

Cooperative Injection Well Agreement No. 2
North-South Hobbs Grayburg San Andres Units

This Agreement, dated and intended to be effective as of the 10 day of Sept., 1984, to be known as the "North-South Hobbs Unit Cooperative Injection Facility Agreement No. 2" by and between Amoco Production Company (herein sometimes referred to as "Amoco"), Unit Operator of the South Hobbs Grayburg San Andres Unit and Shell Western E&P Inc. (herein sometimes referred to as "SWEPI"), Unit Operator of the North Hobbs Grayburg San Andres Unit,

W I T N E S S E T H

THAT WHEREAS, Amoco is the Operator of the South Hobbs Grayburg San Andres Unit covering all oil and gas rights in the Grayburg San Andres formation, Lea County, New Mexico, as described in the South Hobbs Grayburg San Andres Unit Agreement, to which, reference is here made for the limited purpose of description; and

WHEREAS, SWEPI is the Operator of the North Hobbs Grayburg San Andres Unit covering all oil and gas rights in the Grayburg San Andres formation, Lea County, New Mexico, as described in the North Hobbs Grayburg San Andres Unit Agreement, to which, reference is here made for the limited purpose of description; and

WHEREAS, Amoco and SWEPI desire to provide for the operation of water injection wells on or near the common unit boundaries of the above-described units for the injection of water into the underlying Grayburg San Andres formation through said injection wells.

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

ARTICLE 1

Amoco, as soon as practicable following the effective date of this Agreement, and prior to January 1, 1985, shall drill, complete and equip

five (5) water injection wells on the South Hobbs Grayburg San Andres Unit with approximate bottom-hole locations in Lea County, New Mexico as follows:

Coop Well No. 9 - 1310' FNL x 1310' FWL, Sect. 34, T-18-S, R-38-E
Coop Well No. 10 - 2630' FSL x 1310' FWL, Sect. 34, T-18-S, R-38-E
Coop Well No. 11 - 2630' FSL x 2330' FWL, Sect. 34, T-18-S, R-38-E
Coop Well No. 12 - 1310' FSL x 2630' FWL, Sect. 34, T-18-S, R-38-E
Coop Well No. 13 - 10' FNL x 2630' FEL, Sect. 3, T-19-S, R-38-E

Ownership of Coop Well Nos. 9, 10, 11, 12, and 13 shall be as follows:

<u>Well</u>	<u>South Hobbs Unit</u>	<u>North Hobbs Unit</u>
Coop Well No. 9	71.25	28.75
Coop Well No. 10	84.67	15.33
Coop Well No. 11	54.84	45.16
Coop Well No. 12	79.39	20.61
Coop Well No. 13	89.00	11.00

Amoco shall advance all costs and expenses incurred in connection with drilling, completing and equipping said Coop Wells. SWEPI shall pay its proportionate share based upon ownership of all such costs and expenses in accordance with the accounting procedures attached hereto as Exhibit "B" and made a part hereof for all purposes.

Upon drilling, completing and equipping, the Coop Wells will be operated by Amoco and SWEPI shall pay its proportionate share, based upon ownership, of all operating costs and expenses (including the cost of injected water) in accordance with the accounting procedures set out in Exhibit "B".

ARTICLE 2

Injection of water below the base of Zone 1 of the San Andres formation in each injection well shall commence no later than January 1, 1985. Injection rates shall be 1000 BWPDP per well or a maximum surface pressure of 100 psig, for the first six months after commencement of

water injection or until such time that a rate which does not exceed formation parting pressure is determined by injection well tests. Thereafter, if the rates and pressures cannot be mutually agreed upon, then the injection rate shall not exceed 1500 BWPB, provided that such rate does not exceed the formation parting pressure as previously determined by injection well tests conducted by the operating party. If the 1500 BWPB rate exceeds the formation parting pressure, then the injection rate shall be reduced to a maximum rate which will not exceed the formation parting pressure. Any injection into Zone I will only be established upon mutual agreement of the parties. The parties hereto shall have access to each of the injection wells and premises at any reasonable time and shall also have right at all reasonable times to inspect, review, and audit all pertinent books, records, and accounts in connection with the said injection wells and premises at the place where such books, records and accounts are usually kept.

ARTICLE 3

Amoco shall furnish water suitable for injection into each well through Amoco's water injection systems at the price and on the basis herein set forth. The water delivered hereunder to the injection wells shall be measured by standard type water metering equipment installed, and operated for the joint account, at the delivery point for each injection well. Such metering facilities shall be kept in good repair, and SWEPI at all reasonable times shall have access thereto for the purpose of observing the operations thereon. Each month the delivery meter through which water is delivered to each injection well shall be read, and at the end of each month shall furnish SWEPI with a statement showing the meter reading obtained and the total volume of water delivered to the coop injection wells during that calendar month. This reading shall be deemed conclusive as to the quantity of water delivered unless a meter test, or tests, shows an error in excess of 5%. Annual tests shall be made and, whenever any test shall show a meter to be registering in error beyond the limit specified or not operating, it shall be corrected to register within such limits and adjustments of

accounts between the parties hereto made for a period extending back to the time when such inaccuracy or inoperation began, if such time is ascertainable, and if not ascertainable, then for a period extending back one-half of the time elapsed since the last meter test. SWEPI will be notified as of the date of these tests in order to witness such tests if they so desire. The cost of each annual meter test shall be borne by the joint account. The cost of any special tests requested to be performed will be borne by the requesting party if the meter is found to be accurate to within 5% of actual, but if the meter is not accurate to within 5% of actual, the joint account will bear such costs. The monthly statement shall be paid within thirty (30) days after receipt and any failure to pay such statement within the time provided shall result in the accrual of interest on the unpaid balance of each at the rate of twelve percent (12%) per annum or the maximum rate allowed by law, whichever is the least, as provided in Exhibit "B."

ARTICLE 4

The payment to be made for water delivered to the injection wells is intended to reimburse the parties as nearly as possible for their proportionate share of the costs and expense actually incurred in acquiring, treating, transporting and furnishing such water to the injection well site, it being intended that neither party shall make a profit from the operations conducted hereunder. The rate of four cents (\$.04) per barrel shall be charged for injection water during the first year of this Agreement. At the end of the first year, actual costs and expenses of the operating party of acquiring, treating, transporting and delivering said water shall be considered, and the first year's actual per-barrel cost shall be determined. The share of such costs accruing to the party receiving such water shall be retroactively adjusted to reflect actual costs and expenses for such year. If the actual per-barrel cost is less than the estimated per barrel charge provided for the first year, then appropriate reimbursement shall be made for the overpayment, but if the actual per-barrel cost exceeds the estimated per barrel charge collected

for the first year, then one party shall reimburse the other for its applicable share of such costs and expenses actually accrued for the first year. The actual per-barrel cost determined in the manner provided shall then be the rate for the next ensuing year; provided that the operating party may make use of the experience base developed hereunder to project costs and expenses and set a reasonable per-barrel rate for the ensuing year or period and may, at any time, recalculate its actual cost of acquiring, treating, transporting and delivering water to the injection well sites for any subsequent year or twelve (12) month period in the manner provided for the first year and, if it should occur that the rate for charges again should be adjusted, then the operating party shall so notify the other of such adjustment. Should any price readjustment increase by more than two cents (2¢) per barrel from the contemporaneously assessed charge the other party's approval must be obtained prior to assessing the increased cost. Any new rate based upon the recalculation shall become effective as of the first day of the calendar month following the date that the other is notified thereof, and there shall be a retroactive adjustment for such prior 12-month period as provided herein for the first year. This same procedure shall be followed during the term of this agreement.

ARTICLE 5

Amoco shall conduct an injectivity and/or tracer survey and step-rate the Coop Wells after six (6) months and before one (1) year after water injection is commenced. For each subsequent year of operation thereafter, injectivity and/or tracer surveys shall be conducted on an annual basis. Step-rate tests shall be conducted in said wells periodically in order to determine the maximum efficient injection rate.

ARTICLE 6

After the completion of the Coop Wells, Amoco shall not make any expenditures for the Joint Account in excess of \$25,000 as to any well without the written consent of the other party hereto.

ARTICLE 7

As to all Coop Well operations hereunder, the operating party shall carry, for the benefit and protection of the parties hereto, Workmen's Compensation insurance in accordance with state, provincial, and federal laws, and Employers' Liability insurance. Workmen's Compensation insurance shall be for statutory limits; Employers' Liability insurance shall provide coverage of \$100,000 each accident. Either party may elect to be a self-insurer provided they comply with applicable laws and in such event the Operating Party shall charge to the joint account, in lieu of any premiums for such insurance, a premium equivalent limited to amounts determined by applying manual insurance rates to the payroll.

Neither party hereunder is required to carry any other insurance for the joint account. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death of third persons or injury or destruction of property of third parties resulting from the operation and development of the premises covered hereby shall be borne by the parties hereto in the proportions of their respective interest in the Coop Wells; and each party, acting individually, may acquire such insurance as it deems proper to protect itself against such claims. Third party contractors performing work in or on the premises covered hereby shall be required to carry such insurance and in such amounts as *the* operating party shall deem necessary.

ARTICLE 8

This Agreement shall be effective as of the date first above set out and continue in force for so long as oil or gas or both is produced from the properties included in the South Hobbs Grayburg San Andres Unit and the North Hobbs Grayburg San Andres Unit. If, within the sole discretion of a party hereto, the water injection operation being conducted hereunder is no longer economically profitable to that party, then said party shall have the right to terminate its participation in this agreement upon giving thirty (30) days advance written notice to the other party of its intention to terminate. The other party hereto shall then have the option to take over and operate, at its sole cost, risk and expense, the Coop Wells. In such event, the party taking over shall be granted the right of ingress and egress to said wells, together with rights-of-way and easements necessary to continue operation of the water injection well or wells, but this grant is made without representation and any warranty whatsoever and only insofar as the terminating party can lawfully do so. The party taking over shall pay the other party for its proportionate part of the equipment therein on the basis of the current salvage value thereof, and when said party taking over wishes to discontinue the water injection operations, such party shall, at its sole risk and expense, plug and abandon the water injection wells in compliance with all contractual obligations and rules and regulations of any governmental body having jurisdiction. The party taking over shall indemnify and hold the other party hereto harmless from and against any and all claims, charges, suits and any liabilities arising out of or in any way associated with subsequent operations. The parties shall execute and deliver, each to the other, such instruments or assurances as may be required to accomplish the intents and purposes of this article.

ARTICLE 9

Any notices required to be given hereunder shall be deemed to have been given when such notice shall have been deposited in the United States mail, postage prepaid and addressed to the parties at the following addresses:

Amoco Production Company
P. O. Box 68
Hobbs, New Mexico 88240

Shell Western E&P Inc.
P. O. Box 991
Houston, Texas 77001

ARTICLE 10

In the event that any party hereto is rendered unable, wholly or in part, by reason of force majeure to carry out its obligations under this agreement other than the obligations to make payments of amounts due hereunder, upon such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other party within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, insofar as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure so far as possible shall be remedied with all reasonable dispatch.

The term "Force Majeure" as used herein, shall mean and include any of the following which prohibit, prevent, hinder or inhibit the performance of any obligation or covenant hereunder, whether express or implied, or any act permitted hereunder: any Federal, State, County, or municipal laws, rules, regulations or executed orders asserted as official by or under public authority claiming jurisdiction; act of God, adverse field, weather, or market conditions; inability to obtain materials in the open market or transportation thereof, war, blockade, act of the public enemy, riot, or public disturbance; lightning, fire, storm, flood, or explosion; governmental restraint; failure of water supply; or any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

The settlement of strikes, lockouts, and other labor difficulties shall be entirely within the discretion of the party having the difficulty. The above 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 acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

ARTICLE 11

The rights, duties, obligations, and liabilities of the parties hereto shall be several, and not joint nor collective, and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, association, or a trust, or as imposing upon any or all of the parties hereto a partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out in this Agreement.

Each party hereby elects to be excluded from the application of Sub-chapter "K" of Chapter 1 of Subtitle "A" of the Internal Revenue Code of 1943, insofar as such Sub-chapter or any portion or portions thereof may be applicable to the parties in respect to the operations covered by this Agreement. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such additional or further evidence of such election as may be required by regulations issued under such Sub-chapter "K," or should said regulations require each party to execute such further evidence, each party agrees to execute such evidence or to join in the execution thereof.

The terms and provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors, legal representatives and assigns.