

1 UNIT AGREEMENT 1  
2  
3 FOR THE DEVELOPMENT AND OPERATION 3  
4  
5 OF THE 5  
6  
7 BEAR CANYON UNIT AREA 7  
8  
9 COUNTY OF RIO ARRIBA 9  
10  
11 STATE OF NEW MEXICO 11  
12  
13

14 No. \_\_\_\_\_ 14

15 THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 15  
16 19 86, by and between the parties subscribing, ratifying, or consenting hereto, 16  
17 and herein referred to as the "parties hereto," 17  
18  
19

20 WITNESSETH: 20  
21

22 WHEREAS, the parties hereto are the owners of working, royalty, or other 22  
23 oil and gas interests in the unit area subject to this agreement; and 23  
24

25 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 25  
26 30 U. S. C. Sec. 181 et seq., authorizes Federal lessees and their representatives to 26  
27 unite with each other, or jointly or separately with others, in collectively adopting 27  
28 and operating a unit plan of development or operations of any oil and gas pool, 28  
29 field, or like area, or any part thereof for the purpose of more properly conserving 29  
30 the natural resources thereof whenever determined and certified by the Secretary of 30  
31 the Interior to be necessary or advisable in the public interest; and 31  
32

33 WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals 33  
34 Department, hereinafter referred to as "Division", is authorized by an act of the 34  
35 Legislature (Chapter 70 and 71, New Mexico Statutes 1978 Annotated) to approve this 35  
36 agreement and the conservation provisions hereof; and 36  
37

38 WHEREAS, the parties hereto hold sufficient interests in the Bear Canyon 38  
39 Unit Area covering the land hereinafter described to give reason- 39  
40 ably effective control of operations therein; and 40  
41

42 WHEREAS, it is the purpose of the parties hereto to conserve natural resources, 42  
43 prevent waste, and secure other benefits obtainable through development and 43  
44 operation of the area subject to this agreement under the terms, conditions, and 44  
45 limitations herein set forth; 45  
46

47 NOW, THEREFORE, in consideration of the premises and the promises herein 47  
48 contained, the parties hereto commit to this agreement their respective interests 48  
49 in the below-defined unit area, and agree severally among themselves as follows: 49  
50

51 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 51  
52 1920, as amended, supra, and all valid pertinent regulations including operating 52  
53 and unit plan regulations, heretofore issued thereunder or valid, pertinent and 53  
54 reasonable regulations hereafter issued thereunder are accepted and made a part 54  
55 of this agreement as to Federal lands, provided such regulations are not incon- 55  
56 sistent with the terms of this agreement; and as to non-Federal lands, the oil and 56  
57 gas operating regulations in effect as of the effective date hereof governing 57  
58 drilling and producing operations, not inconsistent with the terms hereof or the 58  
59 laws of the State in which the non-Federal land is located, are hereby accepted 59  
60 and made a part of this agreement. 60  
61

62 2. UNIT AREA. The following described land is hereby designated and recog- 62  
63 nized as constituting the unit area: 63

- 1 -

AMOCO PRODUCTION COMPANY  
Case 8998  
November 5, 1986  
Proposed Bear Canyon Unit  
Exhibit No. 1

Township 26 North, Range 2 West, N.M.P.M.

Section 1: S $\frac{1}{2}$   
Section 2: S $\frac{1}{2}$   
Section 3: S $\frac{1}{2}$   
Section 10: All  
Section 11: All  
Section 12: All  
Section 13: All  
Section 14: All  
Section 15: All

Containing 4,800.00 acres, more or less

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer, hereinafter referred to as "AO", and not less than four copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division".

The above-described unit area shall when practicable be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO (after preliminary concurrence by the AO) shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the proper Bureau of Land Management office and the Division, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO and the Division, evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in triplicate, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO and the Division, become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are in or entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary,

1 in which event all such lands shall remain subject hereto for so long as such 1  
2 drilling operations are continued diligently, with not more than 90 days' time 2  
3 elapsing between the completion of one such well and the commencement of the next 3  
4 such well. All legal subdivisions of lands not entitled to be in a participating 4  
5 area within 10 years after the effective date of the first initial participating 5  
6 area approved under this agreement shall be automatically eliminated from this 6  
7 agreement as of said tenth anniversary. The Unit Operator shall, within 90 days 7  
8 after the effective date of any elimination hereunder, describe the area so elimi- 8  
9 nated to the satisfaction of the AO and promptly notify all parties in interest. 9  
10 All lands reasonably proved productive of unitized substances in paying quantities 10  
11 by diligent drilling operations after the aforesaid 5-year period shall become 11  
12 participating in the same manner as during said first 5-year period. However, when 12  
13 such diligent drilling operations cease, all non-participating lands not then 13  
14 entitled to be in a participating area shall be automatically eliminated effective 14  
15 as of the 91st day thereafter. 15  
16

17 Any expansion of the unit area pursuant to this section which embraces lands 17  
18 theretofore eliminated pursuant to this subsection 2(e) shall not be considered 18  
19 automatic commitment or recommitment of such lands. If conditions warrant 19  
20 extension of the 10-year period specified in this subsection, a single extension of 20  
21 not to exceed 2 years may be accomplished by consent of the owners of 90% of the 21  
22 working interests in the current non-participating unitized lands and the owners of 22  
23 60% of the basic royalty interests (exclusive of the basic royalty interests of the 23  
24 United States) in non-participating unitized lands with approval of the AO provided 24  
25 such extension application is submitted not later than 60 days prior to the 25  
26 expiration of said 10-year period. 26  
27

28 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement 28  
29 shall constitute land referred to herein as "unitized land" or "land subject to 29  
30 this agreement". All oil and gas in any and all formations of the unitized land 30  
31 above 100 feet below the base of the Dakota Formation are unitized under the terms 31  
32 of this agreement and herein called "unitized substances". 32  
33

34 4. UNIT OPERATOR. Amoco Production Company is 34  
35 hereby designated as Unit Operator and by signature hereto as Unit Operator agrees 35  
36 and consents to accept the duties and obligations of Unit Operator for the dis- 36  
37 covery, development, and production of unitized substances as herein provided. 37  
38 Whenever reference is made herein to the Unit Operator, such reference means the 38  
39 Unit Operator acting in that capacity and not as an owner of interest in unitized 39  
40 substances, and the term "working interest owner" when used herein shall include 40  
41 or refer to Unit Operator as the owner of a working interest only when such an 41  
42 interest is owned by it. 42  
43

44 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right 44  
45 to resign at any time prior to the establishment of a participating area or areas 45  
46 hereunder, but such resignation shall not become effective so as to release Unit 46  
47 Operator from the duties and obligations of Unit Operator and terminate Unit 47  
48 Operator's rights as such for a period of 6 months after notice of intention to 48  
49 resign has been served by Unit Operator on all working interest owners and the AO 49  
50 and the Division, and until all wells then drilled hereunder are placed in a 50  
51 satisfactory condition for suspension or abandonment, whichever is required by the 51  
52 AO as to Federal lands and the Division as to Fee lands, unless a new Unit Operator 52  
53 shall have been selected and approved and shall have taken over and assumed the 53  
54 duties and obligations of Unit Operator prior to the expiration of said period. 54  
55

56 Unit Operator shall have the right to resign in like manner and subject to 56  
57 like limitations as above provided at any time after a participating area estab- 57  
58 lished hereunder is in existence, but in all instances of resignation or removal, 58  
59 until a successor Unit Operator is selected and approved as hereinafter provided, 59  
60 the working interest owners shall be jointly responsible for performance of the 60  
61 duties of Unit Operator, and shall not later than 30 days before such resignation 61  
62 or removal becomes effective appoint a common agent to represent them in any action 62  
63 to be taken hereunder. 63

1 The resignation of Unit Operator shall not release Unit Operator from any 1  
2 liability for any default by it hereunder occurring prior to the effective date 2  
3 of its resignation. 3  
4

5 The Unit Operator may, upon default or failure in the performance of its 5  
6 duties or obligations hereunder, be subject to removal by the same percentage vote 6  
7 of the owners of working interests as herein provided for the selection of a new 7  
8 Unit Operator. Such removal shall be effective upon notice thereof to the AO. 8  
9

10 The resignation or removal of Unit Operator under this agreement shall not 10  
11 terminate its right, title, or interest as the owner of a working interest or other 11  
12 interest in unitized substances, but upon the resignation or removal of Unit 12  
13 Operator becoming effective, such Unit Operator shall deliver possession of all 13  
14 wells, equipment, materials, and appurtenances used in conducting the unit opera- 14  
15 tions to the new duly qualified successor Unit Operator or to the common agent, if 15  
16 no such new Unit Operator is selected, elected, to be used for the purpose of 16  
17 conducting unit operations hereunder. Nothing herein shall be construed as 17  
18 authorizing removal of any material, equipment, or appurtenances needed for the 18  
19 preservation of any wells. 19  
20

21 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his 21  
22 or its resignation as Unit Operator or shall be removed as hereinabove 22  
23 provided, or a change of Unit Operator is negotiated by the working interest 23  
24 owners, the owners of the working interests according to their respective acreage 24  
25 interests in all unitized land shall, pursuant to the Approval of the Parties 25  
26 requirements of the unit operating agreement, select a successor Unit Operator. 26  
27 Such selection shall not become effective until: 27  
28

29 (a) a Unit Operator so selected shall accept in writing the duties and 29  
30 responsibilities of Unit Operator, and 30  
31

32 (b) the selection shall have been approved by the AO. 32  
33

34 If no successor Unit Operator is selected and qualified as herein provided, 34  
35 the AO, at his election may declare this unit agreement terminated. 35  
36

37 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator 37  
38 is not the sole owner of working interests, costs and expenses incurred by Unit 38  
39 Operator in conducting unit operations hereunder shall be paid and apportioned 39  
40 among and borne by the owners of working interests, all in accordance with the 40  
41 agreement or agreements entered into by and between the Unit Operator and the 41  
42 owners of working interests, whether one or more, separately or collectively. 42  
43 Any agreement or agreements entered into between the working interest owners and 43  
44 the Unit Operator as provided in this section, whether one or more, are herein 44  
45 referred to as the "unit operating agreement." Such unit operating agreement shall 45  
46 also provide the manner in which the working interest owners shall be entitled to 46  
47 receive their respective proportionate and allocated share of the benefits accruing 47  
48 hereto in conformity with their underlying operating agreements, leases, or other 48  
49 independent contracts, and such other rights and obligations as between Unit Oper- 49  
50 ator and the working interest owners as may be agreed upon by Unit Operator and the 50  
51 working interest owners; however, no such unit operating agreement shall be deemed 51  
52 either to modify any of the terms and conditions of this unit agreement or to 52  
53 relieve the Unit Operator of any right or obligation established under this unit 53  
54 agreement, and in case of any inconsistency or conflict between this agreement 54  
55 and the unit operating agreement, this agreement shall govern. Two copies of any 55  
56 unit operating agreement executed pursuant to this section shall be filed in the 56  
57 proper Bureau of Land Management office and one true copy with the Division prior 57  
58 to approval of this unit agreement. 58  
59

60 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifi- 60  
61 cally provided herein, the exclusive right, privilege, and duty of exercising any 61  
62 and all rights of the parties hereto which are necessary or convenient for pros- 62  
63 pecting for, producing, storing, allocating, and distributing the unitized 63  
64 substances are hereby delegated to and shall be exercised by the Unit Operator as 64  
65 herein provided. Acceptable evidence of title to said rights shall be deposited 65

1 with Unit Operator and, together with this agreement, shall constitute and define 1  
2 the rights, privileges, and obligations of Unit Operator. Nothing herein, however, 2  
3 shall be construed to transfer title to any land or to any lease or operating 3  
4 agreement, it being understood that under this agreement the Unit Operator, in its 4  
5 capacity as Unit Operator, shall exercise the rights of possession and use vested 5  
6 in the parties hereto only for the purposes herein specified. 6  
7

8 9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the 8  
9 Unit Operator shall commence to drill an adequate test well at a location approved 9  
10 by the AO, if on Federal land, and by the Division if on Fee land, unless on such 10  
11 effective date a well is being drilled in conformity with the terms hereof, and 11  
12 thereafter continue such drilling diligently until the upper 15 feet of the 12  
13 Morrison 13  
14 formation has been tested or until at a lesser depth unitized substances shall be 14  
15 discovered which can be produced in paying quantities (to-wit: quantities 15  
16 sufficient to repay the costs of drilling, completing, and producing operations, 16  
17 with a reasonable profit) or the Unit Operator shall at any time establish to the 17  
18 satisfaction of the AO if on Federal land, or the Division if located on Fee land, 18  
19 that further drilling of said well would be unwarranted or impracticable, provided, 19  
20 however, that Unit Operator shall not in any event be required to drill said well 20  
21 to a depth in excess of 8,300 feet. Until the discovery of unitized 21  
22 substances capable of being produced in paying quantities, the Unit Operator shall 22  
23 continue drilling one well at a time, allowing not more than 6 months between the 23  
24 completion of one well and the commencement of drilling operations for the next 24  
25 well, until a well capable of producing unitized substances in paying quantities is 25  
26 completed to the satisfaction of the AO if it be on Federal land, or the Division 26  
27 if on Fee land, or until it is reasonably proved that the unitized land is 27  
28 incapable of producing unitized substances in paying quantities in the formations 28  
29 drilled hereunder. Nothing in this section shall be deemed to limit the right of 29  
30 the Unit Operator to resign as provided in Section 5, hereof, or as requiring Unit 30  
31 Operator to commence or continue any drilling during the period pending such 31  
32 resignation becoming effective in order to comply with the requirements of this 32  
33 section. 33  
34

35 The AO may modify any of the drilling requirements of this section by granting 35  
36 reasonable extensions of time when, in his opinion, such action is warranted. 36  
37

38 Upon failure to commence any well as provided for in this section within the 38  
39 time allowed, prior to the establishment of a participating area, including any 39  
40 extension of time granted by the AO, this agreement will automatically terminate. 40  
41 Upon failure to continue drilling diligently any well commenced hereunder, the AO 41  
42 may, after 15 days notice to the Unit Operator, declare this unit agreement 42  
43 terminated. The parties to this agreement may not initiate a request to voluntar- 43  
44 ily terminate this agreement during the first 6 months of its term unless at least 44  
45 one obligation well has been drilled in accordance with the provisions of this 45  
46 section. 46  
47

48 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after com- 48  
49 pletion of a well capable of producing unitized substances in paying quantities, 49  
50 the Unit Operator shall submit for the approval of the AO and the Division, an 50  
51 acceptable plan of development and operation for the unitized land which, when 51  
52 approved by the AO and the Division, shall constitute the further drilling and 52  
53 development obligations of the Unit Operator under this agreement for the period 53  
54 specified therein. Thereafter, from time to time before the expiration of any 54  
55 existing plan, the Unit Operator shall submit for the approval of the AO and the 55  
56 Division a plan for an additional specified period for the development and 56  
57 operation of the unitized land. Subsequent plans should normally be filed on a 57  
58 calendar year basis not later than March 1 each year. Any proposed modification or 58  
59 addition to the existing plan should be filed as a supplement to the plan. 59

1 Any plan submitted pursuant to this section shall provide for the timely explo- 1  
2 ration of the unitized area, and for the diligent drilling necessary for determina- 2  
3 tion of the area or areas capable of producing unitized substances in paying quanti- 3  
4 ties in each and every productive formation. This plan shall be as complete and 4  
5 adequate as the AO and Division may determine to be necessary for timely development 5  
6 and proper conservation of the oil and gas resources of the unitized area and shall: 6  
7

8 (a) specify the number and locations of any wells to be drilled and the 8  
9 proposed order and time for such drilling; and 9

10 (b) Provide a summary of operations and production for the previous year. 10  
11 11  
12 12

13 Plans shall be modified or supplemented when necessary to meet changed condi- 13  
14 tions or to protect the interests of all parties to this agreement. Reasonable 14  
15 diligence shall be exercised in complying with the obligations of the approved plan 15  
16 of development and operation. The AO is authorized to grant a reasonable extension 16  
17 of the 6 month period herein prescribed for submission of an initial plan of develop- 17  
18 ment and on operation where such action is justified because of unusual conditions or 18  
19 circumstances. 19  
20 20

21 After completion of a well capable of producing unitized substances in paying 21  
22 quantities, no further wells, except such as may be necessary to afford protection 22  
23 against operations not under this agreement and such as may be specifically approved 23  
24 by the AO and Division, shall be drilled except in accordance with an approved plan 24  
25 of development and operation. 25  
26 26

27 11. PARTICIPATION AFTER DISCOVERY. Determination as to whether a well completed 27  
28 within the Unit Area prior to the effective date of this agreement is capable of 28  
29 producing unitized substances in paying quantities shall be deferred until an initial 29  
30 participating area is established as the result of the completion of a well for 30  
31 production in paying quantities in accordance with Section 9 hereof. Upon completion 31  
32 of a well capable of producing unitized substances in paying quantities, or as soon 32  
33 thereafter as required by the AO or the Division, the Unit Operator shall submit for 33  
34 approval by the AO and Division, a schedule, based on subdivisions of the public-land 34  
35 survey or aliquot parts thereof, of all land then regarded as reasonably proved to be 35  
36 productive of unitized substances in paying quantities. These lands shall constitute 36  
37 a participating area on approval of the AO and Division, effective as of the date of 37  
38 completion of such well or the effective date of this unit agreement, whichever is 38  
39 later. The acreages of both Federal and non-Federal lands shall be based upon 39  
40 appropriate computations from the courses and distances shown on the last approved 40  
41 public-land survey as of the effective date of each initial participating area. The 41  
42 schedule shall also set forth the percentage of unitized substances to be allocated, 42  
43 as provided in Section 12 to each committed tract in the participating area so 43  
44 established, and shall govern the allocation of production commencing with the 44  
45 effective date of the participating area. A different participating area shall be 45  
46 established for each separate pool or deposit of unitized substances or for any group 46  
47 thereof which is produced as a single pool or zone, and any two or more participating 47  
48 areas so established may be combined into one, on approval of the AO and the 48  
49 Division. When production from two or more participating areas is subsequently 49  
50 found to be from a common pool or deposit, the participating areas shall be combined 50  
51 into one, effective as of such appropriate date as maybe approved or prescribed by 51  
52 the AO and Division. The participating area or areas so established shall be revised 52  
53 from time to time, subject to the approval of the AO and Division to include 53  
54 additional lands then regarded as reasonably proved to be productive of unitized 54  
55 substances in paying quantities or which are necessary for unit operations, or to 55  
56 exclude lands then regarded as reasonably proved not to be productive of unitized 56  
57 substances in paying quantities, and the schedule of allocation percentages shall be 57  
58 revised accordingly. The effective date of any revision shall be the first of the 58  
59 month in which the knowledge or information is obtained on which such revision is 59  
60 predicated; provided, however, that a more appropriate effective date may be used if 60  
61 justified by the Unit Operator and approved by the AO and Division. No land shall be 61  
62 excluded from a participating area on account of depletion of its unitized 62  
63 substances, except that any participating area established under the provisions of 63  
64 this unit agreement shall terminate automatically whenever all completions in the 64  
65 formation on which the participating area is based are abandoned. 65

1 It is the intent of this section that a participating area shall represent the 1  
2 area productive of unitized substances known or reasonably proved to be productive 2  
3 in paying quantities or which are necessary for unit operations; but, regardless of 3  
4 any revision of the participating area, nothing herein contained shall be construed 4  
5 as requiring any retroactive adjustment for production obtained prior to the 5  
6 effective date of the revision of the participating area. 6  
7

8 In the absence of agreement at any time between the Unit Operator and the AO 8  
9 and Division, as to the proper definition or redefinition of a participating area, 9  
10 or until a participating area has, or areas have, been established, the portion of 10  
11 all payments affected thereby shall, except royalty due the United States, be 11  
12 impounded in a manner mutually acceptable to the owners of committed working 12  
13 interests and the AO. Royalties due the United States shall be determined by the AO 13  
14 and the amount thereof shall be deposited, as directed by the AO until a partici- 14  
15 pating area is finally approved and then adjusted in accordance with a determination 15  
16 of the sum due as Federal royalty on the basis of such approved participating area. 16  
17

18 Whenever it is determined, subject to the approval of the AO and Division, that 18  
19 a well drilled under this agreement is not capable of production of unitized 19  
20 substances in paying quantities and inclusion in a participating area of the land on 20  
21 which it is situated in a participating area is unwarranted, production from such 21  
22 well shall, for the purposes of settlement among all parties other than working 22  
23 interest owners, be allocated to the land on which the well is located, unless such 23  
24 land is already within the participating area established for the pool or deposit 24  
25 from which such production is obtained. Settlement for working interest benefits 25  
26 from such a nonpaying unit well shall be made as provided in the unit operating 26  
27 agreement. 27  
28

29 Unitized drilling is permissible on a partially committed tract, but if unitized 29  
30 production is obtained on such a tract and a participating area is established on the 30  
31 basis thereof, the entire production must be allocated to the participating area, 31  
32 and the responsible working interest owner must pay the noncommitted parties their 32  
33 just royalty on a leasehold basis. 33  
34

35 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each parti- 35  
36 cipating area established under this agreement, except any part thereof used in 36  
37 conformity with good operating practices within the unitized area for drilling, 37  
38 operating, and other production or development purposes, for repressuring or re- 38  
39 cycling in accordance with a plan of development and operations which has been 39  
40 approved by the AO and Division, or unavoidably lost, shall be deemed to be produced 40  
41 equally on an acreage basis from the several tracts of unitized land of the partici- 41  
42 pating area established for such production. For the purpose of determining any 42  
43 benefits accruing under this agreement, each such tract of unitized land shall have 43  
44 allocated to it such percentage of said production as the number of acres of such 44  
45 tract included in said participating area bears to the total acres of unitized land 45  
46 in said participating area, except that allocation of production hereunder for 46  
47 purposes other than for settlement of the royalty, overriding royalty, or payment 47  
48 out of production obligations of the respective working interest owners, shall be on 48  
49 the basis prescribed in the unit operating agreement whether in conformity with the 49  
50 basis of allocation herein set forth or otherwise. It is hereby agreed that pro- 50  
51 duction of unitized substances from a participating area shall be allocated as 51  
52 provided herein regardless of whether any wells are drilled on any particular part 52  
53 or tract of the participating area. If any gas produced from one participating area 53  
54 is used for repressuring or recycling purposes in another participating area, the 54  
55 first gas withdrawn from the latter participating area for sale during the life of 55  
56 this agreement, shall be considered to be the gas so transferred, until an amount 56  
57 equal to that transferred shall be so produced for sale and such gas shall be 57  
58 allocated to the participating area from which initially produced as such area was 58  
59 defined at the time of such transferred gas was finally produced and sold. 59  
60

61 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party 61  
62 hereto owning or controlling the working interest in any unitized land having there- 62  
63 on a regular well location may with the approval of the AO and the Division at such 63  
64 party's sole risk, costs, and expense, drill a well to test any formation provided 64  
65 the well is outside any participating area established for that formation, unless 65  
66 within 90 days of receipt of notice from said party of his intention to drill the 66  
67 well, the Unit Operator elects and commences to drill the well in a like manner as 67  
68 other wells are drilled by the Unit Operator under this agreement. 68

1 If any well drilled under this section by a working interest owner results in 1  
2 production of unitized substances in paying quantities such that the land upon 2  
3 which it is situated may properly be included in a participating area, such parti- 3  
4 cipating area shall be established or enlarged as provided in this agreement and 4  
5 the well shall thereafter be operated by the Unit Operator in accordance with the 5  
6 terms of this agreement and the unit operating agreement. 6  
7

8 If any well drilled under this section by a working interest owner that 8  
9 obtains production in quantities insufficient to justify the inclusion of the land 9  
10 upon which such well is situated in a participating area, such well may be operated 10  
11 and produced by the party drilling the same, subject to the conservation 11  
12 requirements of this agreement. The royalties in amount or value of production from 12  
13 any such well shall be paid as specified in the underlying lease and agreements 13  
14 affected. 14  
15

16 14. ROYALTY SETTLEMENT. The United States and any royalty owner who is entitled 16  
17 to take in kind a share of the substances now unitized hereunder shall hereafter be 17  
18 entitled to the right to take in kind its share of the unitized substances, and Unit 18  
19 Operator, or the working interest owner in case of the operation of a well by a 19  
20 working interest owner as herein provided for in special cases, shall make 20  
21 deliveries of such royalty share taken in kind in conformity with the applicable 21  
22 contracts, laws, and regulations. Settlement for royalty interest not taken in kind 22  
23 shall be made by working interest owners responsible therefor under existing 23  
24 contracts, laws and regulations, or by the Unit Operator on or before the last day 24  
25 of each month for unitized substances produced during the preceding calendar month; 25  
26 provided, however, that nothing in this section shall operate to relieve the lessees 26  
27 of any land from their respective lease obligations for the payment of any royalties 27  
28 due under their leases. 28  
29

30 If gas obtained from lands not subject to this agreement is introduced into any 30  
31 participating area hereunder, for use in repressuring, stimulation of production, or 31  
32 increasing ultimate recovery, in conformity with a plan of development and operation 32  
33 approved by the AO and the Division, a like amount of gas, after settlement as 33  
34 herein provided for any gas transferred from any other participating area and with 34  
35 appropriate deduction for loss from any cause, may be withdrawn from the formation 35  
36 into which the gas is introduced, royalty free as to dry gas, but not as to any 36  
37 products which may be extracted therefrom; provided that such withdrawal shall be 37  
38 at such time as may be provided in the approved plan of development and operation or 38  
39 as may otherwise be consented to by the AO and the Division as conforming to good 39  
40 petroleum engineering practice; and provided further, that such right of withdrawal 40  
41 shall terminate on the termination of this unit agreement. 41  
42

43 Royalty due the United States shall be computed as provided in 30 CFR Part 221 43  
44 and paid in value or delivered in kind as to all unitized substances on the basis of 44  
45 the amounts thereof allocated to unitized Federal land as provided in Section 12 at 45  
46 the rates specified in the respective Federal leases, or at such other rate or rates 46  
47 as may be authorized by law or regulation and approved by the AO; provided, that for 47  
48 leases on which the royalty rate depends on the daily average production per well, 48  
49 said average production shall be determined in accordance with the operating 49  
50 regulations as though each participating area were a single consolidated lease. 50  
51

52 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed 52  
53 hereto shall be paid by appropriate working interest owners under existing 53  
54 contracts, laws, and regulations, provided that nothing herein contained shall 54  
55 operate to relieve the lessees of any land from their respective lease obligations 55  
56 for the payment of any rental or minimum royalty due under their leases. Rental or 56  
57 minimum royalty for lands of the United States subject to this agreement shall be 57  
58 paid at the rate specified in the respective leases from the United States unless 58  
59 such rental or minimum royalty is waived, suspended, or reduced by law or by 59  
60 approval of the Secretary or his duly authorized representative. 60

1 With respect to any lease on non-Federal land containing provisions which would 1  
2 terminate such lease unless drilling operations are commenced upon the land covered 2  
3 thereby within the time therein specified or rentals are paid for the privilege of 3  
4 deferring such drilling operations, the rentals required thereby shall, 4  
5 notwithstanding any other provision of this agreement, be deemed to accrue and 5  
6 become payable during the term thereof as extended by this agreement and until the 6  
7 required drilling operations are commenced upon the land covered thereby, or until 7  
8 some portion of such land is included within a participating area. 8  
9 9

10 16. CONSERVATION. Operations hereunder and production of unitized substances 10  
11 shall be conducted to provide for the most economical and efficient recovery of said 11  
12 substances without waste, as defined by or pursuant to State or Federal law or 12  
13 regulation. 13  
14 14

15 17. DRAINAGE. The Unit Operator shall take such measures as the AO deems appro- 15  
16 priate and adequate to prevent drainage of unitized substances from unitized land by 16  
17 wells on land not subject to this agreement, which shall include the drilling of 17  
18 protective wells and which may include the payment of a fair and reasonable compen- 18  
19 satory royalty, as determined by the AO. 19  
20 20

21 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and 21  
22 provisions of all leases, subleases, and other contracts relating to exploration, 22  
23 drilling, development, or operation for oil or gas on lands committed to this 23  
24 agreement are hereby expressly modified and amended to the extent necessary to make 24  
25 the same conform to the provisions hereof, but otherwise to remain in full force and 25  
26 effect; and the parties hereto hereby consent that the Secretary shall and by his 26  
27 approval hereof, or by the approval hereof by his duly authorized representative, 27  
28 does hereby establish, alter, change, or revoke the drilling, producing, rental 28  
29 minimum royalty, and royalty requirements of Federal leases committed hereto and the 29  
30 regulations in respect thereto to conform said requirements to the provisions of 30  
31 this agreement, and, without limiting the generality of the foregoing, all leases, 31  
32 subleases, and contracts are particularly modified in accordance with the following: 32  
33 33

34 (a) The development and operation of lands subject to this agreement under 34  
35 the terms hereof shall be deemed full performance of all obligations for develop- 35  
36 ment and operation with respect to each and every separately owned tract subject 36  
37 to this agreement, regardless of whether there is any development of any particular 37  
38 tract of this unit area. 38  
39 39

40 (b) Drilling and producing operations performed hereunder upon any tract of 40  
41 unitized lands will be accepted and deemed to be performed upon and for the benefit 41  
42 of each and every tract of unitized land, and no lease shall be deemed to expire by 42  
43 reason of failure to drill or produce wells situated on the land therein embraced. 43  
44 44

45 (c) Suspension of drilling or producing operations on all unitized lands 45  
46 pursuant to direction or consent of the AO, or his duly authorized representative, 46  
47 shall be deemed to constitute such suspension pursuant to such direction or consent 47  
48 as to each and every tract of unitized land. A suspension of drilling or producing 48  
49 operations limited to specified lands shall be applicable only to such lands. 49  
50 50

51 (d) Each lease, sublease or contract relating to the exploration, drilling, 51  
52 development, or operation for oil or gas of lands other than those of the United 52  
53 States committed to this agreement which, by its terms might expire prior to the 53  
54 termination of this agreement, is hereby extended beyond any such terms so provided 54  
55 therein so that it shall be continued in full force and effect for and during the 55  
56 term of this agreement. 56  
57 57

58 (e) Any Federal lease committed hereto shall continue in force beyond the term 58  
59 so provided therein or by law as to the land committed so long as such lease re- 59

1 mains subject hereto, provided that production of unitized substances in paying 1  
2 quantities is established in paying quantities under this unit agreement prior to 2  
3 the expiration date of the term of such lease, or in the event actual drilling 3  
4 operations are commenced on unitized land, in accordance with provisions of this 4  
5 agreement, prior to the end of the primary term of such lease and are being 5  
6 diligently prosecuted at that time, such lease shall be extended for two years, and 6  
7 so long thereafter as oil or gas is produced in paying quantities in accordance with 7  
8 the provisions of the Mineral Leasing Act, as amended. 8  
9 9

10 (f) Each sublease or contract relating to the operation and development of 10  
11 unitized substances from lands of the United States committed to this agreement, 11  
12 which by its terms would expire prior to the time at which the underlying lease, as 12  
13 extended by the immediately preceding paragraph, will expire, is hereby extended 13  
14 beyond any such term so provided therein so that it shall be continued in full 14  
15 force and effect for and during the term of the underlying lease as such term is 15  
16 herein extended. 16  
17 17

18 (g) The segregation of any Federal lease committed to this agreement is 18  
19 governed by the following provision in the fourth paragraph of Sec. 17(j) of the 19  
20 Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784) 20  
21 (30 U.S.C. 226 (j)): "Any (Federal) lease heretofore or hereafter committed to any 21  
22 such (unit) plan embracing lands that are in part within and in part outside of the 22  
23 area covered by any such plan shall be segregated into separate leases as to the 23  
24 lands committed and the lands not committed as of the effective date of unitization: 24  
25 Provided, however, that any such lease as to the non-unitized portion shall continue 25  
26 in force and effect for the term thereof but for not less than two years from the 26  
27 date of such segregation and so long thereafter as oil or gas is produced in paying 27  
28 quantities." 28  
29 29

30 ~~(h) Any lease, other than a Federal lease, having only a portion of its lands 30  
31 committed hereto shall be segregated as to the portion committed and the portion not 31  
32 committed, and the provisions of such leases shall apply separately to such 32  
33 segregated portions commencing as of the effective date hereof. In the event any 33  
34 such lease provides for a lump sum rental payment, such payment shall be prorated 34  
35 between the portions so segregated in proportion to the acreage of the respective 35  
36 ~~portions.~~ 36  
37 37~~

38 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be : 38  
39 covenants running with the land with respect to the interests of the parties hereto 39  
40 and their successors in interest until this agreement terminates, and any grant, 40  
41 transfer or conveyance of interest in land or leases subject hereto shall be and 41  
42 hereby is conditioned upon the assumption of all privileges and obligations here- 42  
43 under by the grantee, transferee, or other successor in interest. No assignment or 43  
44 transfer of any working interest, royalty, or other interest subject hereto shall be 44  
45 binding upon Unit Operator until the first day of the calendar month after Unit 45  
46 Operator is furnished with the original, photostatic, or certified copy of the 46  
47 instrument of transfer. 47  
48 48

49 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval 49  
50 by the AO, or his duly authorized representative, and shall automatically terminate 50  
51 five (5) years from said effective date unless: 51  
52 52

53 (a) Upon application by the Unit Operator such date of expiration is extended 53  
54 by the AO, or 54  
55 55

56 (b) it is reasonably determined prior to the expiration of the fixed term or 56  
57 any extension thereof that the unitized land is incapable of production of unitized 57  
58 substances in paying quantities in the formations tested hereunder, and after 58  
59 notice of intention to terminate this agreement on such ground is given by the Unit 59  
60 Operator to all parties in interest at their last known addresses, this agreement 60  
61 is terminated with approval of the AO, or 61

1 (c) a valuable discovery of unitized substances in paying quantities has been 1  
2 made or accepted on unitized land during said initial term or any extension thereof, 2  
3 in which event this agreement shall remain in effect for such term and so long 3  
4 thereafter as unitized substances can be produced in quantities sufficient to pay 4  
5 for the cost of producing same from wells on unitized land within any participating 5  
6 area established hereunder. Should production cease and diligent drilling opera- 6  
7 tions to restore production or new production are not in progress or reworking with- 7  
8 in 60 days and production is not restored or should new production not be obtained 8  
9 in paying quantities on committed lands within this unit area, this agreement will 9  
10 automatically terminate effective the last day of the month in which the last uni- 10  
11 tized production occurred, or 11  
12

13 (d) it is voluntarily terminated as provided in this agreement. Except as noted 13  
14 herein this agreement may be terminated at any time prior to the discovery of 14  
15 unitized substances which can be produced in paying quantities by not less than 75 15  
16 per centum, on an acreage basis, of the working interest owners signatory hereto, 16  
17 with the approval of the AO. The Unit Operator shall give notice of any such 17  
18 approval to all parties hereto. Voluntary termination may not occur during the 18  
19 first six (6) months of this agreement unless at least one obligation well shall 19  
20 have been drilled in conformance accordance with Section 9. 20  
21

22 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested 22  
23 with authority to alter or modify from time to time, in his discretion, the 23  
24 quantity and rate of production under this agreement when such quantity and rate 24  
25 are not fixed pursuant to Federal or State law, or do not conform to any State-wide 25  
26 voluntary conservation or allocation program which is established, recognized, and 26  
27 generally adhered to by the majority of operators in such State. The above 27  
28 authority is hereby limited to alteration or modifications which are in the public 28  
29 interest. The public interest to be served and the purpose thereof, must be stated 29  
30 in the order of alteration or modification. Without regard to the foregoing, the AO 30  
31 is also hereby vested with authority to alter or modify from time to time, in his 31  
32 discretion, the rate of prospecting and development and the quantity and rate of 32  
33 production under this agreement when such alteration or modification is in the 33  
34 interest of attaining the conservation objectives stated in this agreement and is 34  
35 not in violation of any applicable Federal or State law. 35  
36

37 Powers in the section vested in the AO shall only be exercised after notice to 37  
38 Unit Operator and opportunity for hearing to be held not less than 15 days from ; 38  
39 notice. 39  
40

41 22. APPEARANCES. Unit Operators shall, after notice to other parties affected, 41  
42 have the right to appear for and on behalf of any and all interests affected hereby 42  
43 before the Department of the Interior and Division, and to appeal from orders issued 43  
44 under the regulations of said Department and Division or to apply for relief from 44  
45 any of said regulations, or in any proceedings relative to operations before the 45  
46 Department and Division or any other legally constituted authority; provided, 46  
47 however, that any other interested party shall also have the right, at its own 47  
48 expense, to be heard in any such proceeding. 48  
49

50 23. NOTICES. All notices, demands, or statements required hereunder to be 50  
51 given or rendered to the parties hereto shall be in writing and shall be personally 51  
52 delivered to the party or parties, or sent by postpaid registered or certified 52  
53 mail, to the last known address of the party or parties. 53  
54

55 24. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this agreement shall be 55  
56 construed as a waiver by any party hereto of the right to assert any legal or 56  
57 constitutional right or defense as to the validity or invalidity of any law of the 57  
58 State where the unitized lands are located, or of the United States, or regulations 58  
59 issued thereunder in any way affecting such party, or as a waiver by any such party 59  
60 of any right beyond his or its authority to waive. 60  
61

62 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit 62  
63 Operator to commence or continue drilling, or to operate on, or produce unitized 63  
64 substances from any of the lands covered by this agreement, shall be suspended while 64

1 the Unit Operator, despite the exercise of due care and diligence, is prevented from 1  
2 complying with such obligations, in whole or in part, by strikes, acts of God, 2  
3 Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable 3  
4 delays in transportation, inability to obtain necessary materials or equipment in 4  
5 open market, or other matters beyond the reasonable control of the Unit Operator 5  
6 whether similar to matters herein enumerated or not. 6  
7

8 26. NONDISCRIMINATION. In connection with the performance of work under this 8  
9 agreement, the Unit Operator agrees to comply with all the provisions of Section 202 9  
10 (1) to (7) inclusive of Executive Order 11246 (30 F. R. 12319), as amended, which 10  
11 are hereby incorporated by reference in this agreement. 11  
12

13 27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail 13  
14 and the true owner cannot be induced to join in this unit agreement, such tract shall 14  
15 be automatically regarded as not committed hereto, and there shall be such readjust- 15  
16 ment of future costs and benefits as may be required on account of the loss of such 16  
17 title. In the event of a dispute as to title to any royalty, working, interest, or 17  
18 other interests subject thereto, payment or delivery on account thereof may be with- 18  
19 held without liability for interest until the dispute is finally settled; provided, 19  
20 that, as to Federal lands or leases, no payments of funds due the United States shall 20  
21 be withheld, but such funds shall be deposited as directed by the AO, to be held as 21  
22 unearned money pending final settlement of the title dispute, and then applied as 22  
23 earned or returned in accordance with such final settlement. 23  
24

25 Unit Operator as such is relieved from any responsibility for any defect or failure 25  
26 of any title hereunder. 26  
27

28 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial inter- 28  
29 est in a tract within the unit area fails or refuses to subscribe or consent to this 29  
30 agreement, the owner of the working interest in that tract may withdraw the tract 30  
31 from this agreement by written notice delivered to the proper Bureau of Land 31  
32 Management office, the Division and the Unit Operator prior to the approval of this 32  
33 agreement by the AO. Any oil or gas interests in lands within the unit area not 33  
34 committed hereto prior to final approval may thereafter be committed hereto by the 34  
35 owner or owners thereof subscribing or consenting to this agreement, and, if the 35  
36 interest is a working interest, by the owner of such interest also subscribing to the 36  
37 unit operating agreement. After operations are commenced hereunder, the right of 37  
38 subsequent joinder, as provided in this section, by a working interest owner is 38  
39 subject to such requirements or approval(s), if any, pertaining to such joinder, as 39  
40 may be provided for in the unit operating agreement. After final approval hereof, 40  
41 joinder by a non-working interest owner must be consented to in writing by the 41  
42 working interest owner committed hereto and responsible for the payment of any 42  
43 benefits that may accrue hereunder in behalf of such non-working interest. A 43  
44 non-working interest may not be committed to this unit agreement unless the corre- 44  
45 sponding working interest is committed hereto. Joinder to the unit agreement by a 45  
46 working interest owner, at any time, must be accompanied by appropriate joinder to 46  
47 the unit operating agreement, in order for the interest to be regarded as committed 47  
48 to this agreement. Except as may otherwise herein be provided, subsequent joinders to 48  
49 this agreement shall be effective as of the date of the filing with the AO and the 49  
50 Division of duly executed counterparts of all or any papers necessary to establish 50  
51 effective commitment of any interest and/or tract to this agreement. 51  
52

53 29. COUNTERPARTS. This agreement may be executed in any number of counter- 53  
54 parts, no one of which needs to be executed by all parties, or may be ratified or 54  
55 consented to by separate instrument in writing specifically referring hereto and 55  
56 shall be binding upon all those parties who have executed such a counterpart, 56  
57 ratification, or consent hereto with the same force and effect as if all such parties 57  
58 had signed the same document and regardless of whether or not it is executed by all 58  
59 other parties owning or claiming an interest in the lands within the above-described 59  
60 unit area. 60

1 30. SPECIAL SURFACE STIPULATIONS. Nothing in this agreement shall modify the 1  
2 special Federal lease stipulations attached to the individual Federal oil and gas 2  
3 leases. 3  
4 4

5 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be exe- 5  
6 cuted and have set opposite their respective names the date of execution. 6  
7 7  
8 8

9 UNIT OPERATOR AND WORKING INTEREST OWNER 9

10 AMOCO PRODUCTION COMPANY 10  
11 11  
12 12  
13 13  
14 14

15 By \_\_\_\_\_ 15  
16 16  
17 17

18 Address: P. O. Box 800 18  
19 Denver, CO 80201 19  
20 20

21 Date of Execution: 21  
22 \_\_\_\_\_ 22  
23 23  
24 24

25 25  
26 STATE OF COLORADO ) 26  
27 ) ss. 27  
28 COUNTY OF DENVER ) 28  
29 29

30 On this \_\_\_\_\_ day of \_\_\_\_\_, 1986, before me appeared \_\_\_\_\_ 30  
31 \_\_\_\_\_, to me personally known, who, being by me duly sworn, did 31  
32 say that he is the \_\_\_\_\_ of \_\_\_\_\_ 32  
33 Amoco Production Company and that the seal affixed to said 33  
34 instrument is the corporate seal of said corporation, and that said instrument 34  
35 was signed and sealed in behalf of said corporation by authority of its board of 35  
36 directors, and said \_\_\_\_\_ 36  
37 acknowledged said instrument to be the free act and deed of said corporation. 37  
38 38

39 My Commission Expires: 39  
40 \_\_\_\_\_ 40  
41 \_\_\_\_\_ 41

42 Notary Public 42  
43 43  
44 44  
45 45  
46 46  
47 47  
48 48  
49 49  
50 50  
51 51  
52 52

53 OPERATOR SIGNATURE PAGE 53  
54 BEAR CANYON UNIT AREA 54  
55 RIO ARRIBA COUNTY, NEW MEXICO 55



# United States Department of the Interior

Bear Canyon Unit  
3180 (015)

## BUREAU OF LAND MANAGEMENT ALBUQUERQUE DISTRICT OFFICE

505 Marquette, N.W.  
P.O. Box 6770  
Albuquerque, New Mexico 87197-6770

JUL 23 1986

JUL 23 1986

Edmundson & Associates, Inc.  
ATTN: Paul Conner  
P.O. Box 1707  
Denver, CO 80202

Gentlemen:

Your application of June 13, 1986, filed with the District Manager, Albuquerque District Office, requests the designation of the Bear Canyon Unit Area, embracing 4800.00 acres, more or less, Rio Arriba County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended.

Pursuant to unit plan regulations 43 CFR 3180, the land requested as outlined on your plat marked "Exhibit "A", Bear Canyon Unit Area, Rio Arriba County, New Mexico" is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for a well to test the Morrison Formation, or to a depth of 8,300 feet. Your proposed use of the Form of Agreement for Unproved Areas will be accepted, provided section 11 is modified to account for the producing well in NW $\frac{1}{4}$ NW $\frac{1}{4}$  sec. 10, T. 26 N., R. 2 W. Enclosed is a copy of the wording which will need to be added to sec. 11 of the agreement.

If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office through the District Manager for preliminary approval.

In the absence of any other type of land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to any approval of any executed agreement submitted which, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

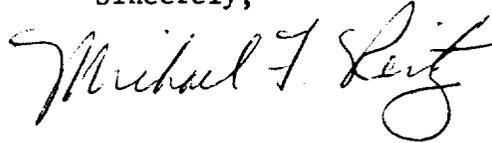
When the executed agreement is transmitted to the District Manager, Albuquerque, New Mexico, for approval, include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the 1983 reprint of the aforementioned form.

AMOCO PRODUCTION COMPANY  
Case 8998  
November 5, 1986  
Proposed Bear Canyon Unit  
Exhibit No. 2

Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the State.

If you have any questions, please contact Robert Kent at the above address or telephone (505) 766-2841.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael F. Leit". The signature is written in black ink and is positioned above the typed name.

District Manager

Enclosure

N. Drainage - Compensatory Royalty.

Section 17 of the model unit agreement provides that the unit operator will take such measures as are necessary to prevent drainage of unitized substances by wells on land not subject to the agreement. Accordingly, any producing nonunit well offsetting unitized land, regardless of the ownership of the land on which such well is located, subjects the unit to possible drainage. Prompt drilling of necessary unit protective wells and/or payment of an appropriate compensatory royalty, as determined by the authorized officer, may be required. Since payment of compensatory royalty by the unit operator is generally infeasible, this alternative should be accepted only as a last resort. Manual Handbook H-3160-2 provides additional guidelines concerning drainage determinations and computations. Communitization agreements that include unitized and nonunitized lands in conformity with State spacing requirements also may be utilized to remedy potential drainage situations.

O. Treatment of Existing Wells.

At times, producing or producible oil or gas wells may be present within the area proposed for unitization. When such wells indicate a discovery of questionable significance, the following paragraph should be added to Section 11, Participation After Discovery, of the model unit agreement for unproven Areas (43 CFR 3186.1):

Determination as to whether a well completed within the unit area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred, until an initial participating area is established as the result of the completion of a well for production of unitized substances in paying quantities in accordance with Section 9 hereof.

This determination should be made at the time the previously discovered well(s) is to be included in a participating area and should be based on the same criteria applied in making any paying well determination.

## H-3180-1 - UNITIZATION (EXPLORATORY)

Since most exploratory plans unitize all formations, the requirements for the initial unit test well under Section 9 should not be applied in determining whether the unit well being drilled qualifies all eligible leases for an extension. The only requirement for lease extension by drilling is that the unit well be diligently drilled to a potentially productive oil or gas horizon. However, if all formations are not covered by the agreement, then the unit well must be diligently drilled to a potentially productive oil or gas horizon covered by the unit agreement. If the well penetrates a potentially productive oil or gas formation but fails to reach a unitized horizon, then the lease containing the well can be extended. However, extension of other committed leases is not appropriate unless the operator establishes that further drilling is unwarranted.

2. Further Drilling and Development. The initial participating area under an exploratory unit agreement is established by the completion of the first unit well capable of producing unitized substances in paying quantities. After such discovery, further drilling or development is to take place under an approved plan of development (see paragraph G), except as may be necessary to protect the unit area from drainage. The drilling to discovery provisions in Section 9 of the model form of agreement permit the authorized officer to modify the drilling requirements by granting reasonable extensions of time when, in his opinion, such action is warranted. Such relief from drilling obligations will be granted only when justified by circumstances beyond the control of the unit operator, e.g., adverse weather conditions (see paragraph I).

3. Multiple Test Well. When the unit agreement incorporates a multiple well obligation, the operator is obligated to drill all required wells, regardless of the outcome of the initial or subsequent wells.

4. Producible Wells Prior to Unitization. Where producible wells exist in the unit area prior to unitization, Section 11 (Participation After-Discovery) of the model form of unit agreement should be modified to provide that wells completed prior to the effective date of the unit agreement will not be recognized as unit wells until after an initial participating area is established based on the completion of a unit well capable of producing unitized substances in paying quantities as defined under Section 9 of the unit agreement (see also paragraph O).