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MELROSE OPERATING COMPANY

ARTESIA UNIT

WELLS # 2, 3, 10, 11, 12, 13, 16, 17,
18, 19, 44, 46, 54 & 57

SECTIONS 26, 35, 36, T17S, R28E
SECTION 3, T18S, R28E

EDDY COUNTY, NEW MEXICO

*WATERFLOOD EXPANSION
APPLICATION*

NMOCD: DOCKET NUMBER 2901

SEPTEMBER 6, 2001

		NORTHWEST SHELF		PERMIAN HINGE BELT		DELAWARE BASIN		CENTRAL BASIN PLATFORM	
PERMIAN	CHOCOA	RUSTLER	Cowden	RUSTLER	Cowden	RUSTLER		RUSTLER	
		SALADO		SALADO		SALADO		SALADO	Cowden
		TANSILL		TANSILL		CASTILE		TANSILL	
		YATES		1st Zone YATES		BELL	Lamar Ramsey Ford Olds	YATES	Yates
GUADALUPE		SEVEN RIVERS	Bowers	SEVEN RIVERS	Bowers	CANYON		SEVEN RIVERS	SR4 Bowers Sand
		QUEEN	Artesia	2nd Zone	Artesia	CHERRY	Manzanilla	QUEEN	Artesia
		GRAYBURG	Penrose	3rd Zone	Penrose	CANYON		GRAYBURG	Penrose
		SAN ANDRES	Loco Hills Melox Premier	4th Zone					
LEONARD			Lovington	5th Zone					
			Slaughter	6th Zone					
		GLORIETA		7th Zone	CHERRY	BRUSHY CANYON			
		PADDOCK		8th Zone					
WOLF		BLINEBRY (U. Clearfork)		9th Zone					
		TUBB (Sandy Lime)		3th Massive Zone					
		DRINKARD (L. Clearfork)							
		ABO							
PENN		WOLF CAMP	Hueco Bough A Bough B Bough C	WOLF CAMP	Saunders	WOLF CAMP		WOLF CAMP	Hueco Bough
		CISCO		CISCO		CISCO		CISCO	
		CANYON		CANYON		CANYON		CANYON	
		STRAWN		STRAWN		STRAWN		STRAWN	
MISS		ATOKA		ATOKA		ATOKA		ATOKA	
		MORROW (Bend)		MORROW (Bend)		MORROW (Bend)		MORROW	
		BARNETT		BARNETT		BARNETT		BARNETT	
		RANCHERIA		RANCHERIA		RANCHERIA		MISS.	
ORDOV		LAKE VALLEY		LAKE VALLEY		LAKE VALLEY		WOODFORD	
		WOODFORD		WOODFORD		WOODFORD		DEVONIAN	
		DEVONIAN		DEVONIAN		DEVONIAN		FUSSELMAN	
		FUSSELMAN		FUSSELMAN		FUSSELMAN		MONTOYA	
CORRELY ON CHOCOA		MONTOYA		MONTOYA		MONTOYA		SIMPSON	
		SIMPSON		SIMPSON		SIMPSON		ELLENBURGER	
		ELLENBURGER		ELLENBURGER		ELLENBURGER		GRANITE	
		GRANITE		GRANITE		GRANITE		GRANITE	

CORRELY ON CHOCOA
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2. DEFINITIONS. For the purpose of this agreement, the following terms and expressions as used herein shall mean:

(a) "Commission" means the Oil Conservation Commission of the State of New Mexico.

(b) "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

(c) "Royalty Interest" or "Royalty" means an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profits contract, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(d) "Royalty Owner" means the owner of a Royalty Interest.

(e) "Tract" means each parcel of land described as such and given a Tract number in Exhibit "B".

(f) "Tract Participation" means the percentage of Unitized Substances allocated to a Tract under this agreement as shown in Exhibit "B".

(g) "Unit Area" means the land shown on Exhibit "A", and described by Tracts in Exhibit "B", containing 2,240.78 acres, more or less.

(h) "Unit Operating Agreement" means any agreement or agreements, whether one or more, entered into either separately or collectively by and between the Unit Operator and the Working Interest Owners, as provided in Section 9, ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT, and shall be styled "Unit Operating Agreement for the Development and Operation of the Artesia Unit Area, County of Eddy, State of New Mexico."

(i) "Unit Participation" means the sum of all Tract Participations or portions thereof which a party is entitled to receive.

(j) "Unitized Formation" means that inclusive subsurface portion throughout the Unit Area of the Queen-Grayburg-San Andres formations as such formations occur between the depth interval measured from the kelly bushing, of 1680 feet and 2700 feet in the Olen F. Featherstone State Well No. 7 as shown on the Schlumberger Gamma-Neutron log of said well which is located in the SW/4 of the SW/4 of Section 2, Township 18 South, Range 28 East, Eddy County, New Mexico.

(k) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

(l) "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, carried interest or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.