within the meaning of Paragraph 1.02 by virtue of being involved in waterflood operations instituted after the effective date;

(b) All direct costs of operation of all wells located upon the Lands attributable to the Woodson Interests therein which are incurred and paid by Texas Pacific after the liquidation of the Production Payment, except that there shall not be charged to the net profits accounts any of such costs incurred with respect to any additional or waterflood wells as defined in Paragraph 1.02 until the payout date with respect thereto;

(c) That portion of the reasonable district office expenses of Texas Pacific incurred after the liquidation of the Production Payment for any district of Texas Pacific in which any of the Woodson Properties are located which is properly allocable to the Woodson Properties, such allocation to be made on the basis of the ratio of the number of producing wells in such district subject to the Net Profit Overriding Royalty which are operated by Texas Pacific (exclusive of additional or waterflood wells with respect to which the payout date has not occurred) to the total number of producing wells in such district operated by Texas Pacific, provided, however, that the charges to the net profits accounts for district expense shall not duplicate any charges for district expense receivable by Texas Pacific as operator under any operating agreement or any charges properly made under any other subparagraph hereof;

(d) Damages or losses suffered by Texas Pacific after liquidation of the Production Payment with respect to any of the Woodson Properties incurred by fire, flood, storm or from any other cause not controllable by Texas Pacific through the exercise of reasonable diligence;

(e) Expenses of litigation, liens, judgments and liquidated liabilities and claims incurred and paid by Texas Pacific after the liquidation of the Production Payment involving any of the Woodson Properties or incident to the development, exploration, operation or maintenance thereof;

(f) All taxes (except income taxes) incurred and paid by Texas Pacific after the liquidation of the Production Payment with respect to the Woodson Properties including all ad valorem, property, production, severance, occupation, and any other taxes assessed against the Woodson Properties;

(g) Insurance premiums incurred and paid by Texas Pacific after the liquidation of the Production Payment for insurance car-

ried with respect to the Woodson Properties, together with all expenditures incurred and paid in settlment of any and all losses, claims, damages and judgments relating to any of the Woodson Properties or the operation thereof;

(h) All delay rentals, shut-in gas well royalties and other similar payments made by Texas Pacific with respect to the Woodson Properties after the liquidation of the Production Payment;

(i) All amounts paid by Texas Pacific after the liquidation of the Production Payment by way of conformance of investment in any of the Personal Property if any of the Woodson Properties from time to time are unitized; and

(j) All other amounts incurred and paid by Texas Pacific after the liquidation of the Production Payment which are incurred directly in connection with the ownership, operation or maintenance of the Woodson Properties.

2.06 If at any time the payout date as defined in Paragraph 1.02 shall not have occurred with respect to any additional or waterflood wells referred to therein, then until such payout date of all such wells there shall not be credited to the net profits accounts any proceeds of sale of production from any such wells and there shall not be charged against the net profits accounts any operating expenses or other charges attributable to such wells until the payout date thereof.

2.07 Texas Pacific shall maintain a separate net profits account for the Manning-Harrington-Strawn Unit in Throckmorton County, Texas, into which shall be credited and against which shall be charged the same items specified in Paragraphs 2.04 and 2.05 above attributable to such unit only. From and after the time, whether before or after the liquidation of the Production Payment as there shall have been produced, saved and sold after the effective date from such unit 275,000 gross barrels of oil, Prudential shall own and be entitled to an undivided 75% (rather than 50%) Net Profit Overriding Royalty Interest in the production of oil and casinghead gas thereafter accruing to the Woodson Interests in such unit. In the event that the Production Payment is liquidated prior to the time that Prudential becomes entitled to such 75% Net Profit Over-