrower of the date and amount thereof. The responsibility of the Issuing Bank to the Borrower in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are in conformity with such Letter of Credit.

3.8 Applications. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 3, the provisions of this Section 3 shall apply.

SECTION 4. GENERAL PROVISIONS FOR LOANS

4.1 Optional and Mandatory Prepayments. (a) The Borrower may on the last day of any Interest Period with respect thereto, in the case of Eurodollar Loans, or at any time and from time to time, in the case of Alternate Base Rate Loans, prepay the Revolving Credit Loans, in whole or in part, without premium or penalty, upon at least four Business Days' irrevocable notice to the Administrative Agent, specifying the date and amount of prepayment and whether the prepayment is of Eurodollar Loans, Alternate Base Rate Loans or a combination thereof, and, if of a combination thereof, the amount allocable to each. Upon receipt of any such notice the Administrative Agent shall promptly notify each Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein. Partial prepayments shall be in an aggregate principal amount of $1,000,000 or a whole multiple thereof.

(b) Upon the incurrence or issuance of any Indebtedness pursuant to subsection 8.2(f)(i), the Borrower shall, without notice or demand, immediately prepay the Revolving Credit Loans, and the Revolving Credit Commitments shall be subject to automatic reduction, in an aggregate amount equal to (i) 50% of the Net Debt Proceeds of such Indebtedness plus (ii) any additional amount necessary to comply with the requirements of subsections 2.4 and 8.1(d).

(c) If on any date (including any date on which a certificate of a Responsible Officer of the Borrower is delivered pursuant to subsection 7.2(b)) the sum of the Aggregate Outstanding Revolving Credit Extensions of Credit plus the aggregate amount of Additional Clawbacks then outstanding plus the aggregate amount of Permitted L/C Obligations then outstanding exceeds the lesser of (i) the then aggregate Revolving Credit Commitments or (ii) the then applicable Incurrence Limitation, then, without notice or demand, the Borrower shall, on such date, prepay the Revolving Credit Loans in an amount equal to such excess. The Borrower may, subject to the terms and conditions of this Agreement, reborrow the amount of any prepayment made under subsection 4.1(c).

(d) The application of any prepayment pursuant to subsections 4.1(b) and (c) shall be made first to Alternate Base Rate Loans and second to Eurodollar Loans. Each prepayment of the Loans under subsections 4.1(b) and (c) (other than Alternate Base Rate Loans) shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid.

4.2 Conversion and Continuation Options. (a) The Borrower may elect from time to time to convert Eurodollar Loans to Alternate Base Rate Loans by giving the Administrative Agent at least two Business Days' prior irrevocable notice of such election, provided that any such conversion of Eurodollar Loans may only be made on the last day of an Interest Period with respect thereto. The Borrower may elect from time to time to convert Alternate Base Rate Loans to Eurodollar Loans by giving the Administrative Agent at least three Working Days' prior irrevocable notice of such election. Any such notice of conversion to Eurodollar Loans shall specify the length of the initial Interest Period or

Interest Periods therefor. Upon receipt of any such notice the Administrative Agent shall promptly notify each Lender thereof. All or any part of outstanding Eurodollar Loans and Alternate Base Rate Loans may be converted as provided herein, provided that (i) no Revolving Credit Loan may be converted into a Eurodollar Loan when any Default or Event of Default has occurred and is continuing and the Administrative Agent has or the Required Lenders have determined that such a conversion is not appropriate, (ii) any such conversion may only be made if, after giving effect thereto, subsection 4.3 shall not have been contravened and (iii) no Revolving Credit Loan may be converted into a Eurodollar Loan after the date that is one month prior to the Revolving Credit Termination Date.

(b) Any Eurodollar Loans may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving notice to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in subsection 1.1, of the length of the next Interest Period to be applicable to such Revolving Credit Loans, provided that no Eurodollar Loan may be continued as such (i) when any Default or Event of Default has occurred and is continuing and the Administrative Agent has or the Required Lenders have determined that such a continuation is not appropriate, (ii) if, after giving effect thereto, subsection 4.3 would be contravened or (iii) after the date that is one month prior to the Revolving Credit Termination Date and provided, further, that if the Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Revolving Credit Loans shall be automatically converted to Alternate Base Rate Loans on the last day of such then expiring Interest Period.

4.3 Minimum Amounts of Tranches. All borrowings, conversions and continuations of Revolving Credit Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, (a) the aggregate principal amount of the Revolving Credit Loans comprising each Tranche shall be equal to $2,000,000 or a whole multiple of $100,000 in excess thereof, and (b) the number of Tranches then outstanding shall not exceed eight.

4.4 Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each Alternate Base Rate Loan shall bear interest at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin.

(c) If all or a portion of (i) the principal amount of any Revolving Credit Loan, (ii) any interest payable thereon or (iii) any commitment fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum which is the higher of (A) the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this subsection plus 2% and (B) the Alternate Base Rate plus 1%, in each case from the date of such non-payment until such amount is paid in full (as well after as before judgment).

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this subsection shall be payable from time to time on demand.

4.5 Computation of Interest and Fees. (a) Interest on Alternate Base Rate Loans, commitment fees and interest on overdue interest, commitment fees and other amounts payable hereunder shall be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed. Interest on Eurodollar Loans shall be calculated on the basis of a 360-day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the Alternate Base Rate or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error. The Administrative Agent shall, at the request of the Borrower, deliver to the Borrower a statement showing the quotations used by the Administrative Agent in determining any interest rate pursuant to subsection 4.4(a).

4.6 Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Majority Lenders that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Revolving Credit Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to the Borrower and the Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as Alternate Base Rate Loans, (y) any Revolving Credit Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be converted to or continued as Alternate Base Rate Loans and (z) any outstanding Eurodollar Loans shall be converted, on the first day of such Interest Period, to Alternate Base Rate Loans. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Borrower have the right to convert Revolving Credit Loans to Eurodollar Loans.

4.7 Pro Rata Treatment and Payments. (a) Each borrowing by the Borrower from the Lenders hereunder, each payment by the Borrower on account of any commitment fee hereunder and any reduction of the Revolving Credit Commitments of the Lenders shall be made pro rata according to the respective Commitment Percentages of the Lenders. Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Revolving Credit Loans shall be made pro rata according to the respective outstanding principal amounts of the Revolving Credit Loans then held by the Lenders. All payments (including prepayments) to be made by the Borrower hereunder and under the Revolving Credit Notes, whether on account of principal, interest, fees or otherwise, shall be made without set off or counterclaim and shall be made prior to 12:00 Noon, New York City time, on the due date thereof to the Administrative Agent, for the account of the Lenders, at the Administrative Agent's office specified in subsection 11.2, in Dollars and in immediately available funds. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day, and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension and with respect to payments of fees, such fees accruing during such extension shall be payable on the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Working Day, the maturity thereof shall be extended to the next succeeding Working Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Working Day.

(b) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a Borrowing Date that such Lender will not make the amount that would constitute its Commitment Percentage of the borrowing on such date available to the Administrative Agent, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on such Borrowing Date, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is made available to the Administrative Agent on a date after such Borrowing Date, such Lender shall pay to the Administrative Agent on demand an amount equal to the product of (i) the daily average Federal Funds Effective Rate during such period, times (ii) the amount of such Lender's Commitment Percentage of such borrowing, times (iii) a fraction the numerator of which is the number of days that elapse from and including such Borrowing Date to the date on which such Lender's Commitment Percentage of such borrowing shall have become immediately available to the Administrative Agent and the denominator of which is 360. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error. If such Lender's Commitment Percentage of such borrowing is not in fact made available to the Administrative Agent by such Lender within three Business Days of such Borrowing Date, the Administrative Agent shall be entitled to recover such amount with interest thereon at the rate per annum applicable to Alternate Base Rate Loans hereunder, on demand, from the Borrower.

4.8 Illegality. Notwithstanding any other provision herein, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Lender hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Alternate Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) such Lender's Revolving Credit Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Alternate Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Revolving Credit Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Lender such amounts, if any, as may be required pursuant to subsection 4.11.

4.9 Requirements of Law. (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any Revolving Credit Note, any Letter of Credit, any Application or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for taxes covered by subsection 4.10 and changes in the rate of tax on the overall net income of such Lender);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender which is not otherwise included in the determination of the Eurodollar Rate hereunder; or

(iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or issuing or participating in the Letters of Credit or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify the Borrower, through the Administrative Agent, of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this subsection submitted by such Lender, through the Administrative Agent, to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Revolving Credit Notes and all other amounts payable hereunder.

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder or under any Letter of Credit to a level below that which such Lender or such corporation could have achieved but for such change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrower (with a copy to the Administrative Agent) of a written request therefor, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

4.10 Taxes. (a) All payments made by the Borrower under this Agreement and the Revolving Credit Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding, in the case of the Administrative Agent and each Lender, net income taxes and franchise taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent or such Lender, as the case may be, as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Administrative Agent or such Lender (excluding a connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Revolving Credit Notes) or any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "Taxes"). If any Taxes are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder or under the Revolving Credit Notes, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Revolving Credit Notes. Whenever any Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure. The agreements in this subsection shall survive the termination of this Agreement and the payment of the Revolving Credit Notes and all other amounts payable hereunder.

(b) Each Lender that is not incorporated under the laws of the United States of America or a state thereof shall:

(i) deliver to the Borrower and the Administrative Agent (A) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224, or successor applicable form, as the case may be, and (B) an Internal Revenue Service Form W-8 or W-9, or successor applicable form, as the case may be;

(ii) deliver to the Borrower and the Administrative Agent two further copies of any such form or certification on or before the date that any such form or certification expires or becomes obsolete and after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower; and

(iii) obtain such extensions of time for filing and complete such forms or certifications as may reasonably be requested by the Borrower or the Administrative Agent;

unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender so advises the Borrower and the Administrative Agent. Such Lender shall certify (i) in the case of a Form 1001 or 4224, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Person that shall become a Lender or a Participant pursuant to subsection 11.6 shall, upon the effectiveness of the related transfer, be required to provide all of the forms and statements required pursuant to this subsection, provided that in the case of a Participant such Participant shall furnish all such required forms and statements to the Lender from which the related participation shall have been purchased.

4.11 Indemnity. The Borrower agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of (a) default by the Borrower in payment when due of the principal amount of or interest on any Eurodollar Loan, (b) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (d) the making of a prepayment of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. This covenant shall survive the termination of this Agreement and the payment of the Revolving Credit Notes and all other amounts payable hereunder.

4.12 Lenders Obligation to Mitigate. Each Lender agrees that, as promptly as practicable after it becomes aware that it has been or will be affected by the occurrence of an event or the existence of a condition described under subsection 4.8, 4.9(a) or 4.10(a), it will, to the extent not inconsistent with such Lender's internal policies, use its best efforts (a) to provide written notice to the Borrower describing such condition and the anticipated effect thereof and (b) to make, fund or maintain the affected Eurodollar Loans of such Lender through another lending office of such Lender if as a result thereof the additional moneys which would otherwise be required to be paid in respect of such Revolving Credit Loans pursuant to subsection 4.8, 4.9 or 4.10(a) would be materially reduced or the illegality or other adverse circumstances which would otherwise require such payment pursuant to subsection 4.8, 4.9(a) or 4.10(a) would cease to exist and if, as determined by such Lender, in its sole discretion, the making, funding or maintaining of such Revolving Credit Loans through such other lending office would not otherwise adversely affect such Revolving Credit Loans or such Lender. The Borrower hereby agrees to pay all reasonable expenses incurred by any Lender in utilizing another lending office of such Lender pursuant to this subsection 4.12.

4.13 Certain Permitted Transactions. Notwithstanding any provision in the Loan Documents (but subject to subsection 8.10), the Borrower and its Subsidiaries shall have the right to consummate any of the transactions described in subsection 8.6(c).

SECTION 5. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent, the Co-Arranger and the Lenders to enter into this Agreement and to make the Revolving Credit Loans and issue or participate in the Letters of Credit, the Borrower hereby represents and warrants to the Administrative Agent, the Co-Arranger and each Lender that:

5.1 Financial Condition. The consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at December 31, 1995, and the related consolidated statement of operations and of cash flows for the fiscal year ended December 31, 1995, reported on by Price Waterhouse, copies of which have heretofore been furnished to each Lender, present fairly the consolidated financial condition of the Borrower and its consolidated Subsidiaries as at each such date, and the consolidated results of their operations and their consolidated cash flows for the year then ended. The consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at September 30, 1996 and the related consolidated statements of operations and of cash flows for the three and nine months ended September 30, 1996, copies of which have heretofore been furnished to each Lender, present fairly the consolidated financial condition of the Borrower and its consolidated Subsidiaries as at each such date, and the consolidated results of their operations and their consolidated cash flows for the three- and nine-month periods then ended. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such accountants and as disclosed therein and, with respect to the September 30, 1996 financial statements, for the absence of footnotes and year-end adjustments). Except as set forth on Schedule 5.1,

neither the Borrower nor any of its consolidated Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Guarantee Obligation, contingent liability or liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is not reflected in the foregoing statements or in the notes thereto. Except as set forth on Schedule 5.1, during the period from September 30, 1996 to and including the Closing Date there has been no sale, transfer or other disposition by the Borrower or any of its consolidated Subsidiaries of any material part of its business or property and no purchase or other acquisition of any business or property (including any capital stock of any other Person) material in relation to the consolidated financial condition of the Borrower and its consolidated Subsidiaries at September 30, 1996.

5.2 No Change. Since September 30, 1996 (a) there has been no development or event which has had or could reasonably be expected to have a Material Adverse Effect and (b) no dividends or other distributions have been declared, paid or made upon the Capital Stock of the Borrower except as permitted by subsection 8.7, nor has any of the Capital Stock of the Borrower been redeemed, retired, purchased or otherwise acquired for value by the Borrower or any of its Subsidiaries.

5.3 Existence; Compliance with Law. Each of the Borrower and its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign corporation, limited partnership or limited liability company, as the case may be, and, where applicable, in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.4 Power; Authorization; Enforceable Obligations. (a) The Borrower has the power and authority, and the legal right, to make, deliver and perform this Agreement, the Revolving Credit Notes and the other Loan Documents to which it is a party and to borrow hereunder and has taken all necessary action to authorize the borrowings on the terms and conditions of this Agreement and the Revolving Credit Notes and to authorize the execution, delivery and performance of this Agreement, the Revolving Credit Notes and the other Loan Documents to which it is a party. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or the Revolving Credit Notes or the Applications. This Agreement has been, and each Revolving Credit Note and the Applications will be, duly executed and delivered on behalf of the Borrower. This Agreement constitutes, and each Revolving Credit Note and each other Loan Document to which the Borrower is a party when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency,

reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

(b) Each of the Subsidiary Guarantors has the power and authority, and the legal right, to make, deliver and perform the Loan Documents to which it is a party and has taken all necessary action to authorize the execution, delivery and performance of the Loan Documents to which it is a party. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of the Loan Documents to which such Subsidiary Guarantor is a party. Each of the Loan Documents to which such Subsidiary Guarantor is a party will be duly executed and delivered on behalf of such Subsidiary Guarantor. Each Loan Document to which such Subsidiary Guarantor is a party will, when executed and delivered, constitute a legal, valid and binding obligation of such Subsidiary Guarantor enforceable against such Subsidiary Guarantor in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

5.5 No Legal Bar. The execution, delivery and performance of this Agreement, the Revolving Credit Notes and the other Loan Documents, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of any Loan Party, or, to the best knowledge of the Borrower, any Joint Venture any of the interests in which is owned by a Restricted Subsidiary, and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

5.6 No Material Litigation. Except as set forth on Schedule 5.6, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened by or against the Borrower or any of its Subsidiaries, or, to the best knowledge of the Borrower, any Joint Venture any of the interests in which is owned by a Restricted Subsidiary, or against any of its or their respective properties or revenues (a) with respect to this Agreement, the Revolving Credit Notes or any of the other Loan Documents or any of the transactions contemplated hereby or thereby, or (b) which could reasonably be expected to have a Material Adverse Effect.

5.7 No Default. No Loan Party, and, to the best knowledge of the Borrower, no Joint Venture any of the interests in which is owned by a Restricted Subsidiary, is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

5.8 Ownership of Property; Liens. Each of the Borrower and its Restricted Subsidiaries has good record and marketable title in fee simple to, or a valid leasehold interest in, all its real property necessary for its operations as then conducted, and good title

to, or a valid leasehold interest in, all its other property, and none of such property necessary for its operations as then conducted is subject to any Lien except as permitted by subsection 8.3.

5.9 Intellectual Property. The Borrower and each of its Restricted Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted except for those the failure to own or license which could not have a Material Adverse Effect (the "Intellectual Property"). No claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, nor does the Borrower know of any valid basis for any such claim. The use of such Intellectual Property by the Borrower and its Restricted Subsidiaries does not infringe on the rights of any Person, except for such claims and infringements that, in the aggregate, do not have a Material Adverse Effect.

5.10 No Burdensome Restrictions. The Borrower, in good faith, does not believe any Requirement of Law or Contractual Obligation of the Borrower or any of its Restricted Subsidiaries could reasonably be expected to have a Material Adverse Effect.

5.11 Taxes. Each of the Borrower and its Subsidiaries has filed or caused to be filed all tax returns which, to the knowledge of the Borrower, are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or its Subsidiaries, as the case may be); no tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charge.

5.12 Federal Regulations. No part of the proceeds of any Revolving Credit Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect or for any purpose which violates the provisions of the Regulations of such Board of Governors. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U.

5.13 ERISA. No Loan Party has or is a party to, or has any matured or contingent obligations under, any Plans.

5.14 Investment Company Act; Other Regulations. The Borrower is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. The Borrower is not subject

to regulation under any Federal or State statute or regulation which limits its ability to incur Indebtedness.

5.15 Subsidiaries. The Persons set forth on Schedule 5.15 constitute all of the Subsidiaries of the Borrower, and all Joint Ventures in which the Borrower owns any interest, as of the Closing Date, and the percentage of the equity interests owned by the Borrower in each such Person as of such date. Each of the Subsidiaries listed on Schedule 5.15 is as of the Closing Date a Restricted Subsidiary.

5.16 Purpose of Revolving Credit Loans, Letters of Credit. The proceeds of the Revolving Credit Loans shall be used by the Borrower (a) in an amount not to exceed $7,500,000 at any time outstanding, for Distribution Loans, (b) to refinance Indebtedness under the Existing Credit Agreement and (c) for general corporate purposes. The Letters of Credit shall be used for the purposes described in subsection 3.1(b).

5.17 Environmental Matters. Except as set forth on Schedule 5.17:

(a) To the best knowledge of the Borrower, the Properties do not contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations which (i) constitute or constituted a violation of, or (ii) give rise to liability under, any Environmental Law, except in either case insofar as such violation or liability, or any aggregation thereof, could not reasonably be expected to result in the payment of a Material Environmental Amount.

(b) To the best knowledge of the Borrower, the Properties and all operations at the Properties are in compliance, and have in the period commencing six months prior to the date hereof been in compliance, in all material respects with all applicable Environmental Laws, and there is no contamination at, under or about the Properties or violation of any Environmental Law with respect to the Properties or the business operated by the Borrower or any of its Subsidiaries or any Joint Venture (the "Business") which could materially interfere with the continued operation of any material Property or which could reasonably be expected to have a Material Adverse Effect.

(c) Neither the Borrower nor any of its Subsidiaries nor, to the best knowledge of the Borrower or any Joint Venture, has received any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the Business, nor does the Borrower have knowledge or reason to believe that any such notice will be received or is being threatened except insofar as such notice or threatened notice, or any aggregation thereof, does not involve a matter or matters that is or could reasonably be expected to result in the payment of a Material Environmental Amount.

(d) To the best knowledge of the Borrower, Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of,

or in a manner or to a location which could reasonably be expected to give rise to liability under, any Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could reasonably be expected to give rise to liability under, any applicable Environmental Law except insofar as any such violation or liability referred to in this paragraph, or any aggregation thereof, could not reasonably be expected to result in the payment of a Material Environmental Amount.

(e) No judicial proceeding or governmental or administrative action is pending or, to the knowledge of the Borrower, threatened, under any Environmental Law to which the Borrower or any Subsidiary, or, to the best knowledge of the Borrower, any Joint Venture, is or will be named as a party with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business except insofar as such proceeding, action, decree, order or other requirement, or any aggregation thereof, could not reasonably be expected to result in the payment of a Material Environmental Amount.

(f) To the best knowledge of the Borrower, there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of the Borrower or any Subsidiary or any Joint Venture, in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws except insofar as any such violation or liability referred to in this paragraph, or any aggregation thereof, could not reasonably be expected to result in the payment of a Material Environmental Amount.

(g) There are no Liens arising under or pursuant to any Environmental Laws on any of the real properties or properties owned or leased by any Loan Party, and no government actions have been taken or are in process which could subject any of such properties to such Liens and no Loan Party would be required to place any notice or restriction relating to the presence of Hazardous Materials at any properties owned by it in any deed to such properties.

(h) There have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted by or which are in the possession of any Loan Party in relation to any properties or facility now or previously owned or leased by any Loan Party which have not been made available to the Lenders.

5.18 Accuracy and Completeness of Information. The factual statements contained in the financial statements (other than financial projections) referred to in subsection 5.1, the Loan Documents, and any other certificates or documents furnished or to be furnished (but only, with respect to documents furnished after the Closing Date, documents provided pursuant to subsection 7.2(d)) to the Administrative Agent, the Co-Arranger

or the Lenders from time to time in connection with this Agreement, taken as a whole, do not and will not, to the knowledge of the Borrower, as of the date when made, contain any untrue statement of a material fact or omit to state a material fact (other than omissions that pertain to matters of a general economic nature, matters generally known to the Administrative Agent or matters of public knowledge that generally affect any of the industry segments included in the Business of the Borrower, its Subsidiaries or any Joint Venture) necessary in order to make the statements contained therein not misleading in light of the circumstances in which the same were made, such knowledge qualification being given only with respect to factual statements made by Persons other than the Borrower, and all financial projections contained in any such document or certificate have been prepared in good faith based upon assumptions believed by the Borrower to be reasonable.

5.19 Security Documents. The Pledge Agreements are each effective to create in favor of the Administrative Agent, for the ratable benefit of the Lenders, a legal, valid and enforceable security interest in the respective Interests described therein and proceeds thereof, and the Pledge Agreements each constitute a fully perfected first Lien on, and security interest in, all right, title and interest of the Borrower and Leviathan, respectively, in such Interests and Pledged Certificates and in proceeds thereof superior in right to any other Person. Each Security Agreement is effective to create in favor of the Administrative Agent, for the ratable benefit of the Lenders, a legal, valid and enforceable security interest in the respective collateral described therein and proceeds thereof, and the Security Agreements constitute fully perfected, first priority Liens on, and security interests in (subject to the Liens permitted pursuant to subsection 8.3), all right, title and interest of the Borrower and the Subsidiary Guarantors in such collateral and the proceeds thereof superior in right to any other Person other than Liens permitted hereby.

5.20 Pipeline Partnership Agreements, Management Agreement, etc. (a) As of the Closing Date, the Administrative Agent has received, with a copy for each Lender, a complete copy of each of the Pipeline Partnership Agreements of each Joint Venture any of the interests in which is owned by a Restricted Subsidiary and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof.

(b) As of the Closing Date, the Administrative Agent has received a complete copy of the Partnership Agreement, the Management Agreement and each credit agreement to which any Joint Venture any of the interests in which is owned by a Restricted Subsidiary is a party (including all exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers, relating thereto and other side letters or agreements affecting the terms thereof (collectively, such agreements and documents described in paragraphs (a) and (b) of this subsection 5.20 are referred to as the "Documents"). None of the Documents has been amended or supplemented, nor have any of the provisions thereof been waived, except (i) pursuant to a written agreement or instrument which has heretofore been consented to in writing by the Required Lenders or (ii) in accordance with the provisions of this Agreement.

(c) Except as disclosed on Schedule 5.6, each of the Documents has been duly executed and delivered by each of the Borrower and its Subsidiaries party thereto and, to the

Borrower's knowledge, by each of the other parties thereto, is in full force and effect and constitutes a legal, valid and binding enforceable obligation of each of the Borrower and its Subsidiaries party thereto and, to the Borrower's knowledge, each other party thereto. None of the Borrower or any of its Subsidiaries party to any of the Documents, is in default in the performance of any of its obligations thereunder in any material respect which would give any other party to such Document a right to accelerate payment of amounts due under, or terminate, such Document.

SECTION 6. CONDITIONS PRECEDENT

6.1 Conditions to Initial Extensions of Credit. The agreement of each Lender to make the initial extension of credit requested to be made by it is subject to the satisfaction, immediately prior to or concurrently with the making of such extension of credit on the Closing Date, of the following conditions precedent:

(a) Loan Documents. The Administrative Agent shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower, with a counterpart for each Lender, (ii) for the account of each Lender, a Revolving Credit Note conforming to the requirements hereof and executed and delivered by a duly authorized officer of the Borrower, (iii) respective Supplements to the Borrower Pledge Agreement and Leviathan Pledge Agreement (LLC), executed and delivered by a duly authorized officer of the Borrower and Leviathan, respectively, with a counterpart or a conformed copy for each Lender, (iv) an Addendum to Subsidiaries Guarantees, executed and delivered by a duly authorized officer of Sailfish, with a counterpart or a conformed copy for each Lender, (v) a Supplement to Subsidiary Security Agreement, executed and delivered by a duly authorized officer of Sailfish, with a counterpart or a conformed copy for each Lender, and (vi) the Confirmation of Guarantees and Security Documents, executed and delivered by a duly authorized officer of each Loan Party thereto, with a counterpart or a conformed copy for each Lender.

(b) Related Agreements. The Administrative Agent shall have received true and correct copies, certified as to authenticity by the Borrower, of the Partnership Agreement, the certificate of limited partnership of the Borrower, the Management Agreement, the limited liability company agreement, or certificate of incorporation and by-laws, as the case may be, of each Subsidiary, the Pipeline Partnership Agreement of each Joint Venture and each agreement evidencing, securing or under which is issued Indebtedness of any of the Joint Ventures under their respective credit facilities, and such other documents or instruments as may be reasonably requested by the Administrative Agent, including, without limitation, a copy of any debt instrument, security agreement or other material contract to which any Joint Venture may be a party.

(c) Borrowing Certificate. The Administrative Agent shall have received with a counterpart for each Lender, a certificate of the Borrower, dated the Closing Date,

substantially in the form of Exhibit L, with appropriate insertions and attachments, satisfactory in form and substance to the Administrative Agent, executed by the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, Treasurer or any Vice President of the Borrower and the Secretary or any Assistant Secretary of the Borrower.

(d) Partnership Proceedings of the Borrower. The Administrative Agent shall have received, with a counterpart for each Lender, a copy of the resolutions, in form and substance satisfactory to the Administrative Agent, of the Board of Directors of the General Partner authorizing on behalf of the Borrower (i) the execution, delivery and performance of this Agreement, the Revolving Credit Notes and the other Loan Documents to which the Borrower is a party, (ii) the borrowings contemplated hereunder and (iii) the granting by the Borrower of the Liens created pursuant to the Security Documents to which it is a party, certified by the Secretary or an Assistant Secretary of the General Partner on behalf of the Borrower as of the Closing Date, which certificate shall be in form and substance satisfactory to the Administrative Agent and shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded.

(e) Borrower Incumbency Certificate. The Administrative Agent shall have received, with a counterpart for each Lender, a certificate of the Borrower, dated the Closing Date, as to the incumbency and signature of the officers of the Borrower executing any Loan Document, satisfactory in form and substance to the Administrative Agent, executed by the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, Treasurer or any Vice President and the Secretary or any Assistant Secretary of the Borrower.

(f) Corporate Proceedings of Leviathan. The Administrative Agent shall have received, with a counterpart for each Lender, a copy of the resolutions, in form and substance satisfactory to the Administrative Agent, of the Board of Directors of Leviathan authorizing (i) the execution, delivery and performance of the Loan Documents to which Leviathan is a party and (ii) the granting by it of the Liens created pursuant to the Security Documents to which it is a party, certified by the Secretary or an Assistant Secretary of Leviathan as of the Closing Date, which certificate shall be in form and substance satisfactory to the Administrative Agent and shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded.

(g) Leviathan Incumbency Certificate. The Administrative Agent shall have received, with a counterpart for each Lender, a certificate of Leviathan, dated the Closing Date, as to the incumbency and signature of the officers of Leviathan executing any Loan Document, satisfactory in form and substance to the Administrative Agent, executed by the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, Treasurer or any Vice President and the Secretary or any Assistant Secretary of Leviathan.

(h) Proceedings of Subsidiaries. The Administrative Agent shall have received, with a counterpart for each Lender, a copy of the resolutions, in form and substance satisfactory to the Administrative Agent, of the Managing Member or the Board of Directors, as applicable, of each Subsidiary of the Borrower which is a party to a Loan Document authorizing (i) the execution, delivery and performance of the Loan Documents to which it is a party and (ii) the granting by it of the Liens created pursuant to the Security Documents to which it is a party, certified by the Secretary or an Assistant Secretary of such Subsidiary as of the Closing Date, which certificate shall be in form and substance satisfactory to the Administrative Agent and shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded.

(i) Subsidiary Incumbency Certificates. The Administrative Agent shall have received, with a counterpart for each Lender, a certificate of each Subsidiary of the Borrower which is a Loan Party, dated the Closing Date, as to the incumbency and signature of the officers of such Subsidiary executing any Loan Document, satisfactory in form and substance to the Administrative Agent, executed by the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, Treasurer or any Vice President and the Secretary or any Assistant Secretary of each such Subsidiary.

(j) Corporate Documents. The Administrative Agent shall have received, with a counterpart for each Lender, true and complete copies of the certificate of incorporation and by-laws of Leviathan and the certificate of formation or certificate of incorporation, as the case may be, of each Subsidiary of the Borrower, certified as of the Closing Date as complete and correct copies thereof by the Secretary or an Assistant Secretary of Leviathan or such Subsidiary, as the case may be (or if such document has been previously delivered to a Lender under the Existing Credit Agreement, a bring-down certificate that such document since its delivery under the Existing Credit Agreement has not been amended, supplemented or otherwise modified).

(k) Consents, Licenses and Approvals. The Administrative Agent shall have received, with a counterpart for each Lender, a certificate of a Responsible Officer of the Borrower (i) attaching copies of all consents, authorizations and filings referred to in subsection 5.4, and (ii) stating that such consents, licenses and filings are in full force and effect, and each such consent, authorization and filing shall be in form and substance satisfactory to the Administrative Agent.

(l) Fees. The Administrative Agent, the Co-Arranger and each Lender shall have received the fees to be received on the Closing Date as separately agreed to between each of them and the Borrower.

(m) Legal Opinion. The Administrative Agent shall have received, with a counterpart for each Lender, the executed legal opinion of Akin, Gump, Strauss,

Hauer & Feld, L.L.P., counsel to the Borrower and the other Loan Parties, in form and substance reasonably satisfactory to the Lenders.

(n) Pledged Stock; Stock Powers. The Administrative Agent shall have received the certificates, if any, representing the shares and limited liability company interests pledged pursuant to each of the Pledge Agreements, together with an undated stock power for each such certificate executed in blank by a duly authorized officer of the pledgor thereof. Each Instruction to Register Pledge referred to in such Pledge Agreements shall have been delivered to the Borrower and its Subsidiaries, and each Initial Transaction Statement referred to in such Pledge Agreements shall have been delivered to the Administrative Agent, as are required by any of the Pledge Agreements.

(o) Actions to Perfect Liens. The Administrative Agent shall have received evidence in form and substance satisfactory to it that all filings, recordings, registrations and other actions, including, without limitation, the filing of duly executed financing statements on form UCC-1 and amendments to financing statements on form UCC-3, necessary or, in the opinion of the Administrative Agent, desirable to perfect the Liens created by the Security Documents shall have been completed.

(p) Insurance. (i) The Administrative Agent shall have received evidence in form and substance satisfactory to it and all of the requirements of subsection 7.5 shall have been satisfied.

(ii) The Lenders shall have received a schedule detailing, and shall be satisfied with, the amount, coverage and carriers of the insurance carried by the Borrower, the Restricted Subsidiaries and Leviathan.

(q) Good Standing Certificates. The Administrative Agent shall have received copies of certificates dated as of a recent date from the Secretary of State or other appropriate authority of such jurisdiction, evidencing the good standing of the Borrower and each other Loan Party in each state where the ownership, lease or operation of property or the conduct of business requires it to qualify as a foreign corporation, partnership or limited liability company, as the case may be.

(r) No Violation. The consummation of the transactions contemplated hereby shall not contravene, violate or conflict with, nor involve any Lender in any violation of, any Requirement of Law.

(s) Litigation, Etc. No suit, action, investigation, inquiry or other proceeding (including, without limitation, the enactment or promulgation of a statute or rule) by or before any arbitrator or any Governmental Authority shall be pending and no preliminary or permanent injunction or order by a state or federal court shall have been entered (i) in connection with any Loan

Document or any of the transactions contemplated hereby or thereby or (ii) which, in any such case could have a Material Adverse Effect.

(t) Consents. All material governmental and third party approvals (or arrangements satisfactory to the Lenders in lieu of such approvals) necessary or advisable in connection with the transactions and financings contemplated hereby and by the other Loan Documents and the continuing operations of the Borrower, the Subsidiaries and the Joint Ventures (including, without limitation, any consent of other partners of and lenders to any Joint Venture) shall have been obtained and be in full force and effect.

(u) Material Adverse Effect. No event which has or could have a Material Adverse Effect shall have occurred.

(v) No Defaults. There shall exist no event of default (or condition which would constitute an event of default with the giving of notice or the passage of time) under any material Capital Stock, financing agreements, lease agreements, partnership agreements or other material contracts of the Borrower or the Subsidiaries or, to the knowledge of the Borrower, any Joint Venture.

(w) Tax and Labor Matters. The Lenders shall be satisfied with the status of all labor, tax, employee benefit and health and safety matters involving the Borrower and the Restricted Subsidiaries.

(x) Financial Statements. The Administrative Agent shall have received, with a counterpart for each Lender, complete copies of the financial statements described in subsection 5.1.

(y) Commodity Hedging Program. The Administrative Agent shall have received, with a counterpart for each Lender, a report on the status of the Commodity Hedging Programs of the Borrower covering the Borrower's interest in production from the Subject Properties in amounts and for periods reasonably satisfactory to the Administrative Agent.

(z) Accrued Interest, Fees and Term Loans. The Borrower shall have paid to the Administrative Agent all unpaid interest, commitment fees and letter of credit commissions accrued and all term loans outstanding under the Existing Credit Agreement through the Closing Date.

(aa) Reallocation of Revolving Credit Loans. The Lenders shall have reallocated the Revolving Credit Loans outstanding under this Agreement immediately prior to the Closing Date as directed by the Administrative Agent in order to reflect the Revolving Credit Commitments under this Agreement.

(bb) Additional Matters. All corporate, company, partnership and other proceedings, and all documents, instruments and other legal matters in connection

with the transactions contemplated by this Agreement and the other Loan Documents shall be reasonably satisfactory in form and substance to the Lenders, and the Lenders shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or thereby as any of them shall reasonably request.

6.2 Conditions to Each Extension of Credit. The agreement of each Lender to make any extension of credit (including the renewal or extension of a Letter of Credit) requested to be made by it on any date (including, without limitation, its initial extension of credit) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Borrower and the other Loan Parties in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date (unless such representations and warranties are stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date).

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the extensions of credit requested to be made on such date.

(c) Additional Matters. The Administrative Agent shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or by the other Loan Documents as it shall reasonably request.

Each borrowing by the Borrower hereunder, and each issuance or renewal or extension of a Letter of Credit hereunder, shall constitute a representation and warranty by the Borrower as of the date of such extension of credit or such conversion that the conditions contained in this subsection 6.2 have been satisfied.

SECTION 7. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Revolving Credit Commitments remain in effect, any Revolving Credit Note or any Letter of Credit remains outstanding and unpaid or any other amount is owing to any Lender, the Administrative Agent or the Co-Arranger hereunder, the Borrower shall and (except in the case of delivery of financial information, reports and notices) shall cause each of its Restricted Subsidiaries and, with respect to subsections 7.3 and 7.11, each of its Unrestricted Subsidiaries, to:

7.1 Financial Statements. Furnish to the Administrative Agent, with a copy for each Lender:

(a) as soon as available, but in any event within 120 days after the end of each fiscal year of the Borrower, a copy of the consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related consolidated statements of income and retained earnings and of cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by Price Waterhouse or other independent certified public accountants of nationally recognized standing;

(b) as soon as available, but in any event not later than 60 days after the end of each of the first three quarterly periods of each fiscal year of the Borrower, the unaudited consolidated and consolidating balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated and consolidating statements of income and retained earnings and of cash flows of the Borrower and its consolidated Subsidiaries for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer as being fairly stated in all material respects when considered in relation to the consolidated and consolidating financial statements of the Borrower and its consolidated Subsidiaries (subject to normal year-end audit adjustments);

(c) concurrently with the delivery of the financial statements for any fiscal year described in paragraph (a) of this subsection 7.1, the unaudited consolidating balance sheets of the Borrower and its consolidated Subsidiaries as at the end of such fiscal year and the related unaudited consolidating statements of income and retained earnings and of cash flows of the Borrower and its consolidated Subsidiaries for such fiscal year, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer as being fairly stated in all material respects when considered in relation to the consolidating financial statements of the Borrower and its consolidated Subsidiaries;

(d) as soon as available, a copy of the consolidated balance sheet of DeepTech and its consolidated Subsidiaries as at the end of each fiscal year of DeepTech and the related consolidated statements of income and retained earnings and of cash flows for such year;

(e) as soon as available, the unaudited consolidated balance sheet of DeepTech and its consolidated Subsidiaries as at the end of each of the first three quarterly periods of each fiscal year of DeepTech, and the related unaudited consolidated statements of income and retained earnings and of cash flows of DeepTech and its consolidated Subsidiaries for such quarter and the portion of the fiscal year through the end of such quarter;

(f) as soon as available, but in any event within 120 days after the end of each fiscal year of each material Joint Venture any of the interests in which is owned by a Restricted Subsidiary, a copy of the audited balance sheet of such Joint Venture,

as at the end of such year and the related unaudited statements of income and retained earnings and of cash flows of such Joint Venture, for such year, setting forth in each case in a comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by independent certified public accountants of nationally recognized standing; and

(g) concurrently with the delivery of the financial statements referred to in subsection 7.1(b), the unaudited balance sheet of each Joint Venture any of the interests in which is owned by a Restricted Subsidiary, as at the end of each such quarter of such Joint Venture, and the related unaudited consolidated statements of income and retained earnings and of cash flows of such Joint Venture, for such month and the portion of the fiscal year through the end of such month, setting forth in each case in comparative form the figures for the previous year, in each case received by the Borrower or any of its Subsidiaries during such fiscal quarter;

all such financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and (except for the financial statements of any Joint Venture) in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants or officer, as the case may be, and disclosed therein and, with respect to unaudited interim financial statements, for the absence of footnotes and year-end adjustments).

7.2 Certificates; Other Information. Furnish to the Administrative Agent, with a copy for each Lender:

(a) concurrently with the delivery of the financial statements referred to in subsection 7.1(a), a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default relating to accounting issues, except as specified in such certificate;

(b) concurrently with the delivery of the financial statements referred to in subsections 7.1(a) and 7.1(b), a certificate of a Responsible Officer of the Borrower, (i) stating that, to the best of such Officer's knowledge, the Borrower and its Subsidiaries during such period have observed or performed all of their respective covenants and other agreements, and satisfied every condition, contained in this Agreement and in the Revolving Credit Notes and the other Loan Documents to be observed, performed or satisfied by them, and that such Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate, and (ii) setting forth (x) the ratio of Consolidated Total Indebtedness of the Borrower at the last day of the most recent fiscal quarter covered by such certificate to Consolidated EBITDA for the Calculation Period ending on the last day of such fiscal quarter and (y) the Incurrence Limitation as of the last day of the most recent fiscal quarter covered by such certificate;

(c) not later than thirty days prior to the end of each fiscal year of the Borrower, a copy of the projections by the Borrower of the operating budget and cash flow budget of the Borrower for the succeeding fiscal year, such projections to be accompanied by a certificate of a Responsible Officer to the effect that such projections have been prepared on the basis of sound financial planning practice and that such Officer has no reason to believe they are incorrect or misleading in any material respect;

(d) within five days after the same are sent, copies of all financial statements and reports which the Borrower sends to the holders of its Capital Stock, and within five days after the same are filed, copies of all financial statements and reports which the Borrower may make to, or file with, the Securities and Exchange Commission or any successor or analogous Governmental Authority;

(e) upon the request of any Lender, and to the extent the same have been received by the Borrower or any of its Subsidiaries, a copy of the projections by each Joint Venture any of the interests in which is owned by a Restricted Subsidiary, as the case may be, of the operating budget and cash flow budget of such Joint Venture for the succeeding fiscal year;

(f) upon the request of any Lender, and to the extent the same have been received by the Borrower or any of its Subsidiaries, within thirty days of the end of each of the quarterly periods of each fiscal year of each Joint Venture any of the interests in which is owned by a Restricted Subsidiary, a list of all shippers that have used such Joint Venture during such quarterly period and the volumes and revenues attributable to each such shipper;

(g) upon the request of any Lender, and to the extent the same have been received by the Borrower or any of its Subsidiaries, copies of all compliance certificates delivered by each Joint Venture any of the interests in which is owned by a Restricted Subsidiary, pursuant to any credit agreement to which such Joint Venture is a party;

(h) upon the request of any Lender, within five days after the same are received by the Borrower, a copy of any FERC Form 2 for any Joint Venture any of the interests in which is owned by a Restricted Subsidiary;

(i) concurrently with the delivery of the financial statements referred to in subsection 7.1(a), a certificate signed by the President, Chief Executive Officer, Chief Operating Officer or Chief Financial Officer of the Borrower in the form of Exhibit N hereto. Further, if requested by the Required Lenders (by notice to the Administrative Agent, which will give notice of such request to the Borrower and each Lender), the Borrower shall permit and cooperate with an environmental and safety review made in connection with the operations of Borrower's properties once during each fiscal year of the Borrower, by independent environmental consultants chosen by the Borrower and acceptable to the Required Lenders, which review shall,

if requested by such Lender or Lenders, be arranged and supervised by environmental legal counsel for the Lenders, all at the Borrower's cost and expense. The consultant shall render a verbal or written report, as specified by the Lenders, based upon such review, at the Borrower's cost and expense. Notwithstanding anything in this paragraph (i) to the contrary, the maximum amount of cost and expense for which the Borrower shall be responsible with respect to any such review in any fiscal year shall be $25,000;

(j) concurrently with the delivery of the financial statements referred to in subsection 7.1(a), a Reserve Report, at the Borrower's cost and expense;

(k) concurrently with the delivery of the financial statements referred to in subsections 7.1(a) and 7.1(b), a statement of production by blocks of oil and gas setting forth on a monthly basis average sales price received for the Subject Properties;

(l) concurrently with the delivery of the financial statements referred to in subsections 7.1(a) and 7.1(b), a throughput report setting forth the throughputs of each pipeline owned by the Borrower; and

(m) promptly, such additional financial and other information concerning any Loan Party, any Unrestricted Subsidiary or any Joint Venture as any Lender may from time to time reasonably request.

7.3 Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or its Subsidiaries, as the case may be, and except where the failure to so pay, discharge or satisfy such obligations could not reasonably be expected to have a Material Adverse Effect.

7.4 Conduct of Business and Maintenance of Existence. Continue to engage in business of the same general type as now conducted by it and preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

7.5 Maintenance of Property; Insurance. Keep all property useful and necessary in its business in good working order and condition; maintain with financially sound and reputable insurance companies insurance on all its property in at least such amounts and against at least such risks (but including in any event fire, casualty, public liability and product liability) as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to each Lender, upon

written request, full information as to the insurance carried. Upon demand by any Lender (by notice to the Administrative Agent, which shall give notice of such demand to the Borrower and each Lender) any insurance policies covering Collateral shall be endorsed to provide that such policies may not be cancelled or reduced or affected in any material manner for any reason without 15 days prior notice to the Lenders. The Borrower shall, and shall cause each of its Restricted Subsidiaries to, at all times maintain liability and other insurance in accordance with and in the amounts set forth on the schedule delivered pursuant to subsection 6.1(p)(ii), which insurance shall be by financially sound and reputable insurers.

7.6 Inspection of Property; Books and Records; Discussions. Keep proper books of records and accounts in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities; and permit representatives of any Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of the Borrower and its Restricted Subsidiaries with officers and employees of the Borrower and its Restricted Subsidiaries and with its independent certified public accountants.

7.7 Notices. Promptly give notice to the Administrative Agent and each Lender of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower or any of its Subsidiaries or (ii) litigation, investigation or proceeding which may exist at any time between the Borrower or any of its Subsidiaries and any Governmental Authority, which in either case, if not cured or if adversely determined, as the case may be, could reasonably be expected to have a Material Adverse Effect;

(c) any litigation or proceeding affecting the Borrower or any of its Subsidiaries in which the amount involved is $5,000,000 or more and not covered by insurance or in which injunctive or similar relief is sought;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence or expected occurrence of any Reportable Event with respect to any Plan, a failure to make any required contribution to a Plan, the creation of any Lien in favor of the PBGC or a Plan or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Plan; and

(e) any development or event which could reasonably be expected to have a Material Adverse Effect or cause the incurrence of an environmental liability in excess of the Material Environmental Amount.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Borrower proposes to take with respect thereto.

7.8 Environmental Laws.

(a) Comply with, and ensure compliance by all tenants and subtenants, if any, with, all applicable Environmental Laws and obtain and comply with and maintain, and ensure that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws except to the extent that the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not reasonably be expected to have a Material Adverse Effect; and

(c) Defend, indemnify and hold harmless the Administrative Agent, the Co-Arranger and the Lenders, and their respective employees, agents, officers and directors, from and against any and all claims, demands, penalties, fines, liabilities, settlements and damages, and reasonable costs and expenses, of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the Borrower, any of its Subsidiaries or the Properties, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the gross negligence or willful misconduct of the party seeking indemnification therefor. The agreements in this paragraph shall survive repayment of the Revolving Credit Notes and all other amounts payable hereunder.

7.9 Maintenance of Liens of the Security Documents. Promptly, upon the request of the Administrative Agent, at the Borrower's expense, execute, acknowledge and deliver, or cause the execution, acknowledgement and delivery of, and thereafter register, file or record, or cause to be registered, filed or recorded, in an appropriate governmental office, any document or instrument supplemental to or confirmatory of the Security Documents or otherwise deemed by the Administrative Agent necessary or desirable for the continued validity, perfection and priority of the Liens on the collateral covered thereby.

7.10 Pledge of After-Acquired Property. With respect to any right, title or interest of any Loan Party in any Capital Stock or other property of a type subject to the Security Documents and acquired after the Closing Date, promptly grant or cause to be granted to the Administrative Agent, for the benefit of the Lenders, a first Lien of record on all such Capital Stock and property (other than such Capital Stock and property subject to (i) prior Liens in existence at the time of acquisition thereof and not created in anticipation of such acquisition, in which case the Lien of the Lenders shall be of such priority as is permitted by such prior Lien and (ii) other Liens that are expressly permitted by this Agreement), upon terms substantially the same as those set forth in the Security Documents, and satisfy the conditions with respect thereto set forth in subsection 6.1. The Borrower, at its own expense, shall execute, acknowledge and deliver, or cause its Restricted Subsidiaries to execute, acknowledge and deliver, and thereafter register, file or record, or cause its Restricted Subsidiaries to register, file or record, in an appropriate governmental office, any document or instrument deemed by the Administrative Agent to be necessary or desirable for the creation and perfection of the foregoing Liens and deliver Uniform Commercial Code searches in jurisdictions requested by the Administrative Agent with respect to such Capital Stock and other property and legal opinions requested by the Administrative Agent and shall pay, or cause to be paid, all taxes and fees related to such registration, filing or recording.

7.11 Agreements Respecting Unrestricted Subsidiaries. (a) Operate each Unrestricted Subsidiary in such a manner as to make it apparent to all creditors of such Unrestricted Subsidiary that such Unrestricted Subsidiary is a legal entity separate and distinct from the Borrower or any Restricted Subsidiary and as such is solely responsible for its debts, and such manner shall include, but shall not be limited to, the maintenance of a separate board of directors for such Unrestricted Subsidiary.

(b) In connection with any Indebtedness, Guarantee Obligations or other obligations incurred by each Unrestricted Subsidiary, (i) incur such Indebtedness only on a basis which does not permit, allow or provide for recourse to the Borrower or any Restricted Subsidiary, and (ii) incur any such Indebtedness, Guarantee Obligations or other obligations in excess of $500,000 only under a loan agreement, note, lease, instrument or other contractual obligation that expressly states that such Indebtedness is being incurred by such Unrestricted Subsidiary on a basis which is non-recourse to the Borrower and its Restricted Subsidiaries, provided that no such agreement, note, lease, instrument or other Obligation shall be required to include such statement if such agreement, note, lease, instrument or other obligation was in effect on the date such Subsidiary became an Unrestricted Subsidiary.

(c) If any Subsidiary which owns an interest in Stingray, HIOS, UTOS, Viosca Knoll (a "Redesignated Subsidiary") is designated as an Unrestricted Subsidiary by the Borrower after the date hereof as contemplated in clause (a) of the definition of "Unrestricted Subsidiary", cause such Redesignated Subsidiary to immediately repay or redeem for cash at par all capital contributions, loans or other investments made by the Borrower and the Restricted Subsidiaries in or to such Redesignated Subsidiary with the proceeds of Revolving Credit Loans during the six months immediately prior to such designation, such repayment or redemption to be accompanied by a certificate of the chief

financial officer of the Borrower showing in reasonable detail the calculation of the amount of such investments and the amount of such repayment or redemption.

7.12 Commodity Hedging Programs. Enter into Commodity Hedging Programs covering the Borrower's interest in production of the Subject Properties in amounts and for periods reasonably satisfactory to the Administrative Agent.

7.13 Pipeline Partnership Agreements, Management Agreement, etc. Deliver to the Administrative Agent (a) any amendments to the Documents previously delivered, written waivers relating thereto and other side letters or agreements in writing affecting the terms thereof and (b) any Documents relating to any new Joint Venture any of the interests in which is owned by a Restricted Subsidiary.

SECTION 8. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Revolving Credit Commitments remain in effect, any Revolving Credit Note or any Letter of Credit remains outstanding and unpaid or any other amount is owing to any Lender, the Administrative Agent or the Co-Arranger hereunder, the Borrower shall not, and (except with respect to subsection 8.1) shall not permit any of its Restricted Subsidiaries to, directly or indirectly:

8.1 Financial Condition Covenants.

(a) Tangible Net Worth. Permit Consolidated Tangible Net Worth at any time (the "date of determination") to be less than an amount equal to the sum of (i) $165,000,000 plus (ii) an amount equal to 75% of Net Equity Proceeds during the period from March 1, 1996 to the date of determination less (iii) any write- offs of assets or other expenses or charges relating to the Demand Charge Rearrangement and the amount of the Garden Banks Write-Down; provided that such write-offs or charges shall be taken in the fiscal year 1996 or 1997 and shall not exceed in the aggregate $7,500,000 with respect to the Demand Charge Rearrangement and $20,000,000 with respect to the Garden Banks Write-Down.

(b) Ratio of Debt to Capitalization. Permit the ratio of (i) Consolidated Total Indebtedness of the Borrower at any time to (ii) Consolidated Total Capitalization at such time plus the Garden Banks Write-Down, expressed as a percentage, to exceed 65%.

(c) Debt Service Coverage Ratio. Permit for any Calculation Period the ratio of (i) Consolidated EBITDA for such period to (ii) the interest expense, both expensed and capitalized, of the Borrower and its Restricted Subsidiaries for such period to be less than 2.5 to 1.0.

(d) Ratio of Loans to EBITDA. Permit, at any date of determination thereof:

(i) prior to May 31, 1997, the ratio of (x) the sum of the Aggregate Outstanding Revolving Credit Extensions of Credit plus the aggregate amount of Additional Clawbacks then outstanding to (y) the Annualized EBITDA at such date of determination to exceed 3.25 to 1.0, and

(ii) on or after May 31, 1997, the ratio of (x) the sum of the Aggregate Outstanding Revolving Credit Extensions of Credit plus the aggregate amount of Additional Clawbacks then outstanding to (y) the Consolidated EBITDA on for the most recently ended Calculation Period to exceed 3.25 to 1.0.

(e) Leverage Ratio. Permit, at any date of determination thereof:

(i) prior to May 31, 1997, the ratio of (x) Consolidated Total Indebtedness of the Borrower and its Restricted Subsidiaries at such date of determination to (y) the Annualized EBITDA at such date of determination to exceed 4.0 to 1.0; and

(ii) on or after May 31, 1997, the ratio of (x) Consolidated Total Indebtedness of the Borrower and its Restricted Subsidiaries at such date of determination to (y) the Consolidated EBITDA for the most recently ended Calculation Period to exceed 4.0 to 1.0.

8.2 Limitation on Indebtedness. Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness of the Borrower under this Agreement;

(b) Indebtedness of the Borrower to any Subsidiary Guarantor, and of any Subsidiary Guarantor to the Borrower;

(c) as of any day, Indebtedness constituting any portion of Permitted L/C Obligations determined as of such day;

(d) Indebtedness permitted pursuant to subsection 8.8;

(e) subordinated Indebtedness of the Borrower in an aggregate principal amount not in excess of $25,000,000 provided that (i) no principal payments are or could be required on such Indebtedness prior to March 31, 2002 and (ii) such Indebtedness is subordinated to the prior payment of all obligations of the Borrower under the Loan Documents on terms satisfactory to the Administrative Agent; and

(f) senior or subordinated Indebtedness (in addition to the subordinated Indebtedness permitted in subsection 8.2(e)) of the Borrower provided that (i) 50% of the Net Debt Proceeds thereof are applied to the payment of the Revolving Loans pursuant to subsection 4.1(b), (ii) no principal payments are required on such Indebtedness on or prior to March 31, 2002, in the case of senior Indebtedness, or

September 30, 2002, in the case of subordinated Indebtedness, (iii) in the case of subordinated Indebtedness, such Indebtedness is subordinated to the prior payment of all obligations of the Borrower under the Loan Documents on terms satisfactory to the Administrative Agent and (iv) in the case of senior Indebtedness, such Indebtedness may be secured and guaranteed on a ratable and pari passu basis with the obligations of the Loan Parties under the Guarantees and the Security Documents if the Administrative Agent has approved the intercreditor arrangements related thereto, which approval shall not be unreasonably withheld or delayed.

For the purposes of clauses (e) and (f) of this subsection 8.2, the Borrower shall designate in writing to the Administrative Agent at the time of the incurrence of the Indebtedness whether such Indebtedness is being incurred pursuant to (e) or (f) of this subsection 8.2.

Except as otherwise permitted by this Agreement, the Borrower may not use the proceeds of any Indebtedness permitted by this subsection to pay or make any Restricted Payment.

8.3 Limitation on Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for:

(a) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Borrower or its Restricted Subsidiaries, as the case may be, in conformity with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith by appropriate proceedings;

(c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation and deposits securing liability to insurance carriers under insurance or self- insurance arrangements;

(d) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or such Restricted Subsidiary;

(f) Liens created pursuant to construction, operating and maintenance agreements, space lease agreements, Pipeline Partnership Agreements (to the extent requiring a Lien on the equity interest of the Borrower or any Restricted Subsidiary, as the case may be, in the applicable Joint Venture is required thereunder) and other similar agreements, in each case having ordinary and customary terms and entered into in the ordinary course of business by the Borrower and its Restricted Subsidiaries;

(g) additional Liens securing Indebtedness and other obligations not to exceed $100,000 at any one time outstanding;

(h) Liens on the Collateral to the extent permitted by clause (iv) of subsection 8.2(f); and

(i) Liens on the equity interest of Sailfish in the Nautilus/Manta Ray Ventures to the extent required by the security agreement executed in connection with the contribution agreements of certain Restricted Subsidiaries with repect to the Nautilus/Manta Ray Ventures as in effect on the date of formation of such Joint Ventures.

This subsection shall not restrict the ability of any Joint Venture or Unrestricted Subsidiary to create, incur, assume or suffer to exist any Lien on any of its property.

8.4 Limitation on Guarantee Obligations. Create, incur, assume or suffer to exist any Guarantee Obligation except:

(a) Guarantee Obligations created pursuant to the Loan Documents;

(b) Guarantee Obligations of the Borrower incurred after the Closing Date in an aggregate amount not to exceed $100,000 at any one time outstanding;

(c) Guarantee Obligations constituting performance guarantees provided in the ordinary course of business by the Borrower and its Restricted Subsidiaries supporting obligations of Restricted Subsidiaries which obligations have been incurred in the ordinary course of business (including in connection with the operation, construction or acquisition of pipelines, platforms and related facilities);

(d) Guarantee Obligations in an aggregate amount not to exceed $9,300,000 at any one time outstanding incurred pursuant to clawback and other similar arrangements;

(e) Guarantee Obligations, in addition to those described in clause (d) of this subsection 8.4, incurred pursuant to clawback and other similar arrangements (such additional Guarantee Obligations, "Additional Clawbacks"), provided that, prior to and after giving effect to the incurrence thereof, no Default or Event of Default shall have occurred and be continuing;

(f) as of any day, Guarantee Obligations constituting any portion of Permitted L/C Obligations determined as of such day; and

(g) Guarantee Obligations to the extent permitted by clause (iv) of subsection 8.2(f).

8.5 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets, or make any material change in its present method of conducting business, except:

(a) any Restricted Subsidiary may be merged or consolidated with or into any one or more Restricted Subsidiaries which is a Subsidiary Guarantor (provided that, if any of such Restricted Subsidiaries is not wholly owned by the Borrower and the General Partner, the Restricted Subsidiary or Restricted Subsidiaries in which the Borrower owns the greatest interest shall be the continuing or surviving corporation);

(b) any Restricted Subsidiary may sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise) to any other Restricted Subsidiary which is a Subsidiary Guarantor and in which, if not wholly owned by the Borrower and the General Partner, the Borrower owns at least the same percentage interests as the Borrower owns in the transferor Restricted Subsidiary; and

(c) any Restricted Subsidiary may enter into a merger, consolidation or share exchange with any other Person so long as:

(i) such transaction is permitted under subsection 8.8;

(ii) such transaction shall be effected in such manner so that the Restricted Subsidiary shall be the continuing or surviving entity; and

(iii) at the time of such acquisition and after giving effect thereto, no Default or Event of Default shall have occurred and shall be continuing; and

(d) solely to effect any transaction permitted by subsection 8.6(b).

8.6 Limitation on Sale of Assets. Convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, receivables and leasehold interests), whether now owned or hereafter acquired, except:

(a) as permitted by subsection 8.5;

(b) as long as no Default or Event of Default has occurred and is continuing or would result therefrom the Borrower and the Restricted Subsidiaries may sell or otherwise dispose of property in any fiscal year having an aggregate value not in

excess of 5% of Consolidated Tangible Net Worth calculated on the last day of the prior fiscal quarter;

(c) the sale and purchase of certain contracts, pipelines and related assets in accordance with the terms of that certain Letter Agreement, dated as of February 14, 1996, among Manta Ray Gathering Systems Inc., Poseidon, the Poseidon Venture and Texaco Trading and Transportation Inc., as amended or supplemented from time to time provided that such amendment or supplement does not reflect a material revision of the transactions set forth in such Letter Agreement; and

(d) the transfer to the Nautilus/Manta Ray Ventures of certain contracts and pipelines and related assets constituting the Manta Ray Gathering System as a capital contribution by the Borrower or any Restricted Subsidiary to the Nautilus/Manta Ray Ventures as required by the applicable Pipeline Partnership Agreements of the Nautilus/Manta Ray Ventures.

8.7 Limitation on Dividends. Declare or pay any dividend on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of Capital Stock of the Borrower or any warrants or options to purchase any such Capital Stock, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of the Borrower or any Restricted Subsidiary (such declarations, payments, setting apart, purchases, redemptions, defeasances, retirements, acquisitions and distributions being herein called "Restricted Payments"), except that as long as no Default or Event of Default has occurred and is continuing or would result therefrom, the Borrower may make Restricted Payments once each fiscal quarter consisting of cash distributions in accordance with the terms of the Partnership Agreement on its Preference Units, its Common Units and the General Partnership Interest.

8.8 Limitation on Investments, Loans and Advances. Make any advance, loan, extension of credit or capital contribution to, or purchase any stock, bonds, notes, debentures or other securities of or any assets constituting a business unit of, or make any other investment in, any Person, except:

(a) extensions of trade credit in the ordinary course of business;

(b) investments in Cash Equivalents;

(c) capital contributions, loans or other investments made by the Borrower to any Restricted Subsidiary which is a Subsidiary Guarantor and by any Restricted Subsidiary to the Borrower;

(d) capital contributions, loans or other investments in Subsidiaries and Joint Ventures and investments permitted by subsection 8.5(c), provided that such investments shall be permitted only to the extent that (A) (i) such investments made

during any fiscal year do not exceed $15,000,000 in the aggregate and are made from funds constituting "Cash from Operations" (as defined in the Partnership Agreement) for such fiscal year and the "Minimum Quarterly Distribution" (as defined in the Partnership Agreement) for all Preference Units for any previous calendar quarter shall have been paid in full, or (ii) such investments are made from (without duplication of investments permitted in other clauses of this subsection 8.8) proceeds of public offerings of Preference Units or Common Units, and proceeds of extraordinary distributions made by Joint Ventures any of the interests of which is owned by a Restricted Subsidiary or proceeds of distributions made by other Joint Ventures or any Unrestricted Subsidiaries to the Borrower and/or Restricted Subsidiaries, in each case received after the date hereof, and (B) in any such case, no Default or Event of Default shall have occurred and be continuing, or would occur as a result of such investment and no such investment shall be made from the proceeds of the Revolving Credit Loans;

(e) capital contributions, loans or other investments by Subsidiaries of the Borrower or any Joint Venture to or in the Borrower or any Restricted Subsidiary, provided that no Default or Event of Default shall have occurred and be continuing, or would occur as a result of such investment;

(f) capital contributions or other investments by the Borrower or any Restricted Subsidiary to any Joint Venture any of the interests in which are owned by a Restricted Subsidiary in accordance with the terms of the constitutive documents of such Joint Venture, provided in each such case that (x) no Default or Event of Default has occurred and is continuing or would result therefrom, and (y) such Joint Venture exists as of the Closing Date or such capital contributions or other investments are made by funds raised pursuant to clause (d), (g) or (h) of this subsection 8.8;

(g) capital contributions, loans or other investments to the extent made with the proceeds of public offerings of Preference Units or Common Units for the purposes described in the offering documents for such public offerings;

(h) capital contributions, loans or other investments made from cash which would otherwise be required to be distributed to the holders of the Preference Units, the Common Units or the General Partnership Interest pursuant to the Partnership Agreement;

(i) other acquisitions of equity securities of, or assets constituting a business unit of, any Person, provided that, immediately prior to and after giving effect to any such acquisition, no Default or Event of Default shall have occurred or be continuing (whether under subsection 8.17 or otherwise);

(j) capital contributions, loans or other investments made with the proceeds of dispositions made pursuant to subsections 8.6(b); and

(k) investments described in subsection 8.6(d).

Notwithstanding the foregoing, the aggregate amount of the investments made in Joint Ventures pursuant to paragraphs (d), (f) and (h) above shall not exceed $25,000,000 in any fiscal year.

8.9 Limitation on Optional Payments and Modifications of Debt Instruments and Other Agreements. (a) Make any optional payment or prepayment on, redemption of or purchase of, or voluntarily defease, or directly or indirectly voluntarily or optionally purchase, redeem, retire or otherwise acquire, any Indebtedness or Guarantee Obligations (other than the Revolving Credit Loans), or make any payment under or on account of the Management Agreement except as required pursuant to the terms thereof, (b) amend, modify or change, or consent or agree to any amendment, modification or change to, any of the terms of any Indebtedness or Guarantee Obligations (other than any such amendment, modification or change which would extend the maturity or reduce the amount of any payment of principal thereof or which would reduce the rate or extend the date for payment of interest thereon), except to the extent the same could not reasonably be expected to have a Material Adverse Effect, (c) amend, modify or change, or consent to any amendment, modification or change to, any of the terms of, the Partnership Agreement, the Borrower's certificate of limited partnership, the Management Agreement or any Pipeline Partnership Agreement, except to the extent the same could not reasonably be expected to have a Material Adverse Effect, or (d) waive or otherwise relinquish any of its rights or causes of action arising out of the Partnership Agreement, the Borrower's certificate of limited partnership, the Conveyance Agreement, the Management Agreement or any Pipeline Partnership Agreement, except to the extent the same could not reasonably be expected to have a Material Adverse Effect. Notwithstanding any provision contained in this subsection 8.9, the Borrower and its Restricted Subsidiaries shall have the absolute right to amend any Pipeline Partnership Agreement to the extent necessary or reasonably appropriate to evidence the substitution, replacement or other changes of Partners in any Joint Venture not in violation of subsection 8.19 or subsection 8.22.

8.10 Limitation on Transactions with Affiliates. Subject to the rights set forth in subsection 8.13, enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate unless such transaction is (a) otherwise permitted under this Agreement, and (b) except for the Management Agreement, upon fair and reasonable terms no less favorable to the Borrower or such Restricted Subsidiary, as the case may be, than it would obtain in a comparable arm's length transaction with a Person which is not an Affiliate, provided that, notwithstanding the foregoing, the Borrower and its Subsidiaries may enter into any arrangements deemed reasonable by them in connection with the Demand Charge Rearrangement.

8.11 Limitation on Sales and Leasebacks. Enter into any arrangement with any Person providing for the leasing by the Borrower or any Restricted Subsidiary of real or personal property which has been or is to be sold or transferred by the Borrower or such Restricted Subsidiary to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of the Borrower or such Restricted Subsidiary.

8.12 Limitation on Changes in Fiscal Year. Permit the fiscal year of the Borrower to end on a day other than December 31.

8.13 Limitation on Lines of Business. Enter into any business, either directly or through any Subsidiary or Joint Venture, except for those businesses in which the Borrower and its Subsidiaries and the Joint Ventures are engaged on the date of this Agreement.

8.14 Corporate Documents. Permit the amendment or modification of the limited liability company agreement or certificate of formation or incorporation of any Restricted Subsidiary if such amendment could reasonably be expected to have a Material Adverse Effect, or would authorize or issue any Capital Stock not authorized or issued on the Closing Date, except to the extent such authorization or issuance would have the same substantive effect as any transaction permitted by subsection 8.5 or 8.6.

8.15 Compliance with ERISA. (a) Terminate any Plan so as to result in any material liability to PBGC, (b) engage in any "prohibited transaction" (as defined in Section 4975 of the Code) involving any Plan which could result in a material liability for an excise tax or civil penalty in connection therewith, (c) incur or suffer to exist any material "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived involving any Plan, or (d) allow or suffer to exist any event or condition, which presents a material risk of incurring a material liability to PBGC by reason of termination of any such Plan.

8.16 Limitation on Restrictions Affecting Subsidiaries. Enter into, or suffer to exist, any agreement with any Person, other than the Lenders pursuant hereto and other than the arrangements described in subsections 8.2(c), (e) and (f) and 8.4(d) and (e) or which exist on the date hereof, which prohibits or limits the ability of any Restricted Subsidiary to (a) pay dividends or make other distributions or pay any Indebtedness owed to the Borrower or any Restricted Subsidiary, (b) make loans or advances to or make other investments in the Borrower or any Restricted Subsidiary, (c) transfer any of its properties or assets to the Borrower or any Restricted Subsidiary, (d) transfer any of its properties or assets to the Borrower or any Restricted Subsidiary or (e) create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired.

8.17 Creation of Restricted Subsidiaries. Create or acquire any new Restricted Subsidiary of the Borrower or any of its Restricted Subsidiaries, unless, immediately upon the creation or acquisition of any such Restricted Subsidiary, (a) such Restricted Subsidiary shall become party to the Subsidiaries Guarantee as a Subsidiary Guarantor pursuant to an addendum thereto or other documentation in form and substance reasonably satisfactory to the Administrative Agent, (b) such Restricted Subsidiary shall become party to the Subsidiary Security Agreement as a grantor pursuant to an addendum thereto or other documentation in form and substance reasonably satisfactory to the Administrative Agent, and all actions required to perfect the Liens granted thereby, all filings required thereunder and all consents necessitated thereby shall have been taken, made or obtained, (c) all Capital Stock issued by such Restricted Subsidiary owned by the Borrower

or any other Restricted Subsidiary shall have been pledged to the Administrative Agent pursuant to an addendum or amendment to the Borrower Pledge Agreement or other documentation in form and substance satisfactory to the Administrative Agent, (d) all corporate, company, partnership or other proceedings, and all documents, instruments and other legal matters in connection with the creation of such Restricted Subsidiary and the transactions contemplated by this subsection 8.17 shall be reasonably satisfactory in form and substance to the Administrative Agent, and the Administrative Agent shall have received such other documents and legal opinions in respect of any aspect or consequence of such creation or such transactions as it shall reasonably request and (e) no Default or Event of Default shall have occurred and be continuing after giving effect thereto.

8.18 Hazardous Materials. Except to the extent that the same could not reasonably be expected to have a Material Adverse Effect, permit the manufacture, storage, transmission or presence of any Hazardous Materials over or upon any of its properties except in accordance with all applicable Requirements of Law or release, discharge or otherwise dispose of any Hazardous Materials on any of its properties except that the Borrower and its Restricted Subsidiaries may treat, store and transport petroleum, its derivatives, by-products and other hydrocarbons, hydrogen sulfide and sulfur dioxide in the ordinary course of their business.

8.19 Holding Companies. Notwithstanding any other provisions of this Agreement and the other Loan Documents, permit any Restricted Subsidiary which is a general partner in or owner of a general partnership interest in a Joint Venture to incur or suffer to exist any obligations or indebtedness of any kind, whether contingent or fixed (excluding any contingent liability of such Restricted Subsidiary to creditors of such Joint Venture arising solely as a result of its status as a general partner or owner of such Joint Venture and Guarantee Obligations referred to in subsections 8.4(d), 8.4(e) and 8.4(g)) or create or suffer to exist any Liens, in each case except to the extent any such obligations, indebtedness or Liens arise under or pursuant to the Pipeline Partnership Agreement for such Joint Venture as in effect on the Closing Date (or, if later, the date of acquisition or formation of such Joint Venture) or the Loan Documents or are otherwise permitted by the Loan Documents; or permit any Restricted Subsidiary which is a general partner in or owner of a general partnership interest in a Joint Venture to acquire any property or asset after the Closing Date (or, if later, the date of acquisition or formation of such Joint Venture) except for distributions made to it by such Joint Venture; or permit any Restricted Subsidiary which is a general partner in or owner of a general partnership interest in a Joint Venture to engage in any business or activity other than holding the general partnership interest in (or other ownership interest) such Joint Venture held by it on the Closing Date (or, if later, the date of formation of such Joint Venture).

8.20 No Voluntary Termination of Pipeline Partnership Agreements. Permit any Restricted Subsidiary which is a partner in, or owner of any interest in, any Joint Venture to voluntarily terminate any Pipeline Partnership Agreement to the extent permitted thereunder.

8.21 Actions by Joint Ventures. (a) Consent or agree to or acquiesce in any Joint Venture the interests in which are owned by a Restricted Subsidiary changing its policy of making distributions of available cash to partners, or (b) so long as any interest therein is owned by a Restricted Subsidiary, consent or agree to or acquiesce in any Joint Venture's taking any actions that could reasonably be expected to have a Material Adverse Effect.

8.22 Hedging Transactions. Enter into any interest rate, cross-currency, commodity, equity or other security, swap, collar or similar hedging agreement or purchase any option to purchase or sell or to cap any interest rate, cross-currency, commodity, equity or other security, in any such case, other than to hedge risk exposures in the operation of its business, ownership of assets or the management of its liabilities.

SECTION 9. EVENTS OF DEFAULT

If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay any principal of any Revolving Credit Note or any Reimbursement Obligation which is not funded by a Loan when due in accordance with the terms thereof or hereof; or the Borrower shall fail to pay any interest on any Revolving Credit Note, or any other amount payable hereunder, within five days after any such interest or other amount becomes due in accordance with the terms thereof or hereof; or

(b) Any representation or warranty made or deemed made by the Borrower or any other Loan Party herein or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(c) (i) The Borrower shall default in the observance or performance of any agreement contained in Section 8 (other than subsections 8.1(a) or (b)) or in subsection 7.11; or any Loan Party shall default in the observance or performance of any agreement contained in Section 5(h), (i), (j) or (o) of the Borrower Security Agreement or the Subsidiary Security Agreement, or Section 5(h), (i), (j) or (m) of the Leviathan Security Agreement, Section 9(j) of the Leviathan Guarantee, Section 4(b) of the Borrower Pledge Agreement or the Leviathan Pledge Agreement (LLC) or Section 5(b) of the Leviathan Pledge Agreement (GP); or (ii) the Borrower shall default in the observance or performance of the agreement contained in subsections 8.1(a) or (b) and such default shall continue unremedied for a period of 15 days; or

(d) The Borrower or any other Loan Party shall default in the observance or performance of any other agreement contained in this Agreement or any other Loan Document (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of 30 days after receipt of written notice thereof from the Administrative Agent or any Lender; or

(e) Any Loan Party or any Restricted Subsidiary of the Borrower shall (i) default in any payment of principal of or interest on any Indebtedness (other than the Revolving Credit Notes) or in the payment of any Guarantee Obligation, beyond the period of grace (not to exceed 30 days), if any, provided in the instrument or agreement under which such Indebtedness or Guarantee Obligation was created; or (ii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or Guarantee Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Guarantee Obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or such Guarantee Obligation to become payable; provided, however, that the aggregate principal amount of Indebtedness and Guarantee Obligations with respect to which such defaults shall have occurred shall equal or exceed $5,000,000; or

(f) Any Joint Venture shall (i) default in any payment of principal of or interest of any Indebtedness or in the payment of any Guarantee Obligation, in each case under their respective credit facilities, beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness or Guarantee Obligation was created; or (ii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or Guarantee Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, and as a result of which default or other event or condition such Indebtedness shall become due prior to its stated maturity or such Guarantee Obligation shall become payable; provided, however, that with respect to any Joint Venture, the aggregate principal amount of Indebtedness and Guarantee Obligations with respect to which such defaults shall have occurred shall equal or exceed $5,000,000; or

(g) (i) Any Loan Party or any Restricted Subsidiary of the Borrower shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or any Loan Party or any Subsidiary of the Borrower shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against any Loan Party or any Restricted Subsidiary of the Borrower any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against any Loan Party or any Restricted

Subsidiary of the Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) any Loan Party or any Restricted Subsidiary of the Borrower shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) any Loan Party or any Restricted Subsidiary of the Borrower shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(h) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of the Borrower or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Borrower or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could have a Material Adverse Effect; or

(i) One or more judgments or decrees shall be entered against the Borrower or any of its Restricted Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance) of $5,000,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof;

(j) If at any time the Borrower or any Restricted Subsidiary shall become liable for remediation and/or environmental compliance expenses and/or fines, penalties or other charges which, in the aggregate, are in excess of the Material Environmental Amount for any Loan Party and the Restricted Subsidiaries; or

(k) For any reason (other than any act on the part of the Administrative Agent or the Lenders) any Security Document or any Guarantee ceases to be in full force and effect or any party thereto (other than the Administrative Agent or the Lenders) shall so assert in writing or the Lien intended to be created by any Security

Document ceases to be or is not a valid and perfected Lien having the priority contemplated thereby; or

(l) DeepTech and its Subsidiaries, shall, directly or indirectly, legally and beneficially own less than 51% of each class of Capital Stock of Leviathan having ordinary power (other than Capital Stock having such power only by reason of the happening of a contingency) to vote in elections of directors of Leviathan; or DeepTech and its Subsidiaries shall cease to own legally and beneficially (i) the General Partnership Interest representing at least 1.00% of all general, limited, common and other interests in the Borrower, and (ii) a limited partnership interest in the Borrower representing at least 22% of all general, limited, common and other interests in the Borrower, in the case of clause (i) free and clear of all Liens except for the Liens created by the Security Documents and Liens permitted by subsection 8.2(f)(iv); or there shall be a Change in Control; or DeepTech or one of its direct or indirect Subsidiaries shall cease to be the sole general partner of the Borrower; or

(m) Except in connection with transactions permitted by subsection 8.5 and 8.6(b), the Borrower shall cease to own legally and beneficially at least the percentage of the managing limited liability company or other equity interest in each Restricted Subsidiary of the Borrower which is a limited liability company owned by it on the date hereof (or, if later, the date of acquisition or formation of such Subsidiary); or Leviathan and the Borrower together shall cease to own legally and beneficially the percentage of the equity interest in each Restricted Subsidiary of the Borrower owned by it on the date hereof (or, if later, the date of acquisition or formation of such Subsidiary); or

(n) Any Person (other than any Lender) shall exercise its rights and remedies with respect to its Lien on any equity interest of (i) Sailfish or (ii) on any Joint Venture the equity interest in which has been pledged to such Person; provided that in the case of clause (ii), the amount of claims secured by such Lien shall equal or exceed $5,000,000 and such claim shall not have been vacated, discharged, stayed or bonded pending appeal within 30 days from the entry thereof; or

(o) (i) The Management Agreement shall cease to be in full force and effect prior to the end of the initial term thereof substantially as in effect on the date hereof; or (ii) DeepTech shall default in the observance or performance of any material provision of the Management Agreement;

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (g) above with respect to the Borrower, automatically the Revolving Credit Commitments shall immediately terminate and the Revolving Credit Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) and the Revolving Credit Notes shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i)

with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower declare the Revolving Credit Commitments to be terminated forthwith, whereupon the Revolving Credit Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower, declare the Revolving Credit Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) and the Revolving Credit Notes to be due and payable forthwith, whereupon the same shall immediately become due and payable. If presentment for honor under any Letter of Credit shall not have occurred at the time of an acceleration pursuant to the preceding sentence, the Borrower shall at such time deposit in a cash collateral account opened by the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of the Letters of Credit. The Borrower hereby grants to the Administrative Agent, for the benefit of the Issuing Bank and the Lenders, a security interest in such cash collateral to secure all obligations of the Borrower under this Agreement and the other Loan Documents. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Borrower hereunder and under the Revolving Credit Notes. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Borrower hereunder and under the Revolving Credit Notes shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower. The Borrower shall execute and deliver to the Administrative Agent, for the account of the Issuing Bank and the Lenders, such further documents and instruments as the Administrative Agent may request to evidence the creation and perfection of the within security interest in such cash collateral account. Except as expressly provided above in this Section, presentment, demand, protest, notice of intent to accelerate, notice of acceleration and all other notices of any kind are hereby expressly waived.

SECTION 10. THE ADMINISTRATIVE AGENT AND CO-ARRANGER

10.1 Appointment. Each Lender hereby irrevocably designates and appoints The Chase Manhattan Bank as the Administrative Agent of such Lender under this Agreement and the other Loan Documents, and each such Lender irrevocably authorizes The Chase Manhattan Bank, as the Administrative Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto.Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties,

obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent.

10.2 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

10.3 Exculpatory Provisions. Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except for its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the Revolving Credit Notes or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower.

10.4 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any Revolving Credit Note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Revolving Credit Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the Revolving Credit Notes and the other Loan Documents in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Revolving Credit Notes.

10.5 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

10.6 Non-Reliance on Administrative Agent and Other Lenders. Each Lender expressly acknowledges that neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Administrative Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

10.7 Indemnification. The Lenders agree to indemnify the Administrative Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Commitment Percentages in effect on the date on which indemnification is sought under this subsection, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Revolving Credit Notes) be imposed on, incurred by or asserted against the Administrative Agent in any way relating to or arising out of this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the

transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Administrative Agent's gross negligence or willful misconduct. The agreements in this subsection shall survive the payment of the Revolving Credit Notes and all other amounts payable hereunder.

10.8 Administrative Agent in Its Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though the Administrative Agent were not the Administrative Agent hereunder and under the other Loan Documents. With respect to its Loans made or renewed by it and any Revolving Credit Note issued to it and with respect to the Letters of Credit, the Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not the Administrative Agent. The terms "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

10.9 Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 10 days' notice to the Lenders. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall be approved by the Borrower, whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Revolving Credit Notes. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this subsection shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

10.10 Co-Arranger. Each Lender hereby irrevocably designates and appoints ING (U.S.) Capital Corporation ("ING") as the Co-Arranger of such Lender under this Agreement. In acting as Co-Arranger under this Agreement, ING shall have no duties or functions except as expressly set forth herein and, with respect to its actions as Co-Arranger, shall be entitled to all of the rights, indemnities and obligations as are set forth in this Section 10 for the benefit of the Administrative Agent, mutatis mutandis.

SECTION 11. MISCELLANEOUS

11.1 Amendments and Waivers. Neither this Agreement, any Revolving Credit Note, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. The

Required Lenders may, or, with the written consent of the Required Lenders, the Administrative Agent may, from time to time, (a) enter into with the Borrower or the Loan party thereto written amendments, supplements or modifications hereto and to the Revolving Credit Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or the Revolving Credit Notes or the other Loan Documents or changing in any manner the rights of the Lenders or of the Borrower or any other Loan Party hereunder or thereunder or (b) waive in writing, on such terms and conditions as the Required Lenders or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or the Revolving Credit Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (i) reduce the amount or extend the scheduled date of maturity of any Revolving Credit Note or of any installment thereof, or reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof or increase the amount or extend the expiration date of any Lender's Revolving Credit Commitment, in each case without the consent of each Lender affected thereby, or (ii) amend, modify or waive any provision of this subsection or reduce the percentage specified in the definition of Required Lenders or Majority Lenders, or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement and the other Loan Documents, in each case without the written consent of all the Lenders, or (iii) amend, modify or waive any provision of Section 10 without the written consent of the then Administrative Agent or (iv) release the Lenders' Liens on all or substantially all of the Collateral under the Security Documents without the consent of each Lender. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Borrower, the Lenders, the Administrative Agent and all future holders of the Revolving Credit Notes. In the case of any waiver, the Borrower, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the outstanding Revolving Credit Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

11.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in Schedule I in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Revolving Credit Notes:

The Borrower:	Leviathan Gas Pipeline Partners, L.P. 7200 Texas Commerce Tower 600 Travis Street Houston, Texas 77002 Attention: Chief Financial Officer Telecopy: (713) 547-5151
with a copy to:	Akin, Gump, Strauss, Hauer & Feld, L.L.P. 711 Louisiana, Suite 1900 Houston, Texas 77002 Telecopy: (713) 236-0822 Attention: Rick Burdick, Esq.
The Administrative Agent:	The Chase Manhattan Bank One Chase Manhattan Plaza 8th Floor New York, New York 10081 Attention: Janet Belden Telecopy:(212) 552-5658

provided that any notice, request or demand to or upon the Administrative Agent or the Lenders pursuant to subsection 2.3, 3.2, 2.6, 2.7, 2.11, 4.1 or 4.2 shall not be effective until received, provided, further, that the failure by the Administrative Agent, the Co-Arranger or any Lender to provide a copy to the Borrower's counsel shall not cause any notice to the Borrower to be ineffective.

11.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

11.4 Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Revolving Credit Notes.

11.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Administrative Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any

amendment, supplement or modification to, this Agreement and the Revolving Credit Notes and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the fees and disbursements of counsel to the Administrative Agent, (b) to pay or reimburse each Lender and the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the Revolving Credit Notes, the other Loan Documents and any such other documents, including, without limitation, the fees and disbursements of counsel to the Administrative Agent and to the several Lenders, (c) to pay, indemnify, and hold each Lender and the Administrative Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Revolving Credit Notes, the other Loan Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and the Administrative Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments and suits, and reasonable costs, expenses or disbursements, of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, the Revolving Credit Notes and the other Loan Documents, the use of the proceeds of the Revolving Credit Loans (all the foregoing in this clause (d), collectively, the "indemnified liabilities"), REGARDLESS OF WHETHER OR NOT SUCH INDEMNIFIED LIABILITIES ARE IN ANY WAY OR TO ANY EXTENT CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY THE ADMINISTRATIVE AGENT OR ANY LENDER, provided, that the Borrower shall have no obligation hereunder to the Administrative Agent or any Lender with respect to indemnified liabilities arising from (i) the gross negligence or willful misconduct of the Administrative Agent or any such Lender or (ii) legal proceedings commenced against the Administrative Agent or any such Lender by any security holder or creditor thereof arising out of and based upon rights afforded any such security holder or creditor solely in its capacity as such. The agreements in this subsection shall survive repayment of the Revolving Credit Notes and all other amounts payable hereunder.

11.6 Successors and Assigns; Participations; Purchasing Lenders. (a) This Agreement shall be binding upon and inure to the benefit of the Borrower, the Lenders, the Administrative Agent, all future holders of the Revolving Credit Notes and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lender.

(b) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, and after notice to the Borrower, at any time sell to one or more banks or other entities ("Participants") participating interests in any Revolving Credit Loan owing to such Lender, any Revolving Credit Note held by such Lender, any Revolving Credit Commitment of such Lender or any other interest of such Lender hereunder and under the other Loan Documents. In the event of any such sale by a

Lender of a participating interest to a Participant, such Lender's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Revolving Credit Note for all purposes under this Agreement and the other Loan Documents, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. The Borrower agrees that if amounts outstanding under this Agreement and the Revolving Credit Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of setoff in respect of its participating interest in amounts owing under this Agreement and any Revolving Credit Note to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement or any Revolving Credit Note, provided that, in purchasing such participating interest, such Participant shall be deemed to have agreed to share with the Lenders the proceeds thereof as provided in subsection 11.7(a) as fully as if it were a Lender hereunder. The Borrower also agrees that each Participant shall be entitled to the benefits of subsections 4.9, 4.10 and 4.11 with respect to its participation in the Revolving Credit Commitments, the Revolving Credit Loans and the Letters of Credit outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such subsections than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant had no such transfer occurred.

(c) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to any Lender or any successor or affiliate thereof and, with the consent of the Borrower and the Administrative Agent (which in each case shall not be unreasonably withheld), to one or more additional banks or financial institutions ("Purchasing Lenders") all or any part of its rights and obligations under this Agreement and the Revolving Credit Notes pursuant to an Assignment and Acceptance, substantially in the form of Exhibit M, executed by such Purchasing Lender, such transferor Lender (and, in the case of a Purchasing Lender that is not then a Lender or an affiliate thereof, by the Borrower and the Administrative Agent) and delivered to the Administrative Agent for its acceptance and recording in the Register. Upon such execution, delivery, acceptance and recording, from and after the Transfer Effective Date determined pursuant to such Assignment and Acceptance, (x) the Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder with a Revolving Credit Commitment as set forth therein, and (y) the transferor Lender thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of a transferor Lender's rights and obligations under this Agreement, such transferor Lender shall cease to be a party hereto). Such Assignment and Acceptance shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Revolving Credit Notes.

On or prior to the Transfer Effective Date determined pursuant to such Assignment and Acceptance, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the Revolving Credit Note of the transferor Lender a new Revolving Credit Note to the order of such Purchasing Lender in an amount equal to the Revolving Credit Commitment assumed by it pursuant to such Assignment and Acceptance and, if the transferor Lender has retained Revolving Credit Commitments hereunder, a new Revolving Credit Note to the order of the transferor Lender in an amount equal to the Revolving Credit Commitment retained by it hereunder. Such new Revolving Credit Notes shall be dated the Closing Date, and shall otherwise be in the form of the Revolving Credit Note replaced thereby. The Revolving Credit Notes surrendered by the transferor Lender shall be returned by the Administrative Agent to the Borrower marked "cancelled".

(d) The Administrative Agent, on behalf of the Borrower, shall maintain at its address referred to in subsection 11.2 a copy of each Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of the names and addresses of the Lenders and the Revolving Credit Commitment of, and principal amount of the Revolving Credit Loans owing to, each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as the owner of the Revolving Credit Loan recorded therein for all purposes of this Agreement, notwithstanding any notice to the contrary. Any assignment of any Revolving Credit Loan or other Obligation hereunder not evidenced by a Revolving Credit Note shall be effective only upon appropriate entries with respect thereto being made in the Register. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of an Assignment and Acceptance executed by a transferor Lender and Purchasing Lender (and, in the case of a Purchasing Lender that is not then a Lender or an affiliate thereof, by the Borrower and the Administrative Agent) together with payment to the Administrative Agent of a registration and processing fee of $4,000, the Administrative Agent shall (i) promptly accept such Assignment and Acceptance and (ii) on the Transfer Effective Date determined pursuant thereto record the information contained therein in the Register and give notice of such acceptance and recordation to the Lenders and the Borrower.

(f) The Borrower authorizes each Lender to disclose to any Participant or Purchasing Lender (each, a "Transferee") and any prospective Transferee any and all financial information in such Lender's possession concerning the Borrower and its Affiliates which has been delivered to such Lender by or on behalf of the Borrower pursuant to this Agreement or which has been delivered to such Lender by or on behalf of the Borrower in connection with such Lender's credit evaluation of the Borrower and its Affiliates prior to becoming a party to this Agreement.

(g) For avoidance of doubt, the parties to this Agreement acknowledge that the provisions of this subsection concerning assignments of Revolving Credit Loans and Revolving Credit Notes relate only to absolute assignments and that such provisions do not

prohibit assignments creating security interests, including, without limitation, any pledge or assignment by a Lender of any Revolving Credit Loan or Revolving Credit Note to any Federal Reserve Bank in accordance with applicable law.

11.7 Adjustments; Set-off. (a) If any Lender (a "benefitted Lender") shall at any time receive any payment of all or part of its Loans or the Reimbursement Obligations owing to it, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 9(i), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's Loans of the same type or the Reimbursement Obligations owing to it, as the case may be, or interest thereon, such benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of each such other Lender's Loan or the Reimbursement Obligations owing to it, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Revolving Credit Notes (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of the Borrower. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

11.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

11.9 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.10 Integration. This Agreement and the other Loan Documents represent the agreement of the Borrower, the Administrative Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

11.11 Usury Savings Clause. It is the intention of the parties hereto to comply with applicable usury laws (now or hereafter enacted); accordingly, notwithstanding any provision to the contrary in this Agreement, the Revolving Credit Notes, any of the other Loan Documents or any other document related hereto, in no event shall this Agreement or any such other document require the payment or permit the collection of interest in excess of the maximum amount permitted by such laws. If from any circumstances whatsoever, fulfillment of any provision of this Agreement or of any other document pertaining hereto or thereto, shall involve transcending the limit of validity prescribed by applicable law for the collection or charging of interest, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstances the Administrative Agent and the Lenders shall ever receive anything of value as interest or deemed interest by applicable law under this Agreement, the Revolving Credit Notes, any of the other Loan Documents or any other document pertaining hereto or otherwise an amount that would exceed the highest lawful rate, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing under the Revolving Credit Notes or on account of any other indebtedness of the Borrower, and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of principal of such indebtedness, such excess shall be refunded to the Borrower. In determining whether or not the interest paid or payable with respect to any indebtedness of the Borrower to the Administrative Agent and the Lenders, under any specified contingency, exceeds the Highest Lawful Rate (as hereinafter defined), the Borrower, the Administrative Agent and the Lenders shall, to the maximum extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, (c) amortize, prorate, allocate and spread the total amount of interest throughout the full term of such indebtedness so that interest thereon does not exceed the maximum amount permitted by applicable law, and/or (d) allocate interest between portions of such indebtedness, to the end that no such portion shall bear interest at a rate greater than that permitted by applicable law.

To the extent that Article 5069-1.04 of the Texas Revised Civil Statutes is relevant to the Administrative Agent and the Lenders for the purpose of determining the Highest Lawful Rate, the Administrative Agent and the Lenders hereby elect to determine the applicable rate ceiling under such Article by the indicated (weekly) rate ceiling from time to time in effect. Nothing set forth in this subsection 11.11 is intended to or shall limit the effect or operation of subsection 11.12.

For purposes of this subsection 11.11, "Highest Lawful Rate" shall mean the maximum rate of nonusurious interest that may be contracted for, charged, taken, reserved or received on the Revolving Credit Notes under laws applicable to the Administrative Agent and the Lenders.

11.12 GOVERNING LAW. THIS AGREEMENT AND THE REVOLVING CREDIT NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE REVOLVING CREDIT NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

11.13 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgement in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address set forth in subsection 11.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary or punitive damages.

11.14 Acknowledgements. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the Revolving Credit Notes and the other Loan Documents;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Borrower or any other Loan Party arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Administrative Agent and Lenders, on one hand, and the Borrower and the other Loan Parties, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture exists among the Lenders or among the Borrower and the other Loan Parties and the Lenders.

11.15 Confidentiality. Each of the Administrative Agent, the Co-Arranger and each Lender agrees that it will hold in confidence, any information provided to such Person pursuant to this Agreement; provided, that nothing in this subsection 11.15 shall be deemed to prevent the disclosure by the Administrative Agent, the Co-Arranger or any Lender of any such information (a) to any employee, officer, director, accountant, attorney or consultant of such Person, or any examiner or other Governmental Authority, (b) that has been or is made public by Leviathan, the Borrower or any of its Subsidiaries or Affiliates or by any third party without breach of this Agreement or that otherwise becomes generally available to the public other than as a result of a disclosure in violation of this subsection 11.15, (c) that is or becomes available to any such Person from a third party on a non-confidential basis, (d) that is required to be disclosed by any Requirement of Law, including to any bank examiners or regulatory authorities, (e) that is required to be disclosed by any court, agency, arbitrator or legislative body, or (f) to any Transferee or proposed Transferee.

11.16 WAIVERS OF JURY TRIAL. THE BORROWER, THE ADMINISTRATIVE AGENT, THE CO-ARRANGER AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR THE REVOLVING CREDIT NOTES OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

11.17 ACKNOWLEDGEMENT OF NO CLAIMS, OFFSETS OR DEFENSES; RELEASE BY THE LOAN PARTIES. BORROWER, ON BEHALF OF ITSELF AND EACH OF THE OTHER LOAN PARTIES, ACKNOWLEDGES THAT NO LOAN PARTY NOR ANY OF THEIR RESPECTIVE OWNERS, DIRECTORS, SUCCESSORS, ASSIGNS, AGENTS, OFFICERS, EMPLOYEES, AND REPRESENTATIVES (COLLECTIVELY, THE "BORROWER AFFILIATES PARTIES") HAS ANY CLAIM, DEMAND, RIGHT OF OFFSET, CAUSE OF ACTION IN LAW OR IN EQUITY, LIABILITY OR DAMAGES OF ANY NATURE WHATSOEVER, WHETHER FIXED OR CONTINGENT (HEREINAFTER COLLECTIVE CALLED "CLAIMS") THAT COULD BE ASSERTED IN CONNECTION WITH, OR WHICH WOULD IN ANY OTHER MANNER BE RELATED TO, THE EXISTING CREDIT AGREEMENT OR ANY PROMISSORY NOTES OR OTHER AGREEMENTS, TRANSACTIONS OR OTHER ACTIONS PRIOR TO THE DATE HEREOF INVOLVING ANY OF THE BORROWER AFFILIATED PARTIES AND LENDERS ("THE PRIOR AGREEMENTS AND ACTIVITIES"). NOTWITHSTANDING THE FOREGOING, HOWEVER, BORROWER HEREBY AGREES THAT IN CONSIDERATION OF THE CREDIT EXTENDED TO BORROWER UNDER THE LOAN DOCUMENTS AND AS A MATERIAL INDUCEMENT TO THE LENDERS TO ENTER INTO SUCH LOAN DOCUMENTS AND EXTEND SUCH CREDIT TO BORROWER, BORROWER, ON BEHALF OF ITSELF AND ALL OF THE OTHER BORROWER AFFILIATED PARTIES HEREBY RELEASES AND FOREVER DISCHARGES, EACH LENDER,

EACH SUBSEQUENT HOLDER OF ANY OF THE REVOLVING CREDIT NOTES, AND EACH AND ALL OF THEIR PARENT, SUBSIDIARY AND AFFILIATED CORPORATIONS PAST AND PRESENT, AS WELL AS THEIR RESPECTIVE OWNERS, DIRECTORS, SUCCESSORS, ASSIGNS, AGENTS, OFFICERS, EMPLOYEES, AND REPRESENTATIVES (COLLECTIVELY, THE "RELEASED PARTIES"), OF AND FROM ANY AND ALL CLAIMS WHICH BORROWER AND THE OTHER BORROWER AFFILIATED PARTIES MAY HAVE OR HEREAFTER ACQUIRE AGAINST ANY OR ALL OF THE RELEASED PARTIES BY REASON OF, OR RELATED IN ANY WAY TO, THE PRIOR AGREEMENTS AND ACTIVITIES.

11.18 Releases. (a) At such time as the Revolving Credit Loans, the Reimbursement Obligations and any other obligations under this Agreement shall have been paid in full, the Revolving Credit Commitments have been terminated and no Letters of Credit shall be outstanding, the Collateral shall be released from the Liens created by the Loan Documents, and all obligations (other than those expressly stated to survive such termination) of the Administrative Agent and each Loan Party thereunder and under the other Loan Documents shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to the respective Loan Parties. At the request and expense of any Loan Party following any such termination, the Administrative Agent shall deliver to such Loan Party any Collateral held by the Administrative Agent under the Security Documents, and execute and deliver to such Loan Party such documents as such Loan Party shall reasonably request to evidence such termination.

(b) If any of the Collateral shall be sold, transferred or otherwise disposed of by any Loan Party in a transaction permitted by this Agreement or such Loan Party is designated as an Unrestricted Subsidiary in accordance with the terms of this Agreement, then the Lenders authorize the Administrative Agent, at the request and expense of such Loan Party, to execute and deliver to such Loan Party all releases or other documents reasonably necessary or desirable for the release of the Liens created by the applicable Security Documents on such Collateral. At the request and sole expense of the Borrower, the Lenders authorize the Administrative Agent to release a Loan Party from its obligations under the applicable Security Document in the event that all the Capital Stock of such Loan Party shall be sold, transferred or otherwise disposed of in a transaction permitted by this Agreement or such Loan Party is designated as an Unrestricted Subsidiary in accordance with the terms of this Agreement, provided that the Borrower shall have delivered to the Administrative Agent, at least five Business Days prior to the date of the proposed release, a written request for release identifying the relevant Loan Party and the terms of the sale or other disposition in reasonable detail, including the price thereof and any expenses in connection therewith, together with a certification by the Borrower stating that such transaction is in compliance with this Agreement and the other Loan Documents.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

LEVIATHAN GAS PIPELINE PARTNERS,
L.P.

By: /s/ Keith Forman

Name: Keith B. Forman
Title: Chief Financial Officer

THE CHASE MANHATTAN BANK,
as Administrative Agent and
as a Lender

By: /s/ Martha Ann Fetner

Name: Martha Ann Fetner
Title: Vice President

ING (U.S.)
CAPITAL CORPORATION,
as Co-Arranger and as a Lender

By: /s/ Robi Artman-Hodge

Name: Robi Artman-Hodge
Title: Managing Director

DEN NORSKE BANK AS

By: /s/ Byron L. Cooley

Name: Byron L. Cooley
Title: Senior Vice President

By: /s/ Morten Bjornsen

Name: Morten Bjornsen
Title: Senior Vice President

WELLS FARGO BANK TEXAS, N.A.

By: /s/ Ann Rhoads

Name: Ann Rhoads
Title: Vice President

MEESPIERSON N.V.

By: /s/ Karel Louman

Name: Karel Louman
Title: Vice President

BANK OF SCOTLAND

By: /s/ Catherine M. Oniffrey

Name: Catherine M. Oniffrey
Title: Vice President

BANQUE PARIBAS

By: /s/ Barton D. Schouest

Name: Barton D. Schouest
Title: Group Vice President

By: /s/ Douglas R. Liftman

Name: Douglas R. Liftman
Title: Vice President

CREDIT LYONNAIS CAYMAN ISLAND BRANCH

By: /s/ Pascal Poupelle

Name: Pascal Poupelle
Title: Senior Vice President

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

By: /s/ Michael J. Kolosowsky

Name: Michael J. Kolosowsky
Title: Vice President

ARAB BANKING CORPORATION (B.S.C.)

By: /s/ Stephen A. Plauche

Name: Stephen A. Plauche
Title: Vice President

CREDIT AGRICOLE

By: /s/ David Bouhl

Name: David Bouhl, F.V.P.
Title: Head of Corporate Banking, Chicago

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Thomas K. Grundman

Name: Thomas K. Grundman
Title: Senior Vice President

THE BANK OF NOVA SCOTIA

By: /s/ M. D. Smith

Name: M. D. Smith
Title: Agent

HIBERNIA NATIONAL BANK

By: /s/ Bruce Ross

Name: Bruce Ross
Title: Vice President

SCHEDULE II
DESCRIPTION OF MANTA RAY GATHERING SYSTEM

EXHIBIT 10.25

LEVIATHAN
UNIT RIGHTS APPRECIATION PLAN

1. PURPOSE. The purpose of this Leviathan Unit Rights Appreciation Plan (hereinafter referred to as the "Plan") is to further the success of Leviathan Gas Pipeline Partners, L.P., a Delaware limited partnership (the "Company"), and certain of its affiliates by giving certain officers and key employees of the Company and its affiliates ("Participants") the opportunity to benefit from the appreciation in the value of Preference Units in the Company, and thus to provide an additional incentive to such Participants to continue in the service of the Company or its affiliates. Accordingly, the Committee is hereby authorized to designate those Participants who are to receive Unit Rights under this Plan, and to grant Unit Rights to such Participants.

2. DEFINITIONS. As used in this Plan, the terms set forth below shall have the following meanings:

(a) "AFFILIATE" means as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, the General Partner, its parent, and its subsidiaries shall be deemed to be affiliates of the Company.

(b) "BOARD" means the Board of Directors of the General Partner.

(c) "CHANGE OF CONTROL" means the occurrence of the acquisition by any Person, or two or more Persons acting in concert (other than DeepTech International Inc. or any affiliate thereof), of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 50% or more of the issued and outstanding shares of voting stock of the General Partner.

(d) "CODE" means the Internal Revenue Code of 1986.

(e) "COMMITTEE" means a committee of the Board that is composed solely of two or more Non-Employee Directors (as defined in Rule 16b-3, effective August 15, 1996, promulgated under the Exchange Act) of the Board, provided, however, that during periods in which no such committee is appointed and empowered under the Plan the Board shall be the Committee for all purposes under the Plan.

(f) "COMMON UNIT" means a Common Unit, as defined and described in the Amended and Restated Agreement of Limited Partnership of the Company, dated February 19, 1993, as amended from time to time.

(g) "COMPANY" means Leviathan Gas Pipeline Partners, L.P., a Delaware limited partnership, and any successor in interest.

(h) "DATE OF GRANT" means the date on which Unit Rights are granted pursuant to the Plan.

(i) "EFFECTIVE DATE" means the effective date of this Plan specified in Paragraph 13 hereof.

(j) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as it may be amended from time to time.

(k) "FAIR MARKET VALUE" means the closing price of the Preference Units as reported on the New York Stock Exchange composite tape or, if the Preference Units are not traded on such exchange, as reported on any other national securities exchange on which the Preference Units are traded.

(l) "GENERAL PARTNER" means Leviathan Gas Pipeline Company, a Delaware corporation and the general partner of the Company.

(m) "PERSON" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or other entity of whatever nature.

(n) "PARTICIPANTS" means the senior officers of the Company and its affiliates; provided, however, that the Chairman of the Board of the General Partner shall not be eligible to participate in the Plan.

(o) "PREFERENCE UNIT" means a Preference Unit, as defined and described in the Amended and Restated Agreement of Limited Partnership of the Company, dated February 19, 1993, as amended from time to time.

(p) "UNIT RIGHT" means a right, documented by a Unit Rights Agreement, to purchase, or realize the appreciation in, a Preference Unit, pursuant to the provisions of this Plan.

(q) "UNIT RIGHTS AGREEMENT" means a written agreement between the Company and a Participant related to Unit Rights granted to a Participant under this Plan.

(r) "UNIT RIGHTS HOLDER" shall mean a person who is entitled to exercise Unit Rights granted hereunder.

(s) "UNIT RIGHTS PRICE" means, as to a grant of Unit Rights, the exercise price of the Preference Units covered by the grant of Unit Rights, as determined under Section 7(a) hereof.

3. ADMINISTRATION OF PLAN. The Committee shall administer the Plan. To the extent required by law, the Committee shall report all action taken by it to the Board and the Board shall review and ratify or approve such actions. The Committee shall have full and final authority in its discretion, subject to the provisions of the Plan, (a) to determine the Participants to whom, and the time or times at which, Unit Rights shall be granted and the number of

Preference Units covered by each grant of Unit Rights; (b) to construe and interpret the Plan and any agreements made pursuant to the Plan; (c) to determine the terms and provisions (which need not be identical or consistent with respect to each Participant) of the respective Unit Rights Agreements and any agreements ancillary thereto, including, without limitation, terms covering the payment of any Unit Rights Price that may be payable; and (d) to make all other determinations and take all other actions deemed necessary or advisable for the proper administration of this Plan. All such actions and determinations shall be conclusively binding for all purposes and upon all persons.

4. UNIT RIGHTS AUTHORIZED. Unit Rights granted under this Plan shall consist of rights granted to a Participant to receive from the Company any of the following, at the option of the Company, upon exercise of the Unit Rights by the Participant pursuant to the terms of the Plan:

(a) A dollar amount equal to (i) the number of Unit Rights being exercised multiplied by (ii) the positive difference, if any, between (A) the Fair Market Value on the exercise date ("Exercise Date Price") of a Preference Unit, minus (B) the Unit Rights Price;

(b) A number of Preference Units (or a fraction thereof) equal to (i) the quotient of (A) the number of Unit Rights being exercised multiplied by (B) the positive difference, if any, between the Exercise Date Price of a Preference Unit minus the Unit Rights Price; divided by (ii) the Exercise Date Price of a Preference Unit; or

(c) One Preference Unit for each Unit Right being exercised, provided that the Participant shall timely pay the aggregate Unit Rights Price for the Unit Rights being exercised.

5. PREFERENCE UNITS SUBJECT TO UNIT RIGHTS. The aggregate number of Preference Units as to which Unit Rights may be issued shall not exceed 200,000 Preference Units per calendar year and 2,000,000 Preference Units over the term of the Plan (as set forth in Paragraph 11) subject to adjustment (as to both limitations) under the provisions of Paragraph 8. No Participant may be granted more than 200,000 Unit Rights in any calendar year. In the event any Unit Right shall, for any reason, terminate or expire or be surrendered without having been exercised in full, the Preference Units subject to such Unit Right shall again be available for Unit Rights to be granted under the Plan.

6. PARTICIPANTS. Except as hereinafter provided, Unit Rights may be granted under the Plan to any Participant. In determining the Participants to whom Unit Rights shall be granted and the number of Preference Units to be covered by such Unit Rights, the Committee may take into account the nature of the services rendered by the respective Participants, their present and potential contributions to the Company's success, and such other factors as the Committee in its discretion shall deem relevant. A Participant who has been granted Unit Rights under the Plan may be granted additional Unit Rights under the Plan, in the Committee's discretion.

7. TERMS AND CONDITIONS OF UNIT RIGHTS. The grant of a Unit Right under the Plan shall be evidenced by a Unit Rights Agreement executed by the Company and the applicable Participant and shall contain such terms and be in such form as the Committee may from time to time approve, subject to Paragraph 4 above and the following limitations and conditions:

(a) UNIT RIGHTS PRICE. The Unit Rights Price of the Unit Rights granted hereunder shall be the Fair Market Value of the Preference Units subject to the Unit Rights as of the Date of Grant. If the Preference Units were not traded on the Date of Grant, the most recent trading date shall be substituted in the preceding sentence.

(b) PERIOD OF UNIT RIGHTS. The expiration date of each Unit Right shall be the sixth (6th) anniversary of the Date of Grant. No Unit Rights granted hereunder may be exercised after such expiration date.

(c) VESTING OF PREFERENCE UNIT RIGHTS. Neither a Unit Rights Holder nor his or her successor in interest shall have any of the rights of a Preference Unit Holder of the Company solely by virtue of the ownership of Unit Rights until the Unit Rights are exercised and, subject to the Company's election described in Paragraph 4 above, the Preference Units relating to the Unit Rights are properly issued to such Unit Rights Holder or successor pursuant to Paragraph 4(c).

(d) VESTING AND EXERCISE OF UNIT RIGHTS. Unit Rights shall vest and become exercisable in accordance with such vesting schedule as is established in the relevant Unit Rights Agreement; provided, however, that all outstanding Unit Rights shall become one hundred percent (100%) vested and exercisable upon the effective date of the Change of Control of the Company. A Unit Rights Holder shall exercise his or her Unit Rights by written notice to the Company stating the number of Unit Rights being exercised. The Committee shall inform the Unit Rights Holder within ten days of receipt of such notice by the Company whether all or any portion of his or her Unit Rights are to be exercised as provided in Paragraph 4(c), together with the amount of the payment required by the Unit Holder.

(e) NONTRANSFERABILITY OF UNIT RIGHTS. No Unit Rights shall be transferable or assignable by a Unit Rights Holder, other than by will or the laws of descent and distribution, and each Unit Right shall be exercisable, during the Unit Rights Holder's lifetime, only by him or her or, during periods of legal disability, by his or her legal representative. No Unit Right shall be subject to execution, attachment, or similar process.

8. ADJUSTMENTS. The Committee, in its discretion, may make such adjustments in the Unit Rights Price and the number of Preference Units covered by outstanding Unit Rights if such adjustments are required to prevent any dilution or enlargement of the rights of the holders of such Unit Rights that would otherwise result from any reorganization, recapitalization, merger, consolidation, issuance of rights, or other change in the capital structure of the Company. The Committee, in its discretion, may also make such adjustments in the aggregate number of Preference Units that may be subject to the future grant of Unit Rights if such adjustments are appropriate to reflect any transaction or event described in the preceding sentence.

9. RESTRICTIONS ON ISSUING PREFERENCE UNITS. The issuance of any Preference Units pursuant to the terms of this Plan may be made subject to the condition that if at any time the Company shall determine in its discretion that the satisfaction of withholding tax or other withholding liabilities, or that the listing, registration, or qualification of any Preference Units otherwise deliverable upon such exercise upon any securities exchange or under any state or federal law, or that the consent or approval of any regulatory body, is necessary or desirable as a condition of, or in connection with, such exercise or the delivery or purchase of Preference Units pursuant thereto, then in any event, such exercise shall not be effective unless such withholding, listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

10. USE OF PROCEEDS. The proceeds received by the Company from the sale of any Preference Units pursuant to the exercise of Unit Rights granted under the Plan shall be added to the Company's general funds and used for general partnership purposes.

11. AMENDMENT, SUSPENSION, AND TERMINATION OF PLAN. The Board may at any time suspend or terminate the Plan or may amend it from time to time in such respects as the Board may deem advisable in order that the Unit Rights granted thereunder may conform to any changes in the law or in any other respect which the Board may deem to be in the best interests of the Company; provided, however, that without approval by the General Partner of the Company, no such amendment shall make any change in the Plan for which Partner approval is required of the Company by (a) Rule 16b-3, under the Exchange Act; (b) any rules for listed companies promulgated by any national stock exchange on which the Company's Preference Units are traded; or (c) any other applicable rule or law. Unless sooner terminated hereunder, the Plan shall terminate ten (10) years after the Effective Date. No Unit Rights may be granted during any suspension of the Plan or after the termination of the Plan.

12. WITHHOLDING. The Committee may, in its sole discretion, (a) require a Unit Rights Holder to remit to the Company a cash amount sufficient to satisfy, in whole or in part, any federal, state, and local withholding requirements prior to any payment or issuance of property pursuant to the exercise of Unit Rights hereunder; (b) satisfy any such withholding requirements by withholding from payments or property issuable to the Unit Rights Holder upon the exercise of the Unit Rights amounts of cash or property equal in value to the amount required to be withheld; or (c) satisfy such withholding requirements through another lawful method, including through additional withholdings against the Unit Rights Holder's other compensation from the Company.

13. EFFECTIVE DATE OF PLAN. This Plan shall become effective on the date (the "Effective Date") of the last to occur of (a) the adoption of the Plan by the Board and (b) the approval by the General Partner.

14. TERMINATION OF EMPLOYMENT. With respect to a Participant to whom Unit Rights have been granted under the Plan, in the event of his or her retirement (with the written consent of the Company, the General Partner or their respective affiliates, as applicable) or other termination of employment with the Company, the General Partner or their respective affiliates, other than a termination that is either (i) for cause or (ii) voluntary on the part of the employee and without the written consent of the Company, the employee may (unless otherwise provided

in his Unit Rights Agreement) exercise his Unit Rights at any time within three months after such retirement or other termination of employment (or within one year after termination of employment due to disability within the meaning of Code Section 422(c)(6), or within such other time as the Committee shall authorize, but in no event after six years from the date of granting thereof (or such lesser period as may be specified in the Unit Rights Agreement), but only to the extent of the number of Preference Units for which his Unit Rights were exercisable by him at the date of the termination of his employment. In the event of the termination of the employment of an employee to whom Unit Rights have been granted under the Plan that is either (i) for cause or (ii) voluntary on the part of the employee and without the written consent of the Company, any Unit Rights held by him under the Plan, to the extent not previously exercised, shall forthwith terminate on the date of such termination of employment. Unit Rights granted under the Plan shall not be affected by any change of employment so long as the holder continues to be an employee of the Company or the General Partner, or their respective affiliates. The Unit Rights Agreement may contain such provisions as the Committee shall approve with respect to the effect of approved leaves of absence. Nothing in the Plan or in any Unit Rights granted pursuant to the Plan shall confer on any individual any right to continue in the employ of the Company or any of its affiliates or interfere in any way with the right of the Company or any of its affiliates to terminate his employment at any time.

15. DEATH OF HOLDER OF UNIT RIGHTS. In the event a Participant to whom Unit Rights have been granted under the Plan dies during, or within three months after the termination of, his employment by the Company or an affiliate, such Unit Rights may be exercised by the executor or administrator of the Unit Rights Holder's estate or by the person or persons to whom the Unit Rights Holder shall have transferred such Unit Rights by will or the laws of descent and distribution, at any time within a period of 12 months after such Participant's death, to the same extent, if any, that such Unit Rights were exercisable by the Participant at the time of such Participant's death.

16. LOANS TO ASSIST IN EXERCISE OF UNIT RIGHTS. If approved by the Board, the Company or any affiliate may lend money or guarantee loans by third parties to an individual to finance the exercise of any Unit Rights granted under the Plan to purchase Preference Units thereby acquired.

EXHIBIT 21.1

LEVIATHAN GAS PIPELINE PARTNERS, L.P.
SUBSIDIARIES

Ewing Bank Gathering Company, L.L.C., a Delaware limited liability company
Flextrend Development Company, L.L.C., a Delaware limited liability company
Green Canyon Pipe Line Company, L.L.C., a Delaware limited liability company
    West Cameron Dehydration Company, L.L.C., a Delaware limited liability company (50%)
Leviathan Oil Transport Systems, L.L.C., a Delaware limited liability company
Manta Ray Gathering Company, L.L.C., a Delaware limited liability company
Poseidon Pipeline Company, L.L.C., a Delaware limited liability company
    Poseidon Oil Pipeline Company, L.L.C., a Delaware limited liability company (36%)
Sailfish Pipeline Company, L.L.C., a Delaware limited liability company
    Neptune Pipeline Company, L.L.C., a Delaware limited liability company
        Manta Ray Offshore Gathering Company, L.L.C., a Delaware limited liability company (25.7%)
    Ocean Breeze Pipeline Company, L.L.C., a Delaware limited liability company
        Nautilus Pipeline Company, L.L.C., a Delaware limited liability company (25.7%)
Stingray Holding, L.L.C., a Delaware limited liability company
    Stingray Pipeline Company, a Louisiana partnership (50%)
Tarpon Transmission Company, a Texas corporation
Texam Offshore Gas Transmission, L.L.C., a Delaware limited liability company
    High Island Offshore System, a Delaware partnership (20%)
Transco Hydrocarbons Company, L.L.C., a Delaware limited liability company
    U-T Offshore System, a Delaware partnership (33 1/3%)
Transco Offshore Pipeline Company, a Delaware limited liability company
    High Island Offshore System, a Delaware partnership (20%)
VK Deepwater Gathering Company, L.L.C., a Delaware limited liability company
    Viosca Knoll Gathering Company, a Delaware partnership (50%)
VK-Main Pass Gathering Company, L.L.C., a Delaware limited liability company

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM LEVIATHAN GAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1996 INCLUDED IN ITS FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-K.

1,000

YEAR
DEC-31-1996
JAN-01-1996
DEC-31-1996
16,489
0
20,344
0
0
37,692
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46,206
453,526
21,273
227,000
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0
0
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453,526
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91,507
9,068
9,068
31,731
0
5,560
37,891
(801)
38,692
0
0
0
38,692
1.57
1.57