

**CENTRAL VACUUM UNIT AND EAST VACUUM (GRAYBURG SAN ANDRES) UNIT  
COOPERATIVE LEASELINE INJECTION AGREEMENT**

THIS AGREEMENT shall be effective as of April 1, 2003, by and between ConocoPhillips Company (COP), as Operator and on behalf of all working interest owners of the East Vacuum Grayburg San Andres Unit (EVGSAU), and Chevron U.S.A. Inc., as Successor in Interest to Texaco Exploration and Production Inc. (Chevron), as Operator and on behalf of all working interest owners of the Central Vacuum Unit (CVU).

**WITNESSETH:**

WHEREAS, COP and Chevron are parties to that certain Cooperative Water Injection Agreement, effective March 10, 1980, known as the Vacuum (Grayburg-San Andres) Cooperative Water Injection Agreement, providing for the injection of water into the Grayburg-San Andres formation through various wells, as identified in said agreement (being CVU wells numbered 142 through 150 and 154, and EVGSAU wells numbered 0524-005, 2923-003, 1911-002, 2418-002, 2957-002, 2963-005, 3127-005, 3127-0006, 3127-0007, and 3236-0008), located in Townships 17 and 18 South, Ranges 34 and 35 East, Lea County, New Mexico; and

WHEREAS, COP and Chevron are also parties to that certain EVGSAU/CVU Water Injection Agreement, effective February 1, 2000, providing for the injection of water into the Grayburg and San Andres formations through the EVGSAU wells numbered 3127-395W, 3127-396W, 3127-398W and 3127-399W, as identified in said agreement, located in Section 31, Township 17 South, Range 35 East, Lea County, New Mexico (the "Jointly Owned Wells"); and

WHEREAS, COP and Chevron represent that the EVGSAU and the CVU, as shown on Exhibit "A", attached hereto and made a part hereof, are currently producing oil and gas from the Grayburg and San Andres formations in Lea County, New Mexico. All of the wells subject to this Agreement are shown on Exhibit "A" and are identified on Exhibit "A-1" attached hereto and made a part hereof; and

WHEREAS, COP and Chevron desire to enter into a new cooperative lease line injection agreement to take the place of the referenced agreements and provide for the injection of water, CO<sub>2</sub>, produced gas, or any combination thereof into the injection wells identified hereinabove and in the referenced agreements; and

WHEREAS, the parties hereto desire to further enhance the recovery of crude oil, natural gas, and natural gas liquids from the EVGSAU and CVU, by commencing water-alternating-gas injection operations in the injection wells along the shared border between the Units; and

WHEREAS, the parties hereto each have existing water-alternating-gas injection operations on their respective Units and the parties hereto have or will secure adequate CO<sub>2</sub> supply for their respective Units; and

WHEREAS, CVU has an agreement with the Buckeye CO<sub>2</sub> Processing Plant for the processing and redelivery of CVU contaminated produced gas; and

WHEREAS, EVGSAU has a Processing Plant for the processing and redelivery of EVGSAU contaminated produced gas.

NOW THEREFORE, in consideration of the premises and the mutual promises and covenants hereinafter contained, the parties hereto agree, as follows:

**ARTICLE I  
INJECTANTS, WELLS, AND ALLOCATIONS**

CO<sub>2</sub>, produced gas, water, or any combination thereof, are acceptable injectants for all of the injection wells identified in this Agreement.

The associated allocations to each Unit for each injection well subject to this Agreement are shown in Exhibit "B" attached hereto.

Chevron and COP agree to be guided by the Operations Plan set forth in Exhibit "C" attached hereto.

When an injection well is on its water cycle, the applicable Operator will continue to provide the necessary injection water from their respective Injection Systems. When an injection

well is on a gas (aka solvent) cycle, each Operator will deliver the necessary CO<sub>2</sub> and/or produced gas through their respective Injection Systems. Each Operator (and its respective Unit working interest owners) shall supply in-kind CO<sub>2</sub> for its Unit's proportionate share of the other Unit's purchased CO<sub>2</sub> volumes. Further, COP will coordinate the necessary volumes of in-kind CO<sub>2</sub> and/or produced gas to be delivered to the EVGSAU Injection System and, likewise, Chevron will coordinate the necessary volumes of in-kind CO<sub>2</sub> and/or produced gas to be delivered to the CVU Injection System. In-kind deliveries of CO<sub>2</sub> into either Unit's Injection System will only be allowed if pressures, rates, compositions, temperatures and delivery point(s) are acceptable to the respective Operator.

Should Chevron (and/or the CVU working interest owners) be unable to supply the required volumes in-kind to the EVGSAU, COP has the right, but not the obligation, to provide the required volumes on behalf of Chevron and Chevron shall pay COP the higher of either the CVU working interest owners' CO<sub>2</sub> contract price or the EVGSAU working interest owners' CO<sub>2</sub> contract price plus transportation costs and an additional \$0.10/MCF administrative fee. Should COP (and/or the EVGSAU working interest owners) be unable to supply the required volumes in-kind to the CVU, Chevron has the right, but not the obligation, to provide the required volumes on behalf of COP and COP shall pay Chevron the higher of either the CVU working interest owners' CO<sub>2</sub> contract price or the EVGSAU working interest owners' CO<sub>2</sub> contract price plus transportation costs and an additional \$0.10/MCF administrative fee. The EVGSAU or CVU working interest owners' contract price referred to hereinabove is the price paid pursuant to the contract(s) secured by the Operator on behalf of the Unit working interest owners that do not deliver their own share of their respective Unit's CO<sub>2</sub> supply in-kind.

Metering on the injection wells will be through common turbine meters, or future technologies as agreed to by both parties.

Determination of the injected solvent volume allocated to the injection wells will be by the following procedure:

The monthly solvent injection volume allocations for CVU will be factored to the injection wells based on a ratio of the Unit's total volume of CO<sub>2</sub> metered through the Trinity Pipeline CVU CO<sub>2</sub> Delivery Meter plus the Buckeye CO<sub>2</sub> Processing Plant re-delivery volumes into the Central Vacuum Injection System to the aggregate of all individual CVU solvent well meters.

The monthly solvent injection volume allocations for EVGSAU will be factored to the injection wells based on a ratio of the Unit's total volume of CO<sub>2</sub> metered through the Trinity Pipeline EVGSAU CO<sub>2</sub> Delivery Meter plus the East Vacuum Processing Plant re-delivery volumes into the EVGSAU Injection System to the aggregate of all individual EVGSAU solvent well meters.

Determination of purchased CO<sub>2</sub> versus recycled solvent injection volume will be by the following procedure:

The monthly solvent injection volume allocations to each well shall be split between purchased CO<sub>2</sub> and recycled solvent based on the ratio of the volume of purchased CO<sub>2</sub> delivered and the volume of solvent redelivered from the processing plants of each Unit respectively.

Each Operator shall charge the other Operator for its share of any recycled injected solvent at an initial compression fee of \$0.59 per MCF. During the month of September of each year beginning in 2004, either Operator may request in writing that a recalculation of the contract compression fee be made and completed prior to December 1 of the same year according to the formula described below.

Each Operator shall determine "C", its cost per MCF of recycled gas at its respective Buckeye plant, which is A/B.

"A" is defined as "normalized" total gross operating expense for compression only at Operator's respective Buckeye plant during the twelve months prior to October 1. Total gross operating expense shall exclude all indirect charges and fees such as COPAS allowed fees, other overhead and capital recovery fees or charges. "Normalized" shall include corrections or estimates for all known omissions (such as two or more months of electric utility bills booked in a single month, if portions of the bill are from months outside the period being considered). These "corrections" may be either positive or negative, as the errors dictate. (Note: COP's costs presented in "A" are for the compression component only of its Buckeye plant. Its accounting set-up gives them the

ability to separate compression costs from liquid extraction costs and should continue to do so in the future. Chevron's accounting set-up currently does not allow the breakout of compression versus liquid extraction costs at its Buckeye plant. Although "A" is to include only costs related to compression and recycling, Chevron's inability to break out these costs does not create a processing fee that is materially detrimental to either party.)

"B" is defined as actual recycle gas (CO<sub>2</sub> plus all hydrocarbons and other contaminants) at the tailgate of Operator's respective Buckeye plant, which is returned to Operator's respective unit for re-injection at Operator's respective Buckeye plant during the twelve months prior to October 1.

"D" is defined as the fraction whose numerator is the total Lease Line gas injection into the CVU operated Lease Line injectors during the twelve months prior to October 1 and whose denominator is the total Lease Line gas injection.

"E" is defined as the fraction whose numerator is the total Lease Line gas injection into the EVGSAU operated Lease Line injectors during the twelve months prior to October 1 and whose denominator is the total Lease Line gas injection.

Total Lease Line gas injection is defined as the sum of all gas injection into the CVU and EVGSAU operated Lease Line injectors during the twelve months prior to October 1.

The calculation for the contract compression fee shall be by the formula:

$$F = D \times (\text{CVU's } C, \text{ in } \$/\text{MCF}) + E \times (\text{EVGSAU's } C, \text{ in } \$/\text{MCF})$$

The resulting newly calculated fee ("F") shall go into effect on January 1 of the following year.

On or before six (6) months from the execution of this Agreement, the following injection wells shall be equipped for solvent and water injection service and solvent injection shall commence into these wells according to the Operations Plan as described in Exhibit C:

1. EVGSAU 3127-005
2. EVGSAU 3127-006
3. EVGSAU 3127-007
4. EVGSAU 3236-008
5. EVGSAU 3127-395
6. EVGSAU 3127-396
7. EVGSAU 3127-398
8. EVGSAU 3127-399
9. CVU 144
10. CVU 145
11. CVU 146

Solvent may also be injected in additional injection wells included in this agreement only upon the mutual consent of the Unit Operators. Until such time as such mutual consent is obtained, the injection wells included in this Agreement, and not listed above, will remain on water injection only.

## **ARTICLE II OPERATIONS**

Each Operator will operate their respective injection wells and furnish suitable water, CO<sub>2</sub> and/or produced gas as required for injection through its injection system. Injection into any of the injection wells covered by this Agreement in the Grayburg and San Andres formations shall be at rates and at pressures that will comply with the rules and regulations of the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico. The intent of such injection will be to maintain average reservoir pressure between 1500 and 1600 psig.

## **ARTICLE III**

### **JOINTLY OWNED, COP OPERATED WELLS:**

**EVGSAU 3127-395W, EVGSAU 3127-396W, EVGSAU 3127-398W, EVGSAU 3127-399W**

All costs to operate, maintain, workover, and plug and abandon the Jointly Owned Injection Wells will be allocated and the Jointly Owned Injection Wells will be owned as follows:

Central Vacuum Unit	50%
East Vacuum Grayburg San Andres Unit	50%

COP will establish accounts on behalf of COP and Chevron and apply all costs and expenses incurred in the operation and maintenance of the Jointly Owned Injection Wells to such accounts. COP shall invoice Chevron for CVU's share (50%) of such costs and expenses based on the following:

1. INJECTION WELL ACCOUNT.

This account includes all costs and expenses associated with the operation, maintenance, workover(s) and plug and abandonment of the Jointly Owned Injection Wells and associated equipment, including all meters and injection lines. Such costs and expenses will be charged and paid in accordance with the Accounting Procedure, Exhibit "D".

2. WATER INJECTION ACCOUNT.

This account includes all costs and expenses associated with the treatment, pressuring and transportation of water for the Jointly Owned Injection Wells. It is agreed by the parties hereto that the payments to be made for water delivered by COP to the Jointly Owned Injection Wells are intended to reimburse COP as nearly as possible for CVU's share (50%) of such costs and expenses actually incurred by COP in acquiring, transporting, and delivering such water to the Jointly Owned Injection Well sites at sufficient pressure to maintain average reservoir pressure, it being intended that COP shall not make a profit from the operations conducted hereunder, aside from any resultant production from producing wells on their respective properties. The rate of \$0.12 per barrel of water injected into the Jointly Owned Injection Wells shall be charged to this account for this purpose.

Inasmuch as water injection began July, 2000, into the Jointly Owned Injection Wells, COP or Chevron may call, but are not required to call, for a recalculation of the costs and expenses of acquiring, transporting, and delivering a barrel of said water under the terms of this Agreement. By mutual agreement, the actual rate per barrel, as determined in the manner set forth above shall be the rate for the remainder of the term of this Agreement.

It is further understood that COP or Chevron may call for a recalculation of the actual cost of acquiring, transporting, and delivering water to the Jointly Owned Injection Well sites for any subsequent two (2) years or twenty-four (24) month period in the manner provided for herein, but such recalculation will not be made more than once in any two-year period.

3. MISCELLANEOUS ACCOUNT.

All other associated costs and expenses not herein addressed above for the Jointly Owned Injection Wells, and pertaining to this Agreement will be charged to this account and shared jointly and in the proportions set out in this Article III.

4. EXPENDITURE LIMITATION

Without the approval of Chevron, COP, shall not undertake any single project pertaining to the Jointly Owned Injection Wells reasonably estimated to require an expenditure in excess of Fifty Thousand dollars (\$50,000.00); provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, COP may take steps and incur such expenses as in its opinion are required to deal with such emergency to safeguard life and property. COP shall as promptly as possible report any such emergency to Chevron, but in all events, within 48 hours after the start of the first normal business day following any such occurrence.

5. CLAIMS AND LAWSUITS

COP may settle any single third-party damage claim or suit arising from operations pertaining to the Jointly Owned Injection Wells if the expenditure does not exceed Twenty-Five Thousand dollars (\$25,000.00) and if the payment is in complete settlement of such claim or suit. If the amount for settlement exceeds the above amount, the parties hereto shall assume and takeover the further handling of the claim or suit, unless Chevron delegates authority to COP to handle the same. All costs of handling, settling, or otherwise discharging such claim or suit shall be shared jointly and in the proportions set out in Article III hereinabove. If a claim is made against any party hereto or a party

hereto is sued on account of any matter arising from operations pertaining to the Jointly Owned Injection Wells, such party shall timely notify the other party hereto, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### **ARTICLE IV INDEMNIFICATION**

With respect to all injection wells covered by this Agreement, each party hereto agrees to indemnify, defend and hold the other party harmless from and against any and all suits, claims, demands, liabilities, costs, and expenses (including attorneys fees and court costs) brought by royalty owners, working interest owners or other interest owners of such property as a result of the parties entering into this Agreement, including without limitation any claims based upon the amount of royalties being paid to such royalty owner, working interest owner, or other interest owner of such party.

With respect to all injection wells covered by this Agreement other than the Jointly Owned Injection Wells, each party hereto agrees to indemnify, defend and hold the other party harmless from and against any and all suits, claims, demands, liabilities, costs, and expenses (including attorneys fees and court costs) resulting from each party's operations conducted pursuant to this Agreement.

#### **ARTICLE V INCOME TAX ELECTION**

This Agreement and operations hereunder shall not constitute a partnership. If for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of the Code and regulations promulgated thereunder. COP or Chevron is authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation 1.761. Should there be any requirement that each party hereto give further evidence of this election, such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state in which the operations are located or any future income tax law of the United States contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties hereto agrees to make such election as may be permitted or required by such laws. In making the foregoing election, each of the parties states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

#### **ARTICLE VI FORCE MAJEURE**

If any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, other than the obligation to make money payments, said party shall give the other party prompt written notice of the force majeure situation, including full particulars thereof. Upon giving notice, the obligations of such party, so far as they are affected by such force majeure, shall be suspended during, but no longer than, the continuance of the force majeure situation. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to the party's wishes. Such difficulties shall be handled entirely within the discretion of the concerned party.

The term "force majeure" as used herein shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lighting, fire, frozen pipes, storm, flood, explosion, governmental action or delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming such suspension.

**ARTICLE VII**  
**NOTICES**

All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing personally, or by mail, overnight courier service, telex or telecopier, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

ConocoPhillips Company  
4001 Penbrook  
Odessa, TX 79762  
Attn: Chief Landman  
Phone: (915) 368-1373  
FAX: (915) 368-1633

Chevron U.S.A. Inc.  
15 Smith Road  
Midland, TX 79705  
Attn: EOR Asset Manager  
Phone: (915) 687-7161  
FAX: (915) 687-7666

Each party hereto will be responsible for assuring that such address or FAX number noted above is current.

The originating notice to be given under any provisions 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. Any subsequent responsive notice shall be deemed given when deposited with the U. S. Post Office or overnight courier service, with postage or charges prepaid or when actually received if given personally or sent by telex or telecopier. Each party shall have the right to change its address at anytime, and from time to time, by giving written notice thereof to the other parties. Any notice(s) or response(s) may be made by telephone in person, but not by recorded message, and must be confirmed in writing consistent with the other provisions hereof.

**ARTICLE VIII**  
**TERM OF AGREEMENT**

This Agreement shall remain in effect until the earlier of July 31, 2008 or the last day of the month following the date in such month when 20 BSCF of solvent (approximately 30% HCPV) has been injected, and for so long thereafter as both Operators agree, in their sole discretion, that the CVU and EVGSAU benefit from the terms and provisions of this Agreement and such terms and provisions remain economically profitable to the parties hereto. Until the earlier of July 31, 2008 or the last day of said month in which 20 BSCF of solvent injection occurs, this Agreement cannot be terminated without the mutual consent of both COP and Chevron. Thereafter, either party, upon giving sixty (60) days notice to the other, may relinquish all right, title and interest under this Agreement and the remaining party shall retain the option to take over and operate the relinquishing party's injection wells (including the Jointly Owned Injection Wells) at its sole cost and benefit. The remaining party shall be granted the right of ingress and egress to all of the injection wells, together with rights-of-way and easements necessary to continue operation of the injection wells, but this grant is to be made without representation and any warranty whatsoever and only insofar as the relinquishing party can legally make such a grant. The remaining party shall a) \*pay the relinquishing party for the equipment in such injection wells based on the current net salvage value defined as all recoverable equipment less cost to recover and abandon such injection wells in accordance with Exhibit "D" attached hereto; b) after discontinuing operations, plug and abandon such injection wells at its sole cost, risk and expense, in compliance with all contractual obligations and rules and regulations of each governmental body having jurisdiction; c) indemnify and hold the relinquishing party harmless from all claims, charges, suits and any liabilities arising out of or in any way associated with subsequent operations. The parties agree to execute and deliver to each other, such instruments or assurances as may be required to accomplish the intents and purposes of this Article.

\*However, in case of the Jointly Owned Wells referred to in Article III, the salvage value shall be distributed according to the percentages of ownership therein.

It is agreed, however, that the termination of this Agreement or relinquishment of rights pursuant to this Agreement, shall not relieve either party hereto from any liability which has occurred or attached prior to the date of such termination or relinquishment.

**ARTICLE IX**  
**ALTERNATIVE DISPUTE RESOLUTION**

The parties agree that if any dispute arises between them related to this Agreement they will use the procedures outlined in Exhibit "E," attached hereto, to attempt to resolve such dispute prior to commencing legal proceedings; provided, however, that either party may seek a restraining order, temporary injunction, or other provisional judicial relief if such party in its sole judgement believes that such action is necessary to avoid irreparable injury or to preserve the status quo. The parties will continue to participate in good faith in the procedures despite any such request for provisional relief.

**ARTICLE X**  
**ASSIGNMENT**

The Parties hereto may assign this Agreement.

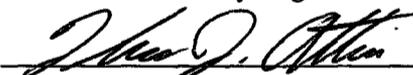
**ARTICLE XI**  
**MISCELLANEOUS PROVISIONS**

1. This Agreement may be amended at any time with the written consent of the parties hereto.
2. This Agreement and its Exhibits shall constitute the entire contract of the parties hereto and there are no agreements, undertakings, obligations, promises, assurances or conditions, whether precedent or otherwise, except those specifically set forth herein. In the event there is a conflict between this Agreement, the Exhibits attached hereto and the Operating Agreement for either the EVGSAU or CVU, the provisions of this Agreement shall prevail.
3. COP will conduct all operations under this Agreement in a good and workmanlike manner and have no liability to Chevron for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.
4. Chevron will conduct all operations under this Agreement in a good and workmanlike manner and have no liability to COP for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

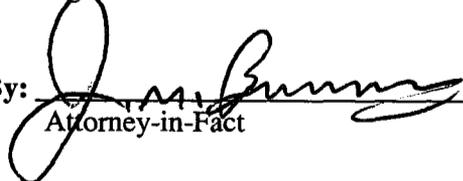
This Agreement supercedes and terminates all prior injection agreements between EVGSAU and CVU for the injection wells covered herein.

IN WITNESS WHEREOF, the Parties have executed this Agreement to be effective the 1<sup>st</sup> day of April, 2003.

CONOCOPHILLIPS COMPANY  
as operator and on behalf of all working interest owners  
of the East Vacuum Grayburg San Andres Unit

By:   
Attorney-in-Fact

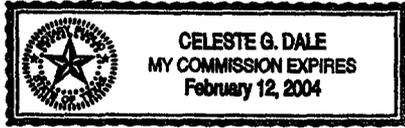
CHEVRON U.S.A. INC., AS SUCCESSOR IN  
INTEREST TO TEXACO EXPLORATION AND  
PRODUCTION INC., as operator and on behalf of all  
working interest owners of the Central Vacuum Unit

By:   
Attorney-in-Fact

STATE OF TEXAS           §  
  §  
COUNTY OF ECTOR       §

Before me Celeste G. Dale, a Notary Public in and for said County and State, on this day personally appeared Thomas J. Atkins, Attorney-in-Fact of ConocoPhillips Company, a Delaware corporation, known to me to be the person whose name is subscribed on the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 6<sup>th</sup> day of August, 2003.



Celeste G. Dale  
Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS           §  
  §  
COUNTY OF MIDLAND   §

Before me LAURA SKINNER, a Notary Public in and for said County and State, on this day personally appeared J.M. BARNUM, Attorney-in-Fact of CHEVRON U.S.A. INC., AS SUCCESSOR IN INTEREST TO TEXACO EXPLORATION AND PRODUCTION INC., a PENNSYLVANIA corporation, known to me to be the person whose name is subscribed on the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 6<sup>th</sup> day of AUGUST, 2003.

Laura Skinner  
Notary Public in and for the State of Texas

My Commission Expires:

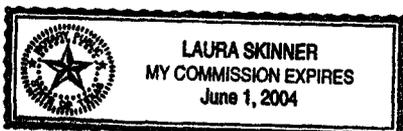
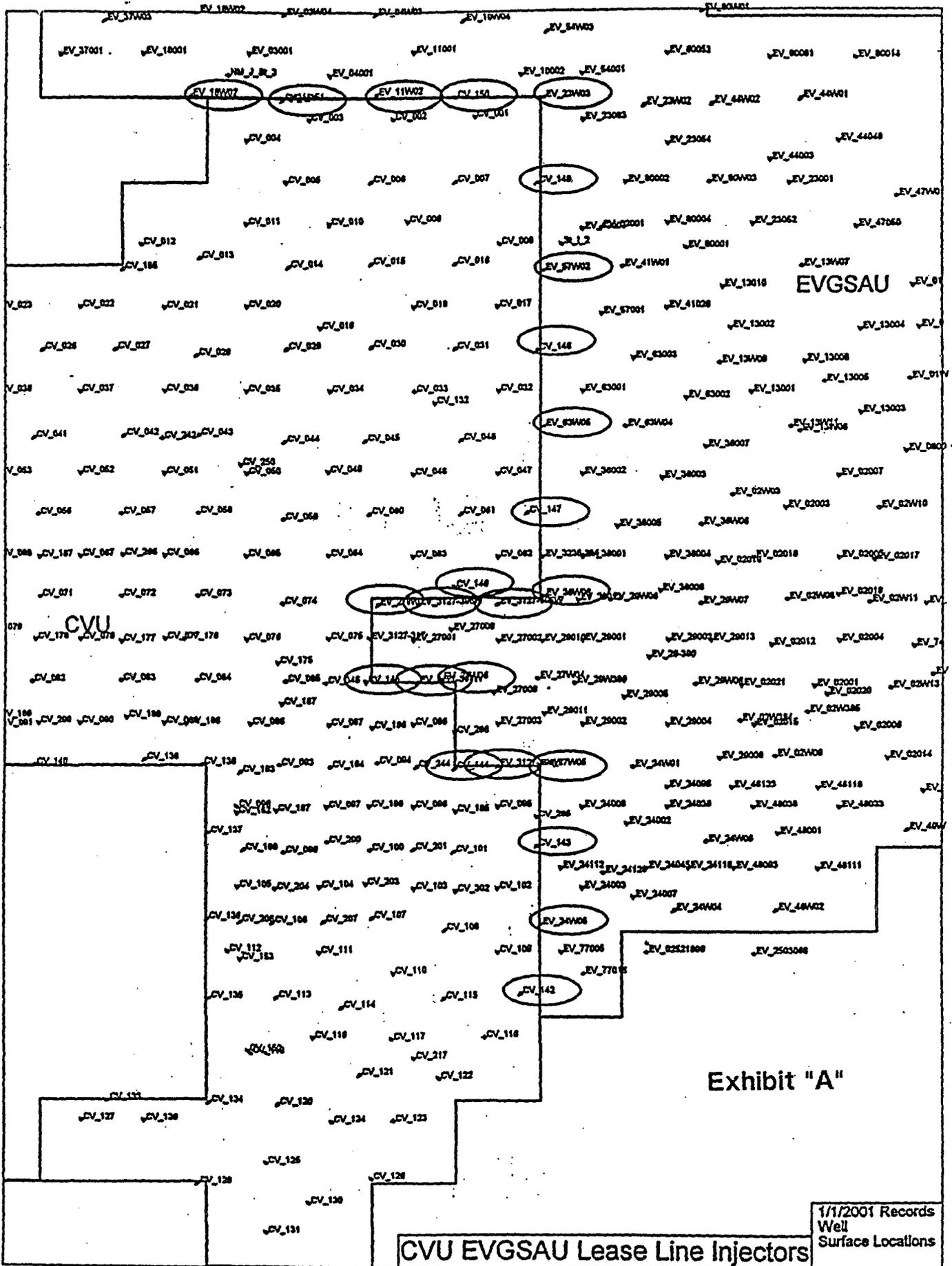


EXHIBIT "A"

Attached to and made a part of that certain CENTRAL VACUUM UNIT AND EAST VACUUM (GRAYBURG-SAN ANDRES) UNIT COOPERATIVE LEASELINE INJECTION AGREEMENT, EFFECTIVE April 1, 2003, By and between ConocoPhillips Company and Chevron U.S.A. Inc.



**EXHIBIT "A-1"**

Attached to and made a part of that certain CENTRAL VACUUM UNIT AND  
EAST VACUUM (GRAYBURG-SAN ANDRES) UNIT COOPERATIVE LEASELINE INJECTION  
AGREEMENT, effective April 1, 2003,  
By and between ConocoPhillips Company and Chevron U.S.A. Inc.

Wells to be operated by the East Vacuum (Grayburg-San Andres) Unit:

<u>Unit Tract</u>	<u>Well No.</u>	<u>Well Location</u>	<u>Map Designation</u>
0524	005	2,540' FNL and 10' FWL, Unit E, Section 5, T18S-R35E.	EV24WO5
2923	003	10' FNL and 40' FWL, Unit D, Section 29, T17S-R35E.	EV23WO3
1911	002	50' FSL and 2,470' FEL, Unit O, Section 19, T17S-R35E.	EV11WO2
2418	002	40' FSL and 260' FEL, Unit P, Section 24, T17S-R34E.	EV18WO2
2957	002	2,540' FSL and 40' FWL, Unit L, Section 29, T17S-R35E.	EV57WO2
2963	005	90' FSL and 50' FWL, Unit M, Section 29, T17S-R35E.	EV63WO5
3127	005	10' FSL and 10' FEL, Unit P, Section 31, T17S-R35E.	EV27WO5
3127	006	1,330' FSL and 1,530' FEL, Unit J, Section 31, T17S-R35E.	EV27WO6
3127	007	2,560' FSL and 2,550' FEL, Unit J, Section 31, T17S-R35E.	EV27WO7
3236	008	2,590' FNL and 50' FWL, Unit E, Section 32, T17S-R35E.	EV36WO8
3127	395W	2,630' FSL and 575' FEL, Unit I, Section 31, T17S-R35E.	EV3127-395W
3127	396W	2,630' FSL and 1,950' FEL, Unit J, Section 31, T17S-R35E.	EV3127-396W
3127	398W	1,415' FSL and 2,140' FEL, Unit J, Section 31, T17S-R35E.	EV3127-398W
3127	399W	10' FSL and 660' FEL, Unit P, Section 31, T17S-R35E.	EV3127-399W

Wells to be operated by the Central Vacuum Unit:

142	300' FEL and 1,680' FSL, Unit I, Section 6, T18S-R35E.	CV142
143	1,310' FNL and 50' FEL, Unit A, Section 6, T18S-R35E.	CV143
144	35' FNL and 1,330' FEL, Unit B, Section 6, T18S-R35E.	CV144
145	1,310' FSL and 2,475' FWL, Unit N, Section 31, T17S-R35E.	CV145
146	2,465' FNL and 1,335' FEL, Unit G, Section 31, T17S-R35E.	CV146
147	1,310' FNL and 200' FEL, Unit A, Section 31, T17S-R35E.	CV147

Exhibit A-1 (continued)

148	1,310' FSL and 50' FEL, Unit P, Section 30, T17S-R35E.	CV148
149	1,330' FNL and 50' FEL, Unit H, Section 30, T17S-R35E.	CV149
150	10' FNL and 1,330' FEL, Unit B, Section 30, T17S-R35E.	CV150
154	45' FNL and 1,185' FWL, Unit D, Section 30, T17S-R35E.	CV154

All wells are located in Lea County, New Mexico

EXHIBIT "B"

Attached to and made a part of that certain CENTRAL VACUUM UNIT AND EAST VACUUM (GRAYBURG-SAN ANDRES) UNIT COOPERATIVE LEASELINE INJECTION AGREEMENT, EFFECTIVE April 1, 2003, By and between ConocoPhillips Company and Chevron U.S.A. Inc.

EXHIBIT "B"

CENTRAL VACUUM UNIT - EAST VACUUM GRAYBURG SAN ANDRES UNIT LEASELINE INJECTION WELLS								
Well Name	Well Ownership	Operator	Water Cost Allocation for CVU	Water Cost Allocation for EVGSAU	Wellwork Cost Allocation for CVU	Wellwork Cost Allocation for EVGSAU	Solvent Volume Allocation to CVU	Solvent Volume Allocation to EVGSAU
CV142	CVU 100%	Chevron	100%		100%		50%	50%
EV 0524W05	EVGSAU 100%	COP		100%		100%	50%	50%
CV 143	CVU 100%	Chevron	100%		100%		50%	50%
EV 3127W05	EVGSAU 100%	COP		100%		100%	25%	75%
EV 3127-399W	CVU 50%, EVGSAU 50%	COP	50%	50%	50%	50%	50%	50%
CV 144	CVU 100%	Chevron	100%		100%		75%	25%
EV 3127W06	EVGSAU 100%	COP		100%		100%	25%	75%
EV 3127-398W	CVU 50%, EVGSAU 50%	COP	50%	50%	50%	50%	50%	50%
CV 145	CVU 100%	Chevron	100%		100%		75%	25%
EV 3127W07	EVGSAU 100%	COP		100%		100%	75%	25%
EV 3127-396W	CVU 50%, EVGSAU 50%	COP	50%	50%	50%	50%	50%	50%
CV 146	CVU 100%	Chevron	100%		100%		50%	50%
EV3127-395W	CVU 50%, EVGSAU 50%	COP	50%	50%	50%	50%	50%	50%
EV 3236W08	EVGSAU 100%	COP		100%		100%	25%	75%
CV 147	CVU 100%	Chevron	100%		100%		50%	50%
EV 2963W05	EVGSAU 100%	COP		100%		100%	50%	50%
CV 148	CVU 100%	Chevron	100%		100%		50%	50%
EV 2957W02	EVGSAU 100%	COP		100%		100%	50%	50%
CV 149	CVU 100%	Chevron	100%		100%		50%	50%
EV 2923W03	EVGSAU 100%	COP		100%		100%	25%	75%
CV 150	CVU 100%	Chevron	100%		100%		50%	50%
EV 1911W02	EVGSAU 100%	COP		100%		100%	50%	50%
CV 154	CVU 100%	Chevron	100%		100%		50%	50%
EV 2418W02	EVGSAU 100%	COP		100%		100%	33%	67%

## EXHIBIT "C"

Attached to and made a part of that certain CENTRAL VACUUM UNIT AND EAST VACUUM (GRAYBURG-SAN ANDRES) UNIT COOPERATIVE LEASELINE INJECTION AGREEMENT, effective April 1, 2003,  
by and between ConocoPhillips Company and Chevron U.S.A. Inc.

### OPERATIONS PLAN

Initial CO<sub>2</sub> Injection: Each Operator will continuously inject a solvent slug (Solvent) of either purchased CO<sub>2</sub>, or a combination of recycled produced gases primarily consisting of CO<sub>2</sub> from each Unit, into mutually agreed to existing lease line injection wells identified in Exhibits "A" and "A-1", until the patterns for each mutually agreed to solvent injection well has received a 10 percent Hydrocarbon Pore Volume (HCPV) of injected Solvent (see Exhibit C Part 2), provided excessive CO<sub>2</sub> breakthrough in immediate offset producers is not seen in either Operator's Unit. A 10 percent HCPV is equal to 7 BSCF for the seven patterns initially planned. The Solvent supplied to the subject wells will have a composition similar to that used within each Operator's respective Unit. Each Operator may continuously inject Solvent after the 10 percent HCPV has been received if immediate offset well production and breakthrough are favorable in both Units, as mutually agreed to by both Operators.

Minimum Injection Volumes and Pressure: Each Operator will inject at not less than a rate of 400 Mscf/D per well while on Solvent injection, and not less than 200 BWPD per well while on water injection during WAG operations, provided injection pressure does not exceed the permitted injection pressure allowed by the New Mexico Oil and Gas Conservation Division. Each Operator will take prudent and timely steps to ensure that the subject wells maintain rates above the minimums during the term of this Agreement. While on water injection, the wellhead injection pressure will be maintained above 1100 psig. While on Solvent injection, the wellhead injection pressure will be maintained above 1700 psig unless insufficient pressure is provided by the CO<sub>2</sub> suppliers or transporters, in which case the maximum available will be applied at the wellhead, consistent with ongoing Solvent injection operations within each Operator's respective Unit. This commitment is subject to CO<sub>2</sub> breakthrough production as described in the previous paragraph. Each Operator will commence Solvent injection into their mutually agreed to wells as provided in Article I of the Agreement to which this Exhibit is attached.

"WAG" Scheduling & Operations: Following injection of the initial Solvent slug described previously, or notice from the other Operator of excessive breakthrough, each Operator will set a Water-Alternating-Gas (WAG) ratio schedule in a prudent manner and consistent with successful WAG scheduling experience in its respective project. The WAG schedule shall not exceed a 2:1 ratio of water to Solvent during the first five (5) years of operation. It is understood and recognized by both Operators that a smaller WAG ratio is more efficient and desirable. Injection pattern performance and economics will be used to determine when WAG ratios should be altered or Solvent injection permanently cease. The wells operated under this agreement will be handled in a prudent manner, consistent with ongoing CO<sub>2</sub> operations within each Operator's respective Unit, and will not be prorated differently than other Solvent injectors within its respective Unit should CO<sub>2</sub> deliveries be restricted, or otherwise impacted.

Tax Consequences: Each Operator as applicable will submit, and apply for, the appropriate Federal EOR tax credit rebates and State of New Mexico Enhanced Oil Recovery (EOR) severance tax reductions available as a result of its respective expansion of EOR operations into the lease line area covered by this Agreement.

## EXHIBIT "C" Part 2

Attached to and made a part of that certain CENTRAL VACUUM UNIT AND  
EAST VACUUM (GRAYBURG-SAN ANDRES) UNIT COOPERATIVE LEASELINE  
AGREEMENT, effective April 1, 2003, by and between ConocoPhillips Company and Chevron U.S.A. Inc.

### EVGSAU / CVU LEASELINE EXPANSION PATTERN VOLUMETRICS AND CO2 VOLUMES VOLUMES INCLUDE CVU AND EVGSAU

Expected Rates for Stimulated Upper San Andres Completion in Wells EV 395, 396, 398, 399

Pattern (see Exhibit C)	Center Injectors	Initial HPV (Mbbls)	Water Inj Rate (Bpd)	Well CO2 Inj (Mscfd)	Pattern CO2 Inj (Mscfd)	CO2 Calc Volume (MMscf)			Time to 10% HPV (Days)	Time to 30% HPV** (Years)
						Percent of Hydr. Pore Volume				
						10	15	30		
A	EV-008	5558	1800	2700	2723	1056	1584	3168	388	5
B	CVU-146	6698	1500	2250	2723	1273	1909	3818	467	6
C	EV-007	4726	2500	3750	4200	898	1347	2694	214	3
D	CVU-145	5349	700	1050	1455	1016	1524	3049	698	10
E	EV-006	5605	1500	2250	2655	1065	1597	3195	401	5
F	CVU-144	5791	400	600	870	1100	1650	3301	1265	17
G	EV-005	3046	700	1050	1320	579	868	1736	438	6
SUB TOTAL		36773	9100	13650	15945	6987	10480	20961	438	6
Multi-Pattern Wells										
A & B	EV-395*		30	45						
B & C	EV-396*		600	900						
D & E	EV-398*		540	810						
F & G	EV-399*		360	540						
SUB TOTAL			1530	2295						
TOTAL		36773	10630	15945						

CO2 Expansion Factor = 0.53 Rbbl/mscf

Conversion from water injection to CO2 injection = 1.5 Mscfd CO2 / Bwpd

(based on observed water to CO2 injection ratios in EVGSAU wells)

HPV based on PPCo maps with 3% porosity cutoff.

Total HPV most closely matches Texaco volumes with 7% cutoff.

\* These rates are 3 times current water injection rates.

\*\*w/ 1:1 WAG after 10% HCPV

EXHIBIT " D "

Attached to and made a part of that certain Central Vacuum Unit and East Vacuum (Grayburg-San Andres) Unit  
Cooperative Lease Line Injection Agreement effective April 1, 2003, by and between ConocoPhillips Company and  
Chevron U.S.A. Inc.

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council or Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation <sup>thirty (30)</sup> within  days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills <sup>thirty (30)</sup> within  days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manhattan Bank, NY, NY on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof, provided, however, all bills and statements rendered to Non-Operators 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 a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

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1 5. Audits

2  
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit  
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four  
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not  
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in  
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make  
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience  
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this  
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year  
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made  
12 at the expense of those Non-Operators approving such audit.

13  
14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15  
16 6. Approval By Non-Operators

17  
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this  
19 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no  
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the  
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

22  
23  
24 II. DIRECT CHARGES

25  
26 Operator shall charge the Joint Account with the following items:

27  
28 1. Ecological and Environmental

29  
30 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy  
31 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or  
32 archaeological nature and pollution control procedures as required by applicable laws and regulations.

33  
34 2. Rentals and Royalties

35  
36 Lease rentals and royalties paid by Operator for the Joint Operations.

37  
38 3. Labor

39  
40 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of  
41 Joint Operations.

42  
43 (2) Salaries of First level Supervisors in the field.

44  
45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are  
46 excluded from the overhead rates.

47  
48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly  
49 employed in the operation or the Joint Property if such charges are excluded from the overhead rates.

50  
51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to  
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.  
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"  
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If  
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.

56  
57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are  
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

59  
60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under  
61 Paragraphs 3A and 3B of this Section II.

62  
63 4. Employee Benefits

64  
65 Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement,  
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the  
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent  
68 most recently recommended by the Council of Petroleum Accountants Societies.

69  
70

1 5. **Material**

2  
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such  
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is  
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be  
6 avoided.

7  
8 6. **Transportation**

9  
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11  
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be  
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like  
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15  
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint  
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally  
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be  
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the  
20 Parties.

21  
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is  
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the  
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25  
26 7. **Services**

27  
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph  
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract  
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead  
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the  
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33  
34 8. **Equipment and Facilities Furnished By Operator**

35  
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate  
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating  
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to  
39 exceed twelve percent (12%) per annum. Such rates shall not exceed average commercial  
40 rates currently prevailing in the immediate area of the Joint Property.

41  
42 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the  
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates  
44 published by the Petroleum Motor Transport Association.

45  
46 9. **Damages and Losses to Joint Property**

47  
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or  
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross  
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as  
51 soon as practicable after a report thereof has been received by Operator.

52  
53 10. **Legal Expense**

54  
55 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and  
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to  
57 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of  
58 outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be  
59 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section  
60 I, Paragraph 3.

61  
62 11. **Taxes**

63  
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,  
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad  
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then  
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties  
68 hereto in accordance with the tax value generated by each party's working interest.

69  
70

1 12. Insurance

2  
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the  
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation  
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-  
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.  
7

8 13. Abandonment and Reclamation

9  
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory  
11 authority.  
12

13 14. Communications

14  
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and  
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint  
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.  
18

19 15. Other Expenditures

20  
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which  
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint  
23 Operations.  
24

25  
26 III. OVERHEAD  
27

28 1. Overhead - Drilling and Producing Operations

- 29  
30 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge  
31 drilling and producing operations on either:  
32

33 (XX) Fixed Rate Basis, Paragraph IA, or  
34 ( ) Percentage Basis, Paragraph IB  
35

36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and  
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under  
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of  
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in  
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are  
41 agreed to by the Parties as a direct charge to the Joint Account.  
42

- 43 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant  
44 services and contract services of technical personnel directly employed on the Joint Property:  
45

46 ( ) shall be covered by the overhead rates, or  
47 (XX) shall not be covered by the overhead rates.  
48

- 49 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services  
50 and contract services of technical personnel either temporarily or permanently assigned to and directly employed in  
51 the operation of the Joint Property:  
52

53 (XX) shall be covered by the overhead rates, or  
54 ( ) shall not be covered by the overhead rates.  
55

56 A. Overhead - Fixed Rate Basis

- 57  
58 (1) Operator shall charge the Joint Account at the following rates per well per month:  
59

60 Drilling Well Rate \$ 5,500.00  
61 (Prorated for less than a full month)

62  
63 Producing Well Rate \$ 550.00  
64

- 65 (2) Application of Overhead - Fixed Rate Basis shall be as follows:  
66

67 (a) Drilling Well Rate

- 68  
69 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date  
70 the drilling rig, completion rig, or other units used in completion of the well is released, whichever

1 is later, except that no charge shall be made during suspension of drilling or completion operations  
2 for fifteen (15) or more consecutive calendar days.

3  
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)  
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be  
6 applied for the period from date workover operations, with rig or other units used in workover,  
7 commence through date of rig or other unit release, except that no charge shall be made during  
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9  
10 (b) Producing Well Rates

11  
12 (1) An active well either produced or injected into for any portion of the month shall be considered as  
13 a one-well charge for the entire month.

14  
15 (2) Each active completion in a multi-completed well in which production is not commingled down  
16 hole shall be considered as a one-well charge providing each completion is considered a separate  
17 well by the governing regulatory authority.

18  
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the  
20 production shall be considered as a one-well charge providing the gas well is directly connected to  
21 a permanent sales outlet.

22  
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations  
24 are completed on any well. This one-well charge shall be made whether or not the well has  
25 produced except when drilling well rate applies.

26  
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease  
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

29  
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the  
31 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying  
32 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude  
33 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as  
34 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published  
35 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as  
36 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or  
37 minus the computed adjustment.

38  
39 ~~B. Overhead - Percentage Basis~~

40  
41 ~~(1) Operator shall charge the Joint Account at the following rates:~~

42  
43 ~~(a) Development~~

44  
45 ~~\_\_\_\_\_ Percent (\_\_\_\_%) of the cost of development of the Joint Property exclusive of costs~~  
46 ~~provided under Paragraph 10 of Section II and all salvage credits.~~

47  
48 ~~(b) Operating~~

49  
50 ~~\_\_\_\_\_ Percent (\_\_\_\_%) of the cost of operating the Joint Property exclusive of costs provided~~  
51 ~~under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased~~  
52 ~~for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the~~  
53 ~~mineral interest in and to the Joint Property.~~

54  
55 ~~(2) Application of Overhead - Percentage Basis shall be as follows:~~

56  
57 ~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,~~  
58 ~~development shall include all costs in connection with drilling, redrilling, deepening, or any remedial~~  
59 ~~operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing~~  
60 ~~interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and~~  
61 ~~expenditures incurred in abandoning when the well is not completed as a producer, and original cost of~~  
62 ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~  
63 ~~discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other~~  
64 ~~costs shall be considered as operating.~~

65  
66 2. Overhead - Major Construction

67  
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of  
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the  
70 Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

1 Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00

2  
3 A. 5 % of first \$100,000 or total cost if less, plus

4  
5 B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus

6  
7 C. 2 % of costs in excess of \$1,000,000.

8  
9 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single  
10 project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be  
11 excluded.

12  
13 **3. Catastrophe Overhead**

14  
15 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due  
16 to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are  
17 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the  
18 expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account  
19 for overhead based on the following rates:

20  
21 A. 5 % of total costs through \$100,000; plus

22  
23 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus

24  
25 C. 2 % of total costs in excess of \$1,000,000.

26  
27 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead  
28 provisions of this Section III shall apply.

29  
30 **4. Amendment of Rates**

31  
32 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement  
33 between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

34  
35  
36 **IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**

37  
38 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material  
39 movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at  
40 Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or  
41 surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to  
42 outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition  
43 A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

44  
45 **1. Purchases**

46  
47 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of  
48 Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account  
49 when adjustment has been received by the Operator.

50  
51 **2. Transfers and Dispositions**

52  
53 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator,  
54 unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

55  
56 **A. New Material (Condition A)**

57  
58 **(1) Tubular Goods Other than Line Pipe**

59  
60 (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill  
61 published carload base prices effective as of date of movement plus transportation cost using the 80,000  
62 pound carload weight basis to the railway receiving point nearest the Joint Property for which  
63 published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound  
64 or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio  
65 and casing from Youngstown, Ohio.

66  
67 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus  
68 transportation cost from that mill to the railway receiving point nearest the Joint Property as provided  
69 above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000  
70

1 pound Oil Field Haulers Association interstate truck rate shall be used.

- 2
- 3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5 to the railway receiving point nearest the Joint Property.
- 6
- 7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices  
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10

11 (2) Line Pipe

- 12
- 13 (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or  
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15 Freight charges shall be calculated from Lorain, Ohio.
- 16
- 17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000  
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21 Ohio.
- 22
- 23 (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of  
24 manufacture at current new published prices plus transportation cost to the railway receiving point  
25 nearest the Joint Property.
- 26
- 27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29 prices agreed to by the Parties.

- 30
- 31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33 railway receiving point nearest the Joint Property.

- 34
- 35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39

40 B. Good Used Material (Condition B)

41

42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43

44 (1) Material moved to the Joint Property

45

46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47

48 (2) Material used on and moved from the Joint Property

49

50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was  
51 originally charged to the Joint Account as new Material or

52

53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54 originally charged to the Joint Account as used Material

55

56 (3) Material not used on and moved from the Joint Property

57

58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59

60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61

62 C. Other Used Material

63

64 (1) Condition C

65

66 Material which is not in sound and serviceable condition and not suitable for its original function until  
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69 C value plus cost of reconditioning does not exceed Condition B value.

70

1 (2) Condition D  
2

3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose  
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material  
5 under procedures normally used by Operator without prior approval of Non-Operators.  
6

7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe  
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be  
9 priced at used line pipe prices.  
10

11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.  
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.  
13 Upset tubular goods shall be priced on a non upset basis.  
14

15 (3) Condition E  
16

17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under  
18 procedures normally utilized by Operator without prior approval of Non-Operators.  
19

20 D. Obsolete Material  
21

22 Material which is serviceable and usable for its original function but condition and/or value of such Material  
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by  
24 the Parties. Such price should result in the Joint Account being charged with the value of the service  
25 rendered by such Material.  
26

27 E. Pricing Conditions  
28

29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)  
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs  
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year  
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in  
33 Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and  
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year  
35 by the Council of Petroleum Accountants Societies.  
36

37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down  
38 price of new Material.  
39

40 3. Premium Prices  
41

42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other  
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required  
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it  
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing  
46 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within  
47 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use  
48 and acceptable to Operator.  
49

50 4. Warranty of Material Furnished By Operator  
51

52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint  
53 Account until adjustment has been received by Operator from the manufacturers or their agents.  
54

55  
56 V. INVENTORIES  
57

58 The Operator shall maintain detailed records of Controllable Material.  
59

60 1. Periodic Inventories, Notice and Representation  
61

62 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice  
63 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that  
64 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an  
65 inventory shall bind Non-Operators to accept the inventory taken by Operator.  
66

67 2. Reconciliation and Adjustment of Inventories  
68

69 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six  
70 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

2  
3 **3. Special Inventories**

4  
5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint  
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of  
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases  
8 involving a change of Operator, all Parties shall be governed by such inventory.

9  
10 **4. Expense of Conducting Inventories**

11  
12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the  
13 Parties.

14  
15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except  
16 inventories required due to change of Operator shall be charged to the Joint Account.

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## **EXHIBIT "E"**

Attached to and made a part of that certain CENTRAL VACUUM UNIT AND EAST VACUUM (GRAYBURG-SAN ANDRES) UNIT COOPERATIVE LEASELINE INJECTION AGREEMENT, EFFECTIVE April 1, 2003,  
By and between ConocoPhillips Company and Chevron U.S.A. Inc.

### **ARBITRATION AND DISPUTE RESOLUTION PROCEDURES**

#### **I. SCOPE**

Any controversy, claim or dispute between the parties which they cannot resolve to their mutual satisfaction, whether involving property, contract, tort law, or otherwise, arising out of or relating to the Central Vacuum Unit and East Vacuum (Grayburg-San Andres) Unit Cooperative Leaseline Injection Agreement, to which this Exhibit is attached and incorporated, hereinafter referred to as "Said Contract," or to the interpretation, validity, termination, performance or breach thereof, shall be settled by arbitration in accordance with the Center for Public Resources' Rules for Non-Administered Arbitration of Business Disputes, which are hereby adopted and hereinafter referred to as the "Rules." The arbitration process shall be binding on the parties and the arbitration is intended to be a final resolution of the dispute(s) between the parties to the same extent as a final judgment of a court of competent jurisdiction. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. All parties covenant that they shall not resort to any court for judicial remedies concerning any matter which is subject to arbitration hereunder, except to enforce a final decision by the arbitrators or for preliminary, interim or provisional relief in aid of arbitration.

#### **II. ARBITRATION PROCESS**

**A. Notice.** If the parties cannot resolve a dispute to their mutual satisfaction, any party to the dispute may deliver to the other party or parties to the dispute a written notice in accordance with the Rules; provided, however, the appointment of arbitrators shall be governed by Article III hereof and it shall not be necessary for a claimant to appoint an arbitrator in its Notice of Arbitration or for a respondent to name an arbitrator in its Notice of Defense.

**B. Sanctions.** In addition to any other remedy allowed or specified in or under the Rules, the failure of a party to comply with any interim, partial or interlocutory order, after due notice and opportunity to cure such non-compliance, may be treated by the arbitrators as a default and all or some of the claims or defenses of the defaulting party may be stricken and partial or final award entered against such party, or the arbitrators may impose such lesser sanctions as they deem appropriate.

**C. Transcripts and Evidence.** A written transcript of all proceedings and testimony shall be kept and its costs shall be borne equally by the parties pending the final award. All documents that a party proposes to offer in evidence, except for those objected to by an opposing party, shall be deemed to be self-authenticating.

**D. Applicable Law and Site.** The arbitrator shall determine the claims of the parties and render their final award in accordance with the substantive law of the State of Texas. In the case of particular witnesses not subject to subpoena at the designated hearing site, hearings may be held at any place designated by the arbitrators where such witnesses can be compelled to attend, and, with the consent of all parties, before a single member of the arbitration tribunal.

**E. Limitation on Awards.** Anything to the contrary notwithstanding, arbitrators may not award incidental, consequential or punitive damages. Nothing contained herein or in the Rules shall be deemed to grant the arbitrators any authority, power, or right to alter, modify or amend any of the provisions of Said Contract or this Exhibit.

### **III. ARBITRATION TRIBUNAL**

**A. Number and Qualifications.** The tribunal shall consist of three arbitrators. All arbitrators shall be independent, impartial and experienced in arbitration proceedings. Each arbitrator shall be experienced in the oil and gas industry and, to the extent reasonably practical, knowledgeable or specialized in the subject matter involved in the dispute.

**B. Dispute.** Each party shall have thirty (30) days from the delivery of claimant's Notice of Arbitration to designate in writing an arbitrator and notify the other party of the name and address of such arbitrator. The two arbitrators shall then choose a third arbitrator. If a party shall fail to name an arbitrator within said thirty (30) days, then arbitrator(s) required to complete the arbitration tribunal shall be selected in accordance with the Rules.

### **IV. MISCELLANEOUS PROVISIONS**

**A. Conflict.** In the event of a conflict between this Exhibit and (1) Said Contract or (2) the Rules, this Exhibit shall prevail.

**B. Survivability.** The provisions of this Exhibit shall survive the termination or expiration of Said Contract.