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June 10, 1999

VIA FACSIMILEWill J. Johnson
President
Visage Energy Corp.
6345 Green Valley Circle
Suite 216
Culver City, California 90230Re: Funds Transfer Agreement

Dear Will:

This letter is written with respect to the arrangement Visage Energy Corp. ("Visage") has with its suppliers, the repurchasers of its product, and Union Bank of California (the "Bank"), whereby the Bank handles transfers of funds for the purchase and sale of natural gas. You have asked us to evaluate the risk that, in the event of a bankruptcy by Visage, funds subject to the arrangement would be part of Visage's bankruptcy estate, and the gas supplier would not be paid. The following analysis responds to this request. Please note that this letter and the analysis contained herein is furnished to you solely for your benefit, and is not to be relied upon by any other person or entity.

Our analysis is based on the following facts and assumptions. Visage purchases natural gas from suppliers (the "Supplier(s)") and markets and resells the gas to third parties (the "Repurchaser(s)"). A portion of the consideration paid to Visage by the Repurchaser is paid to the supplier, and the balance is retained by Visage as its profit on the sale. As part of the transaction the parties enter into two agreements with the Bank. First, a Model Funds Transfer Agent Agreement (an "Agreement") is entered into among Visage, the Bank and the Supplier. Under the Agreement, when Visage and the Supplier strike a deal, the parties notify the Bank, and the Bank confirms the transaction and agrees that it shall make payment to the Supplier from funds received from Visage's Repurchaser. A second Agreement is entered into among Visage, the Bank, and the

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Repurchaser, in which the Repurchaser agrees to pay for the goods by depositing the purchase price with the Bank. The Bank agrees that, for the benefit of Visage, it will utilize funds received to pay the Supplier. At the time of the sale, the Repurchaser wires funds to a Bank Control Account maintained at the Bank. On the next business day after receiving the funds the Bank (1) wires to the Supplier its purchase price, and (2) remits the balance remaining after this payment to Visage.

The Bank Control Account is a type of account having certain characteristics. According to internal Bank documents, funds deposited into the account are held for a specific purpose and disbursements are controlled by the Bank. The only authorized signatories on the account are Bank officers, and the Bank is only authorized to disburse the funds in accordance with the applicable Agreements. At no time does Visage have control over funds in the account intended for the Supplier. The Bank's written instructions for opening a Bank Control Account state that the Bank's name must appear in the account title, and give the following example: "ABC Co., Union Bank of California Control Account, Trustee." In the case of the Bank Control Account established for Visage, the account is variously titled "Union Bank of California as Transfer Agent for Visage Energy Corp." (in the Bank-Depositor Agreement) and "Visage Energy Corp. Union Bank of California NA Ttee, Control Account" (on Bank statements).

As noted above, under the Agreements, the funds the Bank receives from the Repurchaser are disbursed on the next business day. Thus, any funds received are in the Account for only one day. Nevertheless, from time to time Suppliers have expressed concern that in the event Visage were to file bankruptcy the same day funds are deposited into the Account by a Repurchaser, the funds would be part of Visage's bankruptcy estate, and the Supplier would not be paid. You have asked us to evaluate the likelihood of this occurring.

Property held in trust by a bankruptcy debtor for another is not property of the debtor's bankruptcy estate available for use by the debtor or distribution to creditors. In our view, there is a substantial likelihood that a court would find that the Agreements and Bank Control Account (collectively, the "FTA") create a trust, that Visage holds a portion of funds deposited into the Bank Control Account as trustee for the benefit of the Supplier, and that the Supplier's beneficial interest in, and right to, the funds would be undisturbed by a bankruptcy of Visage.

The four essential elements of a trust are (a) a trust property, (b) a trust purpose, (c) one or more beneficiaries, and (d) the intention to create a trust. The FTA seems to satisfy

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each of the four requirements. First, the funds deposited into the Bank Control Account undoubtedly qualify as trust property. Second, the purpose of the trust can be defined as to give the Supplier an immediate beneficial interest in the funds, thereby eliminating the step of having legal and equitable title vest simultaneously in Visage. Third, it is not difficult to identify the Supplier as a beneficiary of the arrangement.

Finally, the PTA indicates the parties' intention to create a trust. Although the PTA does not explicitly state that the deposited funds are held in trust, it appears that the transaction is structured as it is in order to give the Supplier an interest in the funds from the moment they are deposited. The Repurchaser deposits the funds with the explicit understanding that a portion of the funds are intended for the Supplier. Visage also has this understanding, and essentially disclaims any beneficial interest in funds intended for the Supplier. The Supplier clearly expects to have an interest in, or right to, the funds from the moment the deposit is made. The role of the Bank as transfer agent can be viewed as a mechanism for assuring the Supplier that Visage will act in accordance with its duty as trustee to disburse the funds to the Supplier. This is accomplished by Visage irrevocably instructing the Bank, as its agent, to disburse a specific portion of the funds to the Supplier.

Aside from the overall expectations of the parties, specific provisions and references in the documents establishing the Bank Control Account also indicate the intention of Visage to create a trust. For example, the account is variously titled "Visage Energy Corp., Union Bank of California NA TTEB" (on the bank statements) and "UB CL -- Union Bank as Transfer Agent for Visage Energy Corp." (on the Bank-Depositor Agreement). In addition, the only authorized signatories on the account are officers of the Bank, and the Bank acknowledges that funds deposited are held for a specific purpose. The Bank also has instructed its officers that it is appropriate for a Bank Control Account to reflect the Bank as trustee.

Because of references to the Bank as trustee, a case may also be advanced that the PTA creates a trust having the Bank -- rather than Visage -- as trustee. However, neither the Supplier nor the Repurchaser are privy to these references. In addition, the Agreements include a provision whereby the parties specifically appoint the Bank as their agent, and consistently refer to the Bank as an agent. It is our view that the references to the Bank as a trustee in the Bank's internal documents, and in documents to which only Visage is privy, are not likely to overcome the intention expressed in the Agreements that the Bank is acting merely as an agent.

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There are additional doctrines that could be employed to preserve the right of the Supplier to claim funds on deposit in the account. However, we view the trust theory outlined above as the most straightforward.

The FTA nowhere states explicitly that funds received are held in trust for the Supplier, leaving the door open to arguments that there was no intention to create a trust. The parties, who are experienced in business, could have plainly and forthrightly stated their intention to create a trust. The fact that they did not do so would lend support to the conclusion that a trust relationship was not intended. However, to the extent there is any doubt regarding the parties' intention, the Agreements could be modified to expressly state that the funds deposited by the Repurchaser are held (albeit for one day only) by Visage in trust for the benefit of the Supplier. This would remove any uncertainty and enhance the likelihood of a court finding the existence of a trust, without altering the economics or essence of the transaction. For example, a sentence could be added to Section 3.1 that reads, "Funds received from the Buyer's repurchaser shall be held in trust by the Buyer for the benefit of the Seller to the extent of the purchase price owing from the Buyer to the Seller."

Please call if you have any questions, or wish to discuss the foregoing.

Very truly yours,



Maits Deal Prout

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June 30, 1999

BY FACSIMILEWill J. Johnson
President
Visage Energy Corp.
6345 Green Valley Circle
Suite 216
Culver City, California 90230Re: Funds Transfer Agreement

Dear Will:

It was disappointing to learn that you are still having a hard time convincing your suppliers that, if Visage Energy filed a bankruptcy, the suppliers are protected against having those funds in the Bank Control Account which are intended for them drawn into Visage's bankruptcy estate. I am surprised that they apparently are not even willing to discuss modification of the terms of the Funds Transfer Agreement and Bank Control Account to tighten the existing protections. Section 541 of the Bankruptcy Code, and cases decided under this Section, unambiguously provide that property held in trust by the debtor for another is not property of the debtor's bankruptcy estate. In fact, we are unaware of a case where a court has found that property held by a debtor in trust is available for use by the debtor or a bankruptcy trustee. If the Bank Control Account and Funds Transfer Agreements are revised to expressly provide that the purchase price, when deposited into the Bank Control Account, is held by Visage Energy in trust for the supplier, there should be no credible legal theory by which the funds could be characterized as property of Visage's bankruptcy estate.

This letter and the above analysis are furnished to you solely for your benefit, and are not to be relied upon by any other person or entity. However, I would be available to discuss with your suppliers or their counsel the theory they believe would permit the funds in question to be pulled into Visage's bankruptcy estate. If there is a particular case that raises concerns we would be happy to review it, and see if there is a

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way to structure the transaction to address any risks the suppliers believe the case presents.

Please call if you have any questions.

Very truly yours,



Maita Deal Prout

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