

# MERIDIAN OIL

December 7, 1987

To Working Interest Owners  
on the Attached List

Re: Farmout Agreement and  
Operating Agreement  
Brookhaven Oil Company & San Juan  
Production Company  
dated November 27, 1951  
San Juan County, New Mexico

Dear Interest Owner:

Our records indicate you are an owner of a working interest in the referenced well. Because of the present gas marketing conditions which exist, i.e. spot market programs, it is necessary that Gas Balancing provisions be included in the appropriate Operating Agreements.

This letter, when executed, shall evidence your consent to amend that certain Operating Agreement dated November 27, 1951, by including the attached Gas Balancing Agreement as an Exhibit to said Agreement. This Amendment to the Operating Agreement shall be effective April 1, 1986.

If you are in agreement with this proposal, please have an authorized representative execute below and return one (1) original of this letter to the address below. We would appreciate receiving your response as soon as possible.

Yours very truly,

*Tom F. Hawkins*

Tom F. Hawkins  
Senior Landman

TFH:tlm  
Attachment  
GLA-46  
Document 0860L

AGREED TO AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 1987.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Company: \_\_\_\_\_

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ADDITIONAL WORKING INTEREST OWNERS  
FARMOUT & OPERATING AGREEMENTS BROOKHAVEN OIL CO. &  
SAN JUAN PRODUCTION COMPANY DATED NOVEMBER 27, 1951

Estate of Paul H. Umbach  
c/o Mr. Robert Umbach, Executor  
Post Office Box 1648  
Boulder, Colorado 80306

Lowell White Family Trust  
c/o White & Steele, P.C.  
Attn: Mr. Walter A. Steele  
Suite 1400  
1120 Lincoln Street  
Denver, CO 80203

Mr. Walter A. Steele  
c/o White & Steele, P.C.  
Suite 1400  
1120 Lincoln Street  
Denver, CO 80203

Estate of G.W. Hannett  
c/o George Foster Hannett  
Hannett, Hannett & Cornish, P.A.  
P.O. Box 1849  
Albuquerque, NM 87103

T.G. Cornish  
Hannett, Hannett & Cornish, P.A.  
P.O. Box 1849  
Albuquerque, NM 87103

Patricia Hueter  
c/o George Foster Hannett  
Hannett, Hannett & Cornish, P.A.  
P.O. Box 1849  
Albuquerque, NM 87103

Mary Emily Voller  
c/o George Foster Hannett  
Hannett, Hannett & Cornish, P.A.  
P.O. Box 1849  
Albuquerque, NM 87103

A.T. Hannett, III  
c/o George Foster Hannett  
Hannett, Hannett & Cornish, P.A.  
P.O. Box 1849  
Albuquerque, NM 87103

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EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated \_\_\_\_\_  
Between \_\_\_\_\_

1.

In accordance with the terms of the Operating Agreement to which this Agreement is attached, each party shall take its share of oil and gas in kind and separately dispose of its proportionate share of the oil and gas produced from the wells on the leases within the Contract Area. In the event any party hereto fails, or is unable, to take and market its share of the gas as produced for any reason, the terms of this Agreement shall automatically become effective.

2.

As long as any gas produced from any of said wells is subject to the regulations of the Federal Energy Regulatory Commission (FERC), or any successor governmental authority, under any section of the Natural Gas Act, the Natural Gas Policy Act of 1978 (NGPA), or other statutory authority, which establishes maximum lawful prices for the gas, each party should receive its allocated share of the category of gas in accordance with its interest in production from said well. It is the intent of this Agreement that balancing of gas taken will be based upon the allocated volumes of each category of gas. Any deregulated gas shall be treated as a separate category for purposes of balancing.

3.

During any period or periods when a party fails, or is unable, to take and market its full share of gas produced, each of the other parties shall be entitled to but not obligated to, take and deliver to its purchaser its proportionate part of all of such gas production not taken by others. Each party failing to take or market its full share of the gas as produced shall be considered underproduced by a quantity of gas equal to its share of the gas produced from the lease, less such party's share of the gas taken by such party or in behalf of such party, vented, lost, or used in lease operations. Those parties which are capable of taking and marketing the underproduced quantity of gas allocable to an underproduced party, in the absence of any other agreement between them, shall each take a share of the gas attributed to each underproduced party in the direct proportion that said producing party's interest bears to the total interest of all parties taking underproduced gas and each of said producing parties shall be considered to be overproduced. All gas (including overproduction or make-up) taken and marketed by a party in accordance with the terms of this Agreement, regardless of whether such party is underproduced or overproduced, shall be regarded as gas taken for its own account with title thereto being in such party.

4.

All parties hereto shall share in and own the liquid hydrocarbons recovered from all gas by primary separation equipment prior to processing in a gas plant in accordance with their respective interests as specified in the above described Operating Agreement, whether or not such parties are actually producing and marketing gas at such time.

5.

The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities of gas each party is entitled to receive and the quantities of gas taken and marketed by each of the parties. For the sole purpose of implementing the terms of this Agreement and adjusting gas imbalances which may occur, each party disposing of gas from the lease in any month, to the extent required, shall furnish or cause to be furnished to the

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Operator by the last day of each calendar month a statement showing the total volume of gas sold by such party or taken in kind for its own account during the preceding calendar month (the "report period"). Within sixty (60) days after the end of each report period, the Operator shall furnish each party a statement showing the status of the overproduced and underproduced accounts of all parties. All gas volumes under this paragraph will be identified by the appropriate category provided under the NGPA or any other law or regulation in effect. In the event deregulation occurs, the gas volumes will be identified additionally in that category. Each party to this Gas Balancing Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

6.

Any party who is underproduced as to a given category of gas shall endeavor to bring its taking of gas of that category into balance. After written notice to the Operator, any party may begin taking and delivering to its purchaser(s) its full share of each category of gas produced. To allow for the recovery and make up of underproduced gas in a category and to balance the gas account for the interests, the underproduced party or parties for a category of gas shall after written notice to the Operator, also be entitled to take up to an additional fifty percent (50%) of the monthly quantity of that category of gas attributable to each overproduced party. In the event there is more than one underproduced or overproduced party, unless otherwise agreed, each underproduced or overproduced party's share of make-up gas shall be in the direct proportion of its interest to the total interests of all underproduced or overproduced parties taking or furnishing make-up gas. The first gas made up shall be assumed to be the first gas underproduced.

7.

If at the termination of gas production of a given category of gas, an imbalance exists between the parties, a monetary settlement of the imbalance between the parties shall be made within a reasonable length of time after such gas production permanently ceases. The amount of the monetary settlement will be limited to the proceeds actually received by each overproduced party at the time of overproduction, less royalties and taxes paid on such overproduction. If an overproduced party did not sell its gas but otherwise utilized such gas in its own operations, such gas will be valued at the maximum price which the overproduced party could have received for such gas at the time of overproduction under such party's sales contract, or, if none, the weighted average price received by all other parties for their gas sold at that time. That portion of the monies collected by each overproduced party which is subject to refund by orders of the FERC, may be withheld by the overproduced party until such prices are fully approved by the FERC, unless each underproduced party furnishes a bond or corporate undertaking agreement acceptable to the overproduced party to hold the overproduced party harmless from financial loss due to orders by the FERC.

8.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in operations, as its share thereof is set forth in the above described Operating Agreement.

9.

Each party shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually utilized or sold for its own account.

10.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full well stream for a period not to exceed seventy-two (72) hours to meet the deliverability test required by its purchaser.

11.

The parties recognize that at some time after the date of this Agreement, legislation, judicial decision(s) or executive action may cause part or all of the then remaining gas reserves subject to this Agreement to be deregulated and no longer be subject to Federal price regulation. If in such an event an imbalance exists between the parties as to a given category of gas which is deregulated, a monetary settlement of such imbalance between the parties shall be made. The amount of the monetary settlement will be limited to the proceeds actually received by each overproduced party at the time of overproduction, less royalties and taxes paid on such overproduction, up to and including the date deregulation occurs. After such monetary settlement has been fully made for any imbalance that existed for a given category of gas on the date of price deregulation, this Agreement shall continue to apply to all gas produced from lands covered by the Operating Agreement.

12.

Nothing herein shall be construed as ever altering, amending or negating any agreement heretofore entered into by any party hereto obligating such party to pay any overriding royalty, payment out of production or royalties payable under any lease out of its interest regardless of whether such party is or is not taking or selling its full share of production.

13.

This Agreement shall remain in force and effect as long as the Operating Agreement is in effect and thereafter until the gas balance accounts between the parties are settled in full and shall accrue to the benefit and be binding upon the parties hereto, their successors, representatives, and assigns.