OPERATING AGREEMENT

THIS AGREEMENT made and entered into as of the 15th day of March, 1956, by and between PHILLIPS PETROLEUM COMPANY, a Delaware corporation with an operating office in Bartlesville, Oklahoma, hereinafter sometimes referred to as "Phillips" or "Operator", and TEXAS PACIFIC COAL AND OIL COMPANY, a corporation, hereinafter sometimes referred to as "Texas Pacific" or "Non-Operator";

W I T N E S S E T H:

WHEREAS, the parties hereto have executed that certain "Unit Agreement For the Development and Operation of the West Ranger Area, Lea County, New Mexico", pertaining to the following described lands, hereinafter sometimes referred to as the "Unit Area":

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO
T-12-S, R-34-E, Lea County

Sections 23 and 26: all
Section 24: W/2 NW/4
Section 25: NW/4

and

WHEREAS, the parties hereto are the owners of oil and gas leases covering lands located within the above described Unit Area; and

WHEREAS, with a view of preventing waste and of more economically operating, for the production of oil and gas, the leases within such Unit Area which are owned by the parties hereto, such parties desire to develop and operate jointly said leases on the terms, covenants and conditions thereof and hereof;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the parties have entered into, and by these presents do enter into the following agreement:

CASE 977 1057

CONTRACT AREA

The leases owned by the parties hereto cover and apply to the following described lands, which shall constitute the "Contract Area":

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO
T-12-S, R-34-E, Lea County

Sections 23 and 26: all
Section 24: W/2 NW/4
Section 25: NW/4

This Contract Area shall be developed and operated for the production of oil and gas by Operator, subject to the terms and conditions of this Agreement, and the parties hereto hereby commit to this Agreement their leases in the lands comprising the Contract Area insofar as same cover and apply thereto. Except as provided in Paragraph III hereof, the Contract Area shall never be enlarged unless all parties hereto consent to such enlargement.

II.

INTEREST OF THE PARTIES

The interests of the parties in and to all the production from the Contract Area and in and to the materials and equipment to be installed therein and thereon shall be as follows:

Party	Undivided Interest
Phillips Petroleum Company	57.894737%
Texas Pacific Coal & Oil Company	42.105263%

and all costs, expenses and liabilities accruing or resulting from the development and the operation of the Contract Area pursuant to this Agreement shall be determined, shared and borne by the parties hereto in said proportions. Likewise, any contributions (acreage, money, dry-hole or otherwise) made to the operator, or any other party hereto, by reason of operations in the Contract Area, shall be shared by the parties hereto in the same proportions.

III.

SUBSEQUENT JOINDER

Except by mutual consent of all parties hereto, no owner of a working interest in any oil and gas lease covering lands outside the Contract Area shall ever be permitted, by reason of such ownership, to join in this agreement or to participate in the production from the Contract Area unless (1) the lease or interest therein which such owner desires to commit to this agreement shall have been proven by actual drilling to be productive of oil or gas in commercial quantities; and (2) such joinder is approved by parties hereto owning at least 90% of the interest set out in Paragraph II hereof. No such joinder shall become effective until the owner of such leasehold interest shall have; (1) executed the "Unit Agreement For the Development and Operation of the West Ranger Area, Lea County, New Mexico"; (2) executed a counter part of this agreement and an appropriate instrument committing such owner's leasehold interest to this agreement; and (3) reimbursed each of the parties hereto, on a mutually agreeable basis, for such owner's proportionate share of all costs and expenses theretofore incurred in developing and operating the Contract Area. In the event of any such joinder, the Contract Area shall be enlarged to include the leasehold interest committed thereto by such owner, and the schedule of participation set forth in Paragraph II shall be revised to reflect such owner's interest in the Contract Area and the proportionately reduced interests of the other parties hereto.

IV.

AGREEMENT TO BECOME EFFECTIVE

Notwithstanding any other provisions of this agreement, this agreement shall not become effective, nor shall Operator incur any liability hereunder, unless on or before April 1, 1956, (1) this agreement has been executed by all parties named as parties hereto, (2) all

parties named as parties shall have executed the "Unit Agreement For the Development and Operation of the West Ranger Area, Lea County, New Mexico", and (3) such Unit Agreement shall have been approved by the Commissioner of Public Lands of the State of New Mexico and his Certificate of Approval has been executed and issued. Should this agreement become effective, it shall be effective as of the date hereof.

V.

TITLES

Any loss of title occurring under any lease contributed hereto shall be borne by the party who contributed such lease to this agreement, provided that there shall be no retroactive adjustment of cost and revenue made prior to final determination of such loss. Loss of title shall mean only the loss of a lease, or an interest therein, through a defect in title. Loss of a lease through failure to obtain production shall be borne by all parties in proportion to their interest in the Contract Area.

VI.

DESIGNATION OF OPERATOR AND TEST WELL

Phillips Petroleum Company shall be the Operator hereunder and as such, shall, (subject to the provisions of Paragraph IV hereof) on or before June 15, 1956, commence or cause to be commenced the actual drilling of a well for the discovery of oil and gas, to be located at a location of its own selection in the SE/4 SE/4 of Section 23, T-12-S, R-34-E, N.M.P.M., Lea County, New Mexico, and shall prosecute the drilling thereof with diligence to a depth sufficient to test 200 feet of the Devonian formation or to a lesser depth at which oil and/or gas in paying quantities is discovered in said formation, or to water in excessive quantities in said formation at a lesser depth, or to igneous or metamorphic material or other practically impenetrable formation at any lesser depth, or to such

depth at which mechanical difficulties make further drilling impracticable, whichever is the lesser depth.

VII.

INSURANCE

Operator shall, at all times while operations are conducted on the premises subject hereto, carry or provide insurance to indemnify, protect and save the parties hereto harmless, as follows:

a. Employers' Liability and Workmen's Compensation Insurance, in accordance with the laws of the State where operations are being conducted.

b. Public Liability Insurance with limits of not less than One Hundred Thousand Dollars ($100,000.00) as to any one person and Three Hundred Thousand Dollars ($300,000.00) as to any one accident.

c. Automobile Public Liability Insurance, with limits of not less than One Hundred Thousand Dollars ($100,000.00) as to any one person and Three Hundred Thousand Dollars ($300,000.00) as to any one accident, and Automobile Property Damage Insurance with a limit of not less than Fifty Thousand Dollars ($50,000.00).

d. If steam boilers are used in connection with the operations hereunder, the Operator shall procure and maintain steam boiler and machinery explosion insurance with limits of Fifty Thousand Dollars ($50,000.00) per accident and the premiums therefor shall be treated as a part of the actual cost of development and operations.

No other insurance is to be carried at joint expense and the parties hereto shall assume their own risk, covering their respective interests, on all other insurable risks.

VIII.

OVERRIDING ROYALTIES, OIL PAYMENTS, ETC.

If any oil and gas leases contributed to the Contract Area herein are burdened with any royalties, overriding royalties, payments out of production or any other charges in addition to the usual one-eighth (1/8) royalty, the party contributing any such lease shall bear and assume same out of the interest attributable to it hereunder.

IX.

LEASES

It is understood that each of the oil and gas leases contributed by the parties covering the Contract Area is a New Mexico State lease and each party hereto shall comply with all of the terms and provisions of each oil and gas lease contributed by it insofar as the same pertains to the Contract Area, subject, however, to the other terms and provisions of this agreement.

X.

RENTAL PAYMENTS

Each party holding an oil and gas lease subjected to this agreement shall, before the due date, pay all delay rentals which may become due under the lease or leases contributed by it. The burden of paying such rentals shall fall entirely upon the party required to make payment thereof hereunder. In event of failure to make proper payment of any delay rental through mistake, or oversight where such rental is required to continue the lease in force (it being understood that any such failure shall not be regarded as a title failure within the meaning of any other section of this agreement) there shall be no money liability on the part of the party failing to pay such rental, but such party shall make a bona fide effort to secure a new lease covering the same interest, and in event of failure to secure a new lease within a reasonable time, the interests of the parties hereto shall be revised so that the party failing to pay any such rental will not be credited with the ownership of any lease on which rental was required but was not paid. Each party to this agreement shall notify the other party hereto, at least ten (10) days prior to the due date, that it has paid all delay rentals required to continue such leases in full force and effect and will furnish copies of the receipts evidencing such payments.

XI.

CONTROL AND COST OF OPERATION

Operator shall have full control of the premises subjected

hereto and, subject to the provisions hereof, shall conduct and manage the development and operation of said premises for the production of oil and gas for the joint account of the parties hereto. Operator shall pay and discharge all costs and expenses incurred pursuant hereto, and shall charge each of the parties hereto with its respective proportionate share upon the cost and expense basis provided in the Accounting Procedure attached hereto, marked Exhibit "A", and made a part hereof; provided, however, if any provision of said Exhibit "A" conflicts with any provision hereof, the latter shall be deemed to control. Non-Operator will promptly pay Operator such costs as are hereunder chargeable to Non-Operator. Unless otherwise herein provided, all production of oil and gas from said land, subject to the payment of applicable royalties thereon, and all materials and equipment acquired pursuant hereto shall be owned by the parties hereto in the respective proportions as set out herein. Operator shall at all times keep the joint interest of the parties hereto in and to the leases and equipment thereon free and clear of all labor and mechanic's liens and encumbrances.

XII.

EMPLOYEES

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by Operator. Such employees shall be employees of Operator.

XIII.

DRILLING OPERATIONS

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the field in which said leases are located. Operator, if it so desires, may em-

ploy its own tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed the prevailing rate in the field; and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature. All drilling contracts shall contain appropriate provisions that any wells drilled on the Contract Area, when completed, shall not deviate in excess of five degrees from perpendicular.

XIV.

AUTHORITY FOR INCURRING OF EXPENDITURES

Operator, before incurring any items of expenditure in excess of Five Thousand ($5,000.) Dollars, except expenditures for the drilling and equipment of wells mutually agreed upon, shall secure the express consent and approval in writing of Non-Operator. Operator shall, upon request, furnish Non-Operator with a copy of Operator's Company authority for expenditures for any project costing in excess of One Thousand Dollars ($1,000.00).

XV.

Notwithstanding any other provisions in this agreement, it shall not be necessary for Operator to secure the consent of any other party hereunder to additional drilling for the joint account or to any expenditure over $5,000.00 for the joint account where, by reason of death, incapacity, disability, insolvency, bankruptcy, or other condition, similar or dissimilar, such other party is incapable of giving such consent. In any such event, the determination of any additional drilling and the extent thereof, and the determination of any expenditure made for the joint account amounting to more than $5,000.00, shall be in the sole judgment of Operator and the unaffected other parties, if any. Such judgment shall be exercised without liability and, unless fraudulently exercised, shall be conclusive.

XVI.

OPERATOR'S LIEN

Operator shall have a lien upon the interest of Non-Operator which is subjected to this agreement, the oil and gas therefrom, the proceeds thereof and the materials and equipment thereon and therein to secure Operator in the payment of any sum due to Operator hereunder from Non-Operator. The lien herein provided for shall not extend to any royalty rights attributable to any interests subjected hereto.

ADVANCES

Operator, at its election, may require Non-Operator to furnish its proportion of the development and operating costs according to the following conditions:

On or before the first day of each calendar month, Operator shall submit an itemized estimate of such costs for the succeeding calendar month to Non-Operator. Within fifteen (15) days thereafter, Non-Operator shall pay, or secure the payment of in a manner satisfactory to Operator, its proportionate share of such estimate.

Should Non-Operator fail and neglect to pay or secure the payment of its proportionate part of such estimate, the same shall bear interest at the rate of six per cent per annum until paid. Adjustments between estimates and actual costs shall be made by Operator at the close of each calendar month and the accounts of the parties adjusted accordingly.

XVIII.

DISPOSITION OF PRODUCTION

At all times during the term hereof, each of the parties hereto, its successors or assigns, shall separately own and have the right of receiving in kind and disposing of its proportionate

share of the oil, gas and other minerals produced and saved from the premises covered by this agreement. While a party hereto may constitute another party hereto, or one not a party hereto, its agent or representative to sell or dispose of its proportionate share of the production, any such agency or representative capacity so created shall be revocable and cancellable at will by either of the parties thereto, its successors or assigns. Likewise, any contract of sale or disposition made by any such party or person acting as agent or representative of a party hereto shall be revocable and cancellable at the will of such party principal, its successors or assigns. If, by reason of any party hereto taking in kind its proportionate share of the oil, gas and other minerals produced and saved from the premises covered hereby, any additional operating or other expense is incurred for material, equipment or otherwise, such additional expense shall be borne in its entirety by the party whose actions occasion such expense. Operator shall have the right, without charge, to use whatever oil or gas may in its judgment be necessary for developing or operating the joint property.

XIX.

LIABILITY

The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as herein set out, and shall be liable for its proportionate share of the cost of developing and operating the premises subjected hereto. It is expressly agreed that it is not the purpose or intention of this agreement to create, nor shall the operations of the parties hereunder be construed or considered as a joint venture, or as any kind of a partnership. Insofar as applicable to the parties hereto, each of such parties agrees to and does hereby elect to be excluded from the application of all provisions of Subchapter K, Chapter 1, Subtitle A Internal Revenue Code of 1954, or such part thereof as may be permitted or authorized by the Secretary of Treasury of the United States or his delegate.

XX.

ADDITIONAL DRILLING

In the event any party desires to drill any additional well or deepen or plug back a rework a dry hole or non-commercial well drilled at the joint expense of the parties, it shall notify in writing the other party hereto thereof, and such party shall have ten (10) days after the receipt of such notice in which to determine and notify the party giving such notice whether it will join in such operations. If the party receiving such notice elects to participate in same, it shall in said time notify the party giving such notice of such election and if both the parties hereto elect to join therein, the Operator shall, within thirty (30) days after the elapse of said ten-day (10) period, commence at the joint expense of the parties hereto operations on such well under the other sections of this contract and shall prosecute the same with diligence in a workmanlike manner until such proposed well is or operations are completed. If the party receiving such notice notifies in said time the party giving notice of its election not to participate in such operations, and failure to notify the party giving such notice by telegram or through the mails of its election to join or not to join in same shall be deemed for the purpose hereof to be an election not to join in the drilling or deepening or plugging back or reworking of such well, the party giving such notice shall have the right to drill or deepen or plug back or rework such well at its cost and expense except as herein specified; provided that operations on said well are commenced within thirty (30) days after the elapse of said ten-day (10) period. The failure to commence such operations within such thirty-day (30) period terminates the right of the party giving such notice to commence such operations; however, a second notice may be given, in which event, the rights and duties of the parties will be governed by the provisions

hereof with respect to such first notice. Any well drilled under this Section shall conform to the then existing well spacing program. The party drilling or deepening or plugging back or reworking any well without joinder of the other party therein under this Section shall, within sixty days from the date of the completion thereof, furnish the other party with an inventory of the equipment in and on said well and with an itemized statement of the cost of drilling, deepening, plugging back, reworking, equipping, testing, and completing said well for production and each month thereafter during the time the participating party is being reimbursed, as hereinafter provided, with an itemized statement of the cost of the operation of said well and the quantity of minerals produced therefrom and the amount of the proceeds from the sale of the working interest production in the preceding month.

If such well when completed should be a commercial producer, the participating party shall be entitled to receive all the proceeds from the sale of non-participating party's share of the working interest production from such well until said party drilling, deepening, reworking, or plugging back any such well shall have received from the proceeds of the sale of non-participating party's share of the production an amount equal to two times what non-participating party's share of the drilling, deepening, plugging back, reworking, equipping, testing, and completing said well would have been had such party participated, and one hundred per cent of the non-participating party's share of the cost of the operation of said well during the time such reimbursement is being made. Upon such reimbursement of drilling party, said well shall be owned and operated as are other wells under this agreement. If such well when completed should be a dry hole or a producer not in commercial quantities, the participating party shall plug and abandon the same at its cost. Participating party under this paragraph shall hold non-participating party free and clear of all costs, expense and liability

in connection with the drilling, deepening, reworking, or plugging back of such well. In the event such participating party is unable to obtain from the non-participating party's share of such production a sufficient amount to repay such share of the cost of such drilling or deepening or plugging back or reworking plus such share of the cost of operating any such well as set forth above, such party shall be entitled to and shall own all such material, equipment and supplies placed or installed by it in or on the Contract Area or any well in connection with such drilling, deepening, reworking, or plugging back; provided that if such materials, equipment and supplies have a salvage value in excess of such reimbursement figure hereinabove provided, such excess shall be owned by the parties hereto in proportion to their interests in the Joint Property. All other material, equipment and supplies, including (but not by way of limitation) such as has been installed or used in connection with the drilling of any well prior to such additional drilling or deepening or plugging back in accordance with the provisions of this clause, shall be owned in accordance with the other provisions of this agreement.

All sections of this contract that are applicable to Operator hereunder in conducting the development and operations of the Contract Area shall be applicable to whichever party becomes the Operator under this section.

XXI.

TRANSFERS OF INTEREST

No assignment, mortgage or other transfer affecting the interest covered hereby, the production therefrom, or equipment thereon, shall be made unless the same shall cover the entire undivided interest of assignor, mortgagor or seller in the Contract Area; it being the

intent of this provision to maintain the joint development and operation of the Contract Area, provided that the sale of a lesser interest than the seller's entire undivided interest may be made upon the securing of the approval of the other party in writing.

In the event any party desires to sell all or any part of its interest in the Contract Area, the other party hereto shall have a preferential right to purchase same. In such event, the selling party shall promptly communicate to the other party hereto the offer received by it from a prospective purchaser ready, willing and able to purchase the same, together with the name and address of such prospective purchaser, and said party shall thereupon have an option for a period of ten (10) days after the receipt of said notice to purchase such undivided interest for its own benefit on the terms and conditions of such offer. In the event of a sale by Operator of the interest owned by it which is subject hereto, the holders of a majority interest in the premises subject hereto shall be entitled to select a new Operator, but unless such selection is made, the transferee of the present Operator shall act as Operator hereunder. The limitations of this paragraph shall not apply where any party hereto desires to dispose of its interest by merger, reorganization, consolidation or sale of all its assets, or a sale of its interest to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which such party hereto owns a majority of the stock.

XXII.

RIGHTS OF THE PARTIES TO INSPECT PROPERTY AND RECORDS

The following specific rights, privileges and obligations of the parties hereto are hereby expressly provided, but not by way of limitation or exclusion of any other right, privilege and obligation of the respective parties:

(a) Non-Operator shall have access to the entire Contract Area at all reasonable times to inspect and observe operations of every kind and character upon the property.

(b) Non-Operator shall have access at all reasonable times to any and all information pertaining to the wells drilled, production secured, oil and gas marketed, and to the books, records and vouchers relating to the operation of the Contract Area.

(c) Operator shall, upon request, furnish Non-Operator with daily drilling reports, true and complete copies of well logs, tests and charts, tank tables, daily gauge and run tickets, reports of stock on hand at the first of the month, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the Contract Area.

(d) In addition to the above enumerated items, Operator agrees to furnish Non-Operator, upon the latter's request, all information about the joint operations which is available to Operator and is necessary for intelligent handling of the joint operations.

XXIII.
ABANDONMENT OF WELL

In case the initial well or any additional jointly owned well or wells drilled hereunder shall prove to be a dry hole, then the Operator shall plug and abandon such well or wells and salvage all material and equipment therefrom for the benefit of the parties hereto in accordance with the provisions of said Exhibit "A". No producing well nor one that has ceased to produce shall be plugged and abandoned without the consent of the parties hereto and if the parties are unable to agree upon the abandonment of any well or wells then the party not desiring to abandon such well or wells shall tender to the party desiring to abandon same a sum equal to its proportionate share in the reasonable salvage value on top of the ground at the well of the material and equipment in and on said well. Upon receipt of such sum the party desiring to abandon such well shall transfer without warranty of title to the party desiring to retain the same, its interest in the zone or formation from which said well is then producing in and to the land attributed to said well by the well pattern on which said well was drilled, except that said assignment shall not include acreage upon

which another producing well is located. Any such assignment shall vest the interest so assigned in the party electing not to abandon any such well. The party so assigning under this provision shall not be liable after delivery of such assignment for any cost or expense incurred after the delivery of said assignment in connection with such well, but it shall be liable for its proportionate part of the cost and expense incurred before the delivery of said assignment.

XXIV.

SURRENDER OF LEASES

No lease embraced within the Contract Area shall be surrendered unless the parties mutually agree thereon. If one of the parties should desire to surrender any lease or leases and the other not, the party desiring to surrender shall assign to the party not desiring to surrender its interest in such lease or leases and assigning party's interest shall be reduced proportionately. The party receiving any such assignment shall pay the assigning party the reasonable salvage value on top of the ground at the well of the assigning party's proportionate part of the equipment in and on any well or wells on such lease or leases on the date of any such assignment.

XXV.

EFFECTIVE PERIOD

This agreement shall become effective as hereinbefore provided and shall remain in force for the full term of the "Unit Agreement For the Development and Operation of the West Ranger Area, Lea County, New Mexico", and may be terminated as a whole or in part by mutual consent of the parties; provided, however, either party may be relieved from its obligations and liabilities hereunder not previously incurred by assigning and transferring to the other party all of its right, title and

interest in and to the oil and gas rights under the lease or leases committed hereto. The party receiving any such assignment or assignments shall pay the assigning party the reasonable salvage value of its proportionate part on top of the ground at the well of the equipment in and on any well or wells on the Contract Area on the date of any such assignment or assignments. In the event of the termination of the unit agreement for any reason, this agreement shall continue in full force and effect as to all wells which have not been plugged and abandoned as of the time of the termination of the unit agreement and the rights and interests of the parties hereto in such wells and their participation in the production therefrom and in the cost of the operation thereof, shall be governed by the provisions hereof and this agreement with respect thereto shall remain in full force and effect so long as any such well is capable of producing oil or gas in paying quantities.

XXVI.

REGULATIONS

This agreement and the respective rights and obligations of the parties hereunder shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders and in the event this agreement or any provision hereof is, or the operations contemplated hereby, are found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control, and this agreement shall be regarded as modified accordingly, and as so modified, to continue in full force and effect.

XXVII.

NOTICES

All notices that are required or authorized to be given hereunder except as otherwise specifically provided for herein, shall be given in writing by United States registered mail or Western Union telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Texas Pacific Coal and Oil Company
P. O. Box 2110
Fort Worth, Texas

Phillips Petroleum Company
Attention: Land and Geological Department
Bartlesville, Oklahoma

The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

XXVIII.

TAXES

Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this contract and all physical property located on the unit or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operator for its proportionate share of such tax payments as provided by the Accounting Procedure hereto attached.

XXIX.

MISCELLANEOUS PROVISIONS

The term "oil and gas" as used herein shall include casinghead gas and any other mineral covered by any oil and gas lease subjected hereto.

Operator shall not be liable for any loss of property or of time caused by war, strikes, riots, fires, tornadoes, floods, governmental priorities on materials, or other governmental restrictions, or resulting from any other cause beyond its control through the exercise of reasonable diligence.

This agreement and Exhibits "A" and "B" attached hereto contain all of the terms as agreed upon by the parties hereto.

This agreement shall extend to and bind the parties hereto and their respective successors and assigns. It is agreed that the terms, conditions and provisions hereof shall constitute a covenant running with the lands and leasehold estates covered hereby.

The paragraph headings used in this agreement are inserted for convenience only, and are not to be taken into account in construing or interpreting this agreement or any of the provisions hereof. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and, subject only to the provisions of Paragraph IV hereof, shall be binding upon all those parties who have individually or collectively executed a counterpart with the same force and effect as if all parties hereto had executed the same document.

IN WITNESS WHEREOF, the parties hereto have signed this agreement as of the day and year first hereinabove written.

John T. Ferguson

DESCRIPTION OF INTERESTS
COMMITTED TO WEST RANGER
UNIT AGREEMENT IN REFERENCE
TO TRACT NUMBERS IN EXHIBIT
"B" ATTACHED TO UNIT AGREEMENT

SIGNATURES

PHILLIPS PETROLEUM COMPANY — Tracts Nos. 2, 3, 4, 5, 6

By _____
Vice President

ATTEST:

_____
Assistant Secretary

TEXAS PACIFIC COAL AND OIL COMPANY

By _____ — Tract No. 1

ATTEST:

_____
Secretary

STATE OF OKLAHOMA)

COUNTY OF WASHINGTON)

The foregoing instrument was acknowledged before me this 16 day of March, 1956, by G. W. McCullough Vice President of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

12-29-57

Notary Public in and for Washington County, Oklahoma

STATE OF Texas)

COUNTY OF Tarrant)

The foregoing instrument was acknowledged before me this 15th day of March, 1956, by Eugene T. Adair, Exec. Vice President of TEXAS PACIFIC COAL AND OIL COMPANY, a Texas corporation, on behalf of said corporation.

My Commission Expires:

My Commission Expires June 1, 1957

Notary Public in and for County,

DONALD M. WOODARD, Notary Public
In and For Tarrant County, Texas

EXHIBIT "B"
WEST RANGER UNIT AREA, LEA COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 34 EAST

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OIL AND GAS
INTERESTS IN ALL LANDS IN THE UNIT AREA

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	STATE LEASE NO. AND DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST OWNER
1.	T-12-S, R-34-E Sec. 26: all	640	E-906 7-10-46	State-All	Texas Pacific Coal & Oil Company	None	Texas Pacific Coal & Oil Company
2.	T-12-S, R-34-E Sec. 23: S/2	320	E-1027-1 10-10-46	State-All	Phillips Petroleum Company	The Vickers Petroleum Company, Inc. - 1/8 of 7/8	Phillips Petroleum Company
3.	T-12-S, R-34-E Sec. 25: N/2 NW/4	80	E-1233-1 3-10-47	State-All	Phillips Petroleum Company	None	Phillips Petroleum Company
4.	T-12-S, R-34-E Sec. 25: S/2 NW/4	80	E-1233-4 3-10-47	State-All	Phillips Petroleum Company	Ralph Nix and Jerry Curtis - 1/16 of 7/8	Phillips Petroleum Company
5.	T-12-S, R-34-E Sec. 23: NW/4	160	E-2793-1 7-11-49	State-All	Phillips Petroleum Company	Caswell S. Neal and wife, Eva F. Neal - Oil Payment of $80,000 payable out of 1/16 of 7/8	Phillips Petroleum Company
6.	T-12-S, R-34-E Sec. 23: NE/4 Sec. 24: NW/4 NW/4 and SW/4 NW/4	240	E-9718 1-17-56	State-All	Phillips Petroleum Company	None	Phillips Petroleum Company

West Ranger Unit Area, 1,520 Acres, 6 Tracts, Lea County, New Mexico

EXHIBIT "A"

Attached to and made a part of Unit Operating Agreement dated 1956 between Phillips Petroleum Co. and Texas Pacific Coal & Oil Co. covering the West Ranger Unit Area.

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and Billings

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph A below:

A. Statement in detail of all charges and credits to the joint account.

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

A. Outside Services:
The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

[illegible]

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE — Each Well	PRODUCING WELL RATE (Use Completion Depth) — First Five	Next Five	Each Well Over Ten
	500.00	100.00	75.00 for all producing wells over five.	

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges, the status of wells shall be as follows:
(1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
(2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
(3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

(4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.

(5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.

(6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.

(7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.

(8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.

C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.

D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

~~Operator's Fully Owned Warehouse Operating and Maintenance Expenses~~

(Describe fully the agreed procedure to be followed by the Operator.)

H.- For each drilling well the salaries and expenses of Operator's Foreman, Sub-Foreman, Geologist and Engineer for that part of their time applicable to such well.

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on carload basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning,

shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive equipment at rates commensurate with cost of ownership and operation. ~~Such rates shall not exceed the schedule of~~ rates adopted by the Petroleum Motor Transport Association or ~~some other recognized organization~~ ~~mutually agreed upon.~~ Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.

D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.

E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or

B. At sixty-five per cent (65%) ~~of current new price~~ if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price. \ of new price charged

4. Other Used Material

Used material (Condition "C"), at fifty per cent (50%) of current new price, being used material which:

A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account ~~commensurate with the period of its service~~ of 5% of the price charged if in service 60 days or less.

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.