MERIDIAN OIL

Memorandum

To: Tommy Nusz

From: Tom F. Hawkins

Date: July 26, 1989

Location: Land Dept.
Farmington, NM

Re: GLA-46

Attached for use in your evaluation of the ownership under the referenced Agreement for possible acquisition are the following:

1. Exhibit "1" showing the breakout of the Umbach group ownership (8 owners).

2. Exhibit "2" showing the breakout of the DACRESA group ownership (13 owners).

3. Exhibit "3" showing the description and ownership under the fifty (50) leases covered by referenced Agreement.

4. Exhibit "4" showing the wells with all or a portion of the drillblock containing leases subject to the referenced Agreement (90 wells plus San Juan 32-9 Unit Participating Area Interests).

5. Company Strip Maps which have the 50 leases outlined.

GLA-46 is a Farmout and Operating Agreement dated November 27, 1951 between Brookhaven Oil Company and San Juan Production Company with each party originally having a one-half (1/2) interest. San Juan Production Company is now El Paso Production Company (EPPC) and has retained its one-half (1/2) interest. Brookhaven's interests are now owned by Amoco, Minatome, the Dacresa Group and the Umbach group with the ownership varying lease to lease.

The referenced Agreement contains an Operating Agreement dated November 27, 1951, which is attached as Exhibit "B" to the Farmout. An Accounting Procedure modeled after the PASO-1949-1 Form is attached as Exhibit "C" to the Farmout. The provisions of the Operating Agreement are definitely not standard. Under the Agreement:

1. EPPC furnishes rig, labor, equipment and materials necessary for drilling operations and has authority to determine the location, depth, manner and methods of drilling, completing and equipping each well.

2. EPPC carries Amoco, et.al., and recoups drilling costs, as limited below, out of 1/2 of each parties' net working interest. Production from one well shall not be used to repay drilling costs of another well.

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3. Drilling costs to be recouped from Amoco, et al., are limited on each formation and do not include casing. Casing is furnished by EPPC without reimbursement.

Pictured Cliffs	$16,500.00
Chacra	$14,275.00
Pictured Cliffs/Chacra	$19,170.00
Mesaverde	$45,000.00
Tertiary	$13,250.00

4. All costs of operating and reworking wells paid by each party with a $500 expenditure limit without partner approval.

The Agreement gives EPPC control of the acreage because the other parties have no way to propose and force wells to be drilled. However, EPPC is required to carry the other parties unless the Agreement is amended for each party to either join in the well or allow EPPC to recoup its proportionate share of the actual costs of the well. This is what was done on the Scott wells. Unfortunately, each time we wish to drill a well, we have to amend the Agreement.

An attempt in early 1988 to replace the old Operating Agreement with a modern 1982 form Agreement was not favorably received by Amoco or Minatome.

An acquisition of the small parties' interests would greatly facilitate the development of the acreage. Please advise if you need additional information.

Tom F Hawkins

TFH:jf

Attachments

Doc. #390+

cc: Steve Nance (memo only)
Kent Beers (memo only)
Dave Poage (memo only)

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