

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

NMOCD – ACOI- 232

IN THE MATTER OF QUANTUM RESOURCES MANAGEMENT, LLC,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Quantum Resources Management, LLC ("Quantum" or "Operator") enter into this Inactive Well Agreed Compliance Order ("Order").

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Quantum is a limited liability company operating wells in New Mexico under OGRID 243874.
3. Quantum is seeking to become operator of record of wells currently operated by Melrose Operating Company ("Melrose").
4. The OCD has identified compliance issues with Melrose wells, including injection over permitted pressure, spills and releases that have not been remediated, pits that must be closed, mechanical integrity test failures, regulatory filing issues, and wells in violation of the inactive well rule (19.15.25.8 NMAC). Exhibit A is a letter from the OCD to Melrose, dated December 7, 2010, describing the OCD's compliance findings.
5. Quantum has met with the OCD regarding the compliance issues the OCD identified with the Melrose wells, and Quantum has conducted its own inspections of the well sites.
6. Quantum understands that the Melrose wells identified in the well list attached to this Order are currently out of compliance with the inactive well rule (19.15.25.8 NMAC) or will fall out of compliance with the inactive well rule in the next three months. Quantum further understands that if it is operator of record for wells in violation of the inactive well rule that are not subject to an agreed compliance order setting a schedule for returning the wells to compliance with the inactive

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well rule and imposing sanctions if the schedule is not met, it may be in violation of Part 5.9 (19.15.5.9 NMAC). If an operator is in violation of Part 5.9, the OCD may deny well transfers to that operator (19.15.9.9 NMAC), may deny applications for permits to drill from that operator (19.15.14.10.A NMAC), must deny requests for allowables and authorizations to transport from that operator (19.15.16.19.A NMAC), and must deny injection permits to that operator (19.15.26.8.A NMAC). The OCD may also revoke a permit for injection after notice and hearing if the operator is not in compliance with Part 5.9. See 19.15.26.8 NMAC.

7. Quantum understands that if it conducts injection activity pursuant to an injection permit, it must comply with every term, condition and provision of the permit. See 19.15.5.11 NMAC. Quantum understands that it must comply with the rules governing injection wells in New Mexico, which are set out in 19.15.26 NMAC. Quantum further understands that if it does not resolve the compliance issues related to the injection wells it acquires from Melrose, the OCD may file an application for hearing seeking an order amending or revoking the applicable injection permits.
8. Quantum understands that if it does not address environmental compliance issues at the sites of wells it acquires from Melrose, including remediation of contamination and pit closures, the OCD may file applications for hearing seeking orders requiring corrective action. If an operator fails to comply with an order requiring corrective action the OCD, after notice and hearing, may enter an order finding the operator in violation of Part 5.9. See 19.15.5.9.D NMAC.

CONCLUSIONS

1. Quantum and the OCD enter into this Order to provide a path forward for resolving the compliance issues with the wells Quantum may acquire from Melrose.
2. Quantum and the OCD agree that if Quantum becomes operator of record for wells currently operated by Melrose,
 - Quantum should provide the OCD with a written report by March 4, 2011 regarding the outstanding compliance issues, and Quantum's plan for addressing those issues; and
 - The OCD will remove the wells identified in the well list attached to this Order from the inactive well list for Quantum until April 4, 2011, and until April 4, 2011 those wells will not be included when determining Quantum's compliance with Part 5.9.
3. If Quantum submits a timely written report identifying the outstanding compliance issues and Quantum's plan for addressing those issues, Quantum and the OCD will use the period between March 4, 2011 and April 4, 2011 to enter

into good faith negotiations for a compliance order setting a schedule for addressing the outstanding compliance issues.

ORDER

1. Quantum agrees that if it becomes operator of record of wells currently operated by Melrose, by **March 4, 2011**, it shall submit a written report containing the information described below to the OCD's Compliance and Enforcement Manager in the OCD's Santa Fe office, and provide a copy of the report to the supervisor of the OCD's Hobbs District Office and the supervisor of the OCD's Artesia District Office. The report may be submitted electronically.
2. The written report shall address the following:
 - a) **Injection pressure issues.** Quantum shall report on step-rate tests conducted to gather data for applications for field- or unit- based injection pressure orders for the Cone Jalmat Yates Pool Unit and the Jalmat Field Yates Sand Unit, if Quantum becomes operator of record for those units. Quantum shall review any other injection wells acquired from Melrose to determine if it will be applying for field- or unit- based injection pressure orders for those wells. Quantum shall report on its findings and propose a timeline for filing any applications to amend existing injection permits. The compliance goal is for Quantum to establish and comply with appropriate injection pressure limits for all injection wells it acquires from Melrose.
 - b) **Mechanical integrity test issues.** Quantum shall report on all unresolved mechanical integrity test failures related to injection wells acquired from Melrose. If unresolved issues remain, Quantum will propose a timeline for resolving those issues. The compliance goal is that any injection well Quantum acquired from Melrose that failed a mechanical integrity test be repaired so it passes a mechanical integrity test, or is plugged.
 - c) **Environmental issues.** Quantum shall provide an inventory of the environmental issues associated with the wells it acquires from Melrose, including but not limited to the environmental cases and pit closure issues described in the December 7, 2010 letter attached to this Order as Exhibit A. The inventory should identify the current status of each case or project, and what actions Quantum will take to resolve each case or project. Melrose should propose a timeline for resolving all open cases or projects. The compliance goal is for all Melrose sites acquired by Quantum that require remediation or pit closures to be remediated or closed in accordance with applicable statutes and rules.
 - d) **Inactive well issues.** Quantum shall provide a plan for repairing or plugging the Artesia Unit #2, 30-015-01563, with a proposed timeline for completing the work. Quantum shall also propose a plan for addressing the remaining inactive wells it

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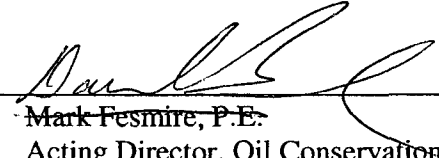
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acquires from Melrose, giving priority to those state or fee wells that have been inactive for more than twenty years. The compliance goal is to for Quantum to return all Melrose wells it acquires to compliance with the inactive well rule, giving priority to the Artesia Unit #2 and those additional state or fee wells that have been inactive more than twenty years.

3. The OCD agrees that until April 4, 2011, it will remove the wells identified in the attached well list from the inactive well list for Quantum, and until April 4, 2011 those wells will not be included when determining Quantum's compliance with Paragraph 4, Subsection A of Part 5.9. On April 4, 2011 any well identified in the attached well list that is operated by Quantum that remains inactive will reappear on the inactive well list for Quantum.
4. Quantum and the OCD agree that if Quantum submits a timely and complete report, they will enter into good faith negotiations for an agreed compliance order establishing a schedule for returning non-compliant wells acquired from Melrose to compliance. Whether to enter into such an order and the terms of such an order shall be within the discretion of the OCD, taking into consideration the following:
 - a) Whether Quantum submitted a timely and complete report;
 - b) Whether Quantum has proposed plans for returning wells to compliance that demonstrate a good-faith effort to obtain compliance in a reasonable amount of time;
 - c) What actions Quantum has taken to return wells to compliance (the OCD encourages Quantum to take steps beyond those specifically required in this Order to demonstrate its good faith in attempting to reach its compliance goals); and
 - d) Whether Quantum is in compliance with OCD rules, including rules relating to regulatory filings and financial assurances.
5. By signing this Order, Quantum expressly:
 - a) acknowledges the correctness of the Findings and Conclusions set forth in this Order; and
 - b) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order.
6. The OCD reserves the right to file an application for hearing to obtain authority to plug any well and forfeit the applicable financial assurance if the well poses an immediate environmental threat.
7. The OCD reserves the right to file applications for hearing to enforce provisions in existing injection permits, or to amend existing injection permits.
8. If Quantum does not become operator of record of wells currently operated by Melrose, this Order shall have no effect.

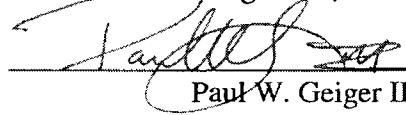
Done at Santa Fe, New Mexico this 14th day of January 2011.

By: 
Mark Fesmire, P.E.
Acting Director, Oil Conservation Division

ACCEPTANCE

Quantum Resources Management, LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Quantum Resources Management, LLC

By: 
Paul W. Geiger III
Vice President – Operations
January 12, 2011

Well List

2	30-015-01563	ARTESIA UNIT #002	M-26-17S-28E	M	184860	MELROSE OPERATING COMPANY	S O 08/1983		
2	30-015-01567	ARTESIA UNIT #005	P-26-17S-28E	P	184860	MELROSE OPERATING COMPANY	S O 04/2008	PREMIER	T 10/19/2007
2	30-015-02545	ARTESIA UNIT #047	G-3 -18S-28E	G	184860	MELROSE OPERATING COMPANY	S I 03/2008		
2	30-015-20327	ARTESIA UNIT #067	K-3 -18S-28E	K	184860	MELROSE OPERATING COMPANY	S I 06/2009		T 6/12/2009
1	30-025-08634	CONE JALMAT YATES POOL UNIT #401	I-23-22S-35E	I	184860	MELROSE OPERATING COMPANY	S O 09/2009		
1	30-025-08654	CONE JALMAT YATES POOL UNIT #605	I-24-22S-35E	I	184860	MELROSE OPERATING COMPANY	S O 09/2009		
2	30-015-01836	DUNN B FEDERAL #027	I-12-18S-28E	I	184860	MELROSE OPERATING COMPANY	F I 04/2009		
2	30-015-10293	DUNN B FEDERAL #030	K-11-18S-28E	K	184860	MELROSE OPERATING COMPANY	F I 04/2009		
1	30-025-08580	JALMAT FIELD YATES SAND UNIT #103	B-10-22S-35E	B	184860	MELROSE OPERATING COMPANY	S I 12/1988	TA EXP 10/18/10	T 10/18/2010
1	30-025-08587	JALMAT FIELD	H-11-22S-35E	H	184860	MELROSE	S I 10/2009		

		YATES SAND UNIT #108		OPERATING COMPANY			
1	30-025-08601	JALMAT FIELD YATES SAND UNIT #116	L-12-22S-35E L	184860	MELROSE OPERATING COMPANY	S O	03/2007
1	30-025-36972	JALMAT FIELD YATES SAND UNIT #207	M-14-22S-35E M	184860	MELROSE OPERATING COMPANY	S O	05/2009 YATES
1	30-025-28063	JF JANDA NCT-L #001	D-36-22S-35E D	184860	MELROSE OPERATING COMPANY	S O	04/1986
2	30-015-02007	MERSHON STATE #002	D-21-18S-28E D	184860	MELROSE OPERATING COMPANY	S O	03/2008
1	30-025-03192	NORTHEAST PEARL QUEEN UNIT #006	D-23-19S-35E D	184860	MELROSE OPERATING COMPANY	S O	05/2008
2	30-015-01856	STATE 14 B #004	E-14-18S-28E E	184860	MELROSE OPERATING COMPANY	S O	11/2009
2	30-015-02054	STATE 647 AC 711 #100	A-27-18S-28E A	184860	MELROSE OPERATING COMPANY	S I	04/2008 T 1/3/2008
2	30-015-10182	STATE 647 AC 711 #200	M-23-18S-28E M	184860	MELROSE OPERATING COMPANY	S O	02/1997
2	30-015-01877	STATE 647 AC 713 #115	O-15-18S-28E O	184860	MELROSE OPERATING COMPANY	S O	08/2008
2	30-015-01880	STATE E 1286 #126	D-15-18S-28E D	184860	MELROSE OPERATING COMPANY	S O	01/1994 T 10/19/2009
2	30-015-20103	VANDEVENTER STATE #002	B-20-18S-28E B	184860	MELROSE OPERATING COMPANY	S O	01/1985
2	30-015-01959	WESTERN YATES STATE #001	F-20-18S-28E F	184860	MELROSE OPERATING COMPANY	S O	03/2007
2	30-015-01960	WESTERN YATES STATE #002	E-20-18S-28E E	184860	MELROSE OPERATING COMPANY	S O	09/2006 REMEDIAL WORK 11/24/2010

WHERE Ogrid:184860, County:All, District:All, Township:All, Range:All, Section:All, Production(months):12, Includes Wells Under ACOI, Excludes Wells in Approved TA Period

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson

Governor

Jim Noel

Cabinet Secretary

Karen W. Garcia

Deputy Cabinet Secretary

Mark Fesmire

Division Director

Oil Conservation Division



December 7, 2010

Mr. Barry Archer

20333 State Highway 249, Suite 310

Houston, TX 77070

e-mail: barcher@melroseenergy.com

Re: Melrose Operating Company, OGRID 184860

Dear Mr. Archer,

I want to thank you and your consultant, David Catanach, for meeting with me and other representatives of the Oil Conservation Division (OCD) on November 30, 2010 to review outstanding compliance issues for Melrose Operating Company (Melrose). I have prepared the following synopsis of the issues we discussed. Please note that the OCD has not conducted a complete compliance audit of Melrose's operations, and this list is not intended to be a complete list of Melrose's compliance violations.

During our meeting you confirmed that Quantum Resources Management, LLC is in the process of acquiring Melrose's wells. I am providing the attorney for Quantum, Mr. Earl DeBrine, with a copy of this letter.

1. ENVIRONMENTAL CASES.

Both the Hobbs District and the Artesia District reported a number of open environmental violations for Melrose. While some of the violations are recent, others have been open and unresolved for years. Melrose needs to consult with the appropriate district in each case to determine the action it needs to take. Please remember that 19.15.29 NMAC requires the operator to file a C-141 to notify the OCD of unauthorized release and to complete corrective action for the release according to a remediation plan approved by the OCD. It is important for the operator to document the work it does pursuant to its approved plan – otherwise the OCD may require the operator to take additional actions to prove that the site is remediated.

- a. Northeast Pearl Queen Central Tank Battery, D-23-19S-35E, 330' FNL & 660' FWL, Hobbs District. On November 15, 2010 OCD inspectors found a leak that appeared to originate at the header at the north end of the tank battery. The soil at and surrounding the header and treater are saturated with oil and produced water. The trail of saturation extends past the bermed area at the north end and northeast corner of the site and flows north and down slope for approximately 200', at which point it crosses the east-west lease road and continues into the pasture for approximately 300'. There is evidence that

fresh caliche was placed on top of the release. OCD's Hobbs District Office has instructed Melrose to submit a C-141 for the site and to delineate and remediate the contamination.

- b. Drilling pit northeast of Northeast Pearl Queen Unit #10, 30-025-20983, 24-19S-35E, 990' FNL & 330' FWL, Hobbs District. On November 15, 2010 OCD inspectors found what appears to be an old drilling pit located between two Melrose wells. The pit is approximately 30' x 40' x 5', and surrounding by barbed wire. The unlined pit contains oilfield waste, including black tar deposits, tubing and steel barrels. Oilfield waste must be properly disposed of at a permitted facility. See 19.15.34.11 and 19.15.34.13 NMAC. Melrose must submit a C-144 and close the pit appropriately. Please note that on July 12, 2005 the Hobbs District Office issued a notice of violation to Melrose regarding this pit and directing Melrose to close the pit.
- c. Northeast Pearl Queen Unit #19, 30-025-03199, K-23-19S-35E, 1980' FSL & 2180' FWL, Hobbs District. On November 15, 2010 OCD inspectors found a stuffing box leaking produced water. No sign is present to identify the well, but the name on the control box indicates that the well is a Melrose-operated well. A search of OCD records identified the well as the Melrose Northeast Pearl Queen Unit #19. The OCD Hobbs District Office has instructed Melrose to file a C-141 reporting the release, and to submit a plan to delineate and remediate the contamination. Please note that in 2002 the OCD issued a letter of violation to Melrose regarding a hole in the casing of this well, which was allowing oil to accumulate in an unlined pit. At that time, the OCD instructed Melrose to skim the oil from the pit, drain the pit and remediate the site. OCD has no record of any remediation plan for the site.
- d. Northeast Pearl Queen Unit #9, 30-025-21114, A-23-19S-35E, Hobbs District. On July 20, 2005, the Hobbs District Office issued a letter of violation directing Melrose to close an unlined pit at the location. OCD records show no action taken to close the pit.
- e. CJYPU #605, 30-025-08654, Hobbs District. 1RP-09-11-2318. A flowline leak occurred in 2009; the district has not received closure documentation.
- f. JFYSU WIP Well #222, 30-025-38875, Hobbs District. 1RP-1990. A leak occurred at a water injection pump in 2008; the district has not received closure documentation.
- g. Artesia UT 023, 30-015-01746, Artesia District. A field inspector issued a letter of violation dated 9/22/09 requesting a C-141 be submitted for an observed leak at the well head. We have no record of receiving the C-141, or of any remedial actions being taken. Unless Melrose can provide documentation of work having been done and analytical data showing that the site has been cleaned up, the OCD will request that samples be taken from the release area and submitted for analysis. The results of the analytical tests will determine the remediation to be performed. If there is visible evidence of contamination at the well head area, Melrose could elect to remove that material and then obtain samples.
- h. State E 1286 #109, 30-015-01876, Artesia District. Three violations are open at this site – two from 2005 and the third as the result of a field inspection on 6/13/2008. The violations appear to be associated with the tank battery area. We have analytical data dated 11/24/08 and an RBDMS inspection entry on 12/11/08 referencing the analytical data and indicating that the operator would be required to submit a remediation plan and haul some stockpiled material to disposal. The OCD suggests a site visit and a review

of the available data. Melrose may be required to obtain recent analytical data; further remediation may be required.

- i. Dunn B Fed. 046, 30-015-28247, Artesia District. The violation was opened on 3/2/2005 as a result of a release at the wellhead. RBDMS entries indicate some remedial work was performed, but also indicate the need for analytical data from blended material used for a berm on the south side of the well site. The OCD suggests a site visit and may require samples be obtained for analyses from the referenced berm area.
- j. Artesia UT 058, 30-015-01791, Artesia District. The violation was opened on 3/24/2005 as a result of a field inspection identifying an open workover pit and what appeared to be chloride impact on the south side of the location. An inspection record on 2/7/2006 indicates no action had been taken to bring the well into compliance. A C-144 was received on 2/2/2005 to register the pit, but was not approved. OCD suggests a site visit and may require samples be taken for analyses.
- k. Dunn B Fed 021, 30-015-01826, Artesia District. The violation was opened on 4/29/2005 as a result of a leak at the well head. The inspection record indicates that the OCD met on site with Garrett Newton. Mr. Newton agreed to remove contaminated materials while performing remediation on the Dunn B 046 site. There is no indication that remedial work was performed on the 021 site. OCD suggests a site visit and may require samples be taken for analyses.
- l. Dunn B Fed 014, 30-015-06114, Artesia District. The violation was opened on 5/18/2005 as a result of leaks at the wellhead which had allowed produced fluids to pool at the wellhead and run east across the location into an adjacent pasture. There is no documentation of any remedial work being done. The OCD suggests a site visit and may require samples be taken for analyses.
- m. Leonard B Fed. 4, 30-015-03221, Artesia District. The violation was opened on 9/28/2009 by a field inspector identifying a new hydrocarbon release at the wellhead area. The OCD requested Melrose to submit a C-141. There is no indication a C-141 was submitted or that any remedial work was performed. The OCD suggests that samples be obtained at the wellhead area for analyses, and that remediation be based on the results.
- n. State 647 AC 711-027, 30-015-02071, Artesia District. The site had what appears to be an ongoing remediation from a release reported 6/27/08. The operator had been approved to use a chemical to "remediate" chlorides. A letter to the operator indicates samples were to have been taken prior to application, and then twice over a 6 week period. If no acceptable drop in chloride levels was seen, the site was to be excavated. There is no analytical data of any kind in the file. Another violation was opened for this well site on 9/29/09 identifying "contaminated soils as a result of what appears to multiple leaks." OCD suggests samples be obtained from all identified areas of release for analyses, with remedial work to be based on the results.
- o. Conoco 7 State 003, 30-015-23694, Artesia District. An OCD inspector identified a large spill on 9/3/2009. The operator submitted a C-141 and began site remediation. The file is very large, but there was a closure report filed dated 3/4/2010 by Whole Earth Environmental, and a Final Report C-141 dated 3/12/2010. The OCD needs to review file to determine if it can be closed.

- p. Artesia Unit Battery Transfer Line, Artesia District. Melrose is currently working on a remediation project for the Artesia Unit Battery Transfer Line.

2. PIT CLOSURES.

Melrose is working with the Hobbs District on a special project to address pit closure issues. The District reports that Melrose has completed the required work on some of the wells, and is working on others. I've attached a chart prepared by the district that identifies the 41 wells at issue.

3. INJECTION OVER PERMITTED PRESSURE.

Both the Hobbs District and the Artesia District reported that Melrose has repeatedly injected over the pressure limits imposed by its injection permits, despite warnings from the OCD. **Injection at pressures exceeding the pressure limit set by permit is injection without authority. If a well cannot inject at or below the pressure limit set by its permit, the well must be shut in. If Melrose continues to violate the terms of its injection permits, the OCD will file an application for hearing seeking cancellation of Melrose's injection permits.**

Melrose may apply for an increase in its pressure limit by following the procedure set out in 19.15.26.11.C NMAC. Please note that **whenever an operator conducts a step-rate test for the purpose of increasing an authorized pressure limit, the operator must give notice of the date and time of the test in advance to the appropriate division district office.** 19.15.26.11.C(1) NMAC.

The following is a **partial** list of the wells identified by the districts as having injection pressure issues. **Please note that this list is not intended to be a complete list of all wells that are or have been in violation of pressure limits. Melrose should review each of its injection wells to determine the permitted pressure, and ensure that it is not injecting over pressure. Melrose should also determine if the permit requires a pressure limiting device – if it does, Melrose must install such a device.**

- a. Artesia Unit 001, 30-015-01564 (not injecting in 2010)
- b. Artesia Unit 046, 30-015-02541
- c. Artesia Unit 053, 30-015-01801
- d. Guajalote SWD State 002, 30-015-24930 (not injecting in 2010)
- e. Jalmat Field Yates Sand Unit (JFYSU) 121, 30-025-08588
- f. JFYSU #113, 30-025-08589 (has corrected)
- g. JFYSU #109, 30-025-08594
- h. JFYSU #106, 30-025-08595
- i. JFYSU #220, 30-025-37174
- j. JFYSU #221, 30-025-37240
- k. JFYSU #159, 30-025-38868 (has corrected)
- l. JFYSU #182, 30-025-38871
- m. JFYSU #195, 30-025-38874 (has corrected)
- n. JYYSU#222, 30-025-38875

4. MIT ISSUES.

Both the Hobbs District and the Artesia District reported that Melrose had experienced MIT failures, but that Melrose is addressing the issues. Note that the following MIT failures still require corrective action:

- a. Dunn B Federal #006, 30-015-01832
- b. Dunn B Federal #018, 30-015-01825
- c. Dunn B Federal #030, 30-015-10293
- d. State 647 AC 721, 30-015-10782

5. INACTIVE WELL ISSUES.

Currently 20 Melrose wells appear on the inactive well list kept pursuant to 19.15.5.9 NMAC as wells that are out of compliance with the inactive well rule, 19.15.25.8 NMAC. As an operator of 445 wells, Melrose can have no more than 5 wells out of compliance with the inactive well rule and still be in compliance with 19.15.5.9 NMAC (Part 5.9). While Melrose is out of compliance with Part 5.9, the OCD may deny well transfers to Melrose and APD applications. And the OCD must deny injection permits and requests for allowables and authorizations to transport.

In August 2010, Melrose entered into Inactive Well Agreed Compliance Order 267 (ACOI 267), for the purpose of allowing Melrose to obtain allowables and authorizations to transport on certain wells despite its non-compliance with Part 5.9. ACOI 267 requires Melrose to return a total of 6 wells to compliance by February 1, 2011. While Melrose has returned some wells to compliance, it has allowed additional wells to fall out of compliance.

The following wells are currently out of compliance with the inactive well rule:

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
2	30-015-01564	ARTESIA UNIT #001	L-26-17S-28E	L	184860	MELROSE OPERATING COMPANY	S	I	06/2009			
2	30-015-01563	ARTESIA UNIT #002	M-26-17S-28E	M	184860	MELROSE OPERATING COMPANY	S	O	08/1983			
2	30-015-01567	ARTESIA UNIT #005	P-26-17S-28E	P	184860	MELROSE OPERATING COMPANY	S	O	04/2008	PREMIER	T	10/19/2007
2	30-015-02545	ARTESIA UNIT #047	G-3-18S-28E	G	184860	MELROSE OPERATING COMPANY	S	I	03/2008			
2	30-015-20327	ARTESIA UNIT #067	K-3-18S-28E	K	184860	MELROSE OPERATING COMPANY	S	I	06/2009		T	6/12/2009
2	30-015-01836	DUNN B FEDERAL #027	I-12-18S-28E	I	184860	MELROSE OPERATING COMPANY	F	I	04/2009			
2	30-015-10293	DUNN B FEDERAL #030	K-11-18S-28E	K	184860	MELROSE OPERATING COMPANY	F	I	04/2009			
1	30-025-08580	JALMAT FIELD YATES SAND UNIT #103	B-10-22S-35E	B	184860	MELROSE OPERATING COMPANY	S	I	12/1988	TA EXP 10/18/10	T	10/18/2010
1	30-025-08601	JALMAT FIELD YATES SAND UNIT #116	L-12-22S-35E	L	184860	MELROSE OPERATING COMPANY	S	O	03/2007			
1	30-025-36972	JALMAT FIELD YATES SAND UNIT #207	M-14-22S-35E	M	184860	MELROSE OPERATING COMPANY	S	O	05/2009	YATES		
1	30-025-28063	JF JANDA NCT-L #001	D-36-22S-35E	D	184860	MELROSE OPERATING COMPANY	S	O	04/1986			
2	30-015-02007	MERSON STATE #002	D-21-18S-28E	D	184860	MELROSE OPERATING COMPANY	S	O	03/2008			

1	30-025-03192	NORTHEAST PEARL QUEEN UNIT #006	D-23-19S-35E	D	184860	MELROSE OPERATING COMPANY	S	O	05/2008		
2	30-015-02054	STATE 647 AC 711 #100	A-27-18S-28E	A	184860	MELROSE OPERATING COMPANY	S	J	04/2008	T	1/3/2008
2	30-015-10182	STATE 647 AC 711 #200	M-23-18S-28E	M	184860	MELROSE OPERATING COMPANY	S	O	02/1997		
2	30-015-01877	STATE 647 AC 713 #115	O-15-18S-28E	O	184860	MELROSE OPERATING COMPANY	S	O	08/2008		
2	30-015-01880	STATE E 1286 #126	D-15-18S-28E	D	184860	MELROSE OPERATING COMPANY	S	O	01/1994	T	10/19/2009
2	30-015-01959	WESTERN YATES STATE #001	F-20-18S-28E	F	184860	MELROSE OPERATING COMPANY	S	O	03/2007		
2	30-015-01960	WESTERN YATES STATE #002	E-20-18S-28E	E	184860	MELROSE OPERATING COMPANY	S	O	09/2006		

Four of the wells are state or fee wells that have been inactive for more than twenty years:

- Vandeventer State #002, 30-015-20103
- JF Janda NCT-L #001, 30-025-28063
- Jalmat Field Yates Sand Unit #103, 30-025-08580
- Artesia Unit #2, 30-015-01563

These four wells will be subject to the OCD's new enforcement project that seeks to review and return to compliance state and fee wells that have been inactive for more than 20 years. If Melrose does not return the wells to compliance or propose an acceptable plan for bringing the wells into compliance, the OCD will file an application for hearing seeking an order requiring Melrose to plug the wells, and authorizing the OCD to plug the wells and forfeit the applicable financial assurance if Melrose fails to plug the wells.

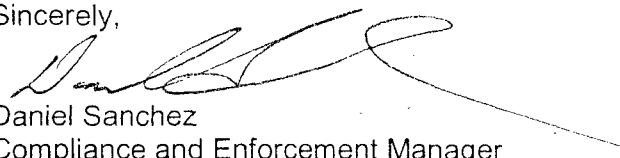
Please remember that the OCD is authorized by statute to seek reimbursement from an operator for plugging and remediation expenses incurred by the state that exceed the amount recovered under the applicable financial assurances. See NMSA 1978, Section 70-2-14 and Section 70-2-38.

One of these wells, the Artesia Unit #2, poses a special challenge: the well is located under the main distribution line for Central Valley Electric. An OCD inspector recently inspected the well, and found it to be leaking gas from the wellhead. **Melrose must immediately repair or plug the well.**

6. REGULATORY FILING ISSUES.

Melrose has also been working with the Hobbs District Office to correct its regulatory filings. The District Office reports that it is pleased with the progress Melrose is making.

Sincerely,



Daniel Sanchez
Compliance and Enforcement Manager
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December 7, 2010

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Ec: Gail MacQuesten, OCD Attorney
Larry "Buddy" Hill, Supervisor, Hobbs District
Randy Dade, Supervisor, Artesia District
Earl DeBrine, Attorney for Quantum Resources Management, LLC

Jalmat/Cone Pits Program

Months	June		July		August		September		October		November		December		Job Description
Weeks	2	4	6	8	10	12	14	16	18	20	22	24	26	28	
	222														COMPLETE
	225														COMPLETE
	226														COMPLETE
	227														COMPLETE
	228														COMPLETE
	231														COMPLETE
	232														COMPLETE
	179														DONE, WORKING ON FINAL REPORT
		107													DONE, WORKING ON FINAL REPORT
		159													DONE, WORKING ON FINAL REPORT
		168													DONE, WORKING ON FINAL REPORT
		178													DONE, WORKING ON FINAL REPORT
		140													DONE, WORKING ON FINAL REPORT
		236													NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
			182												MUD MIXED, WAITING ON LABS
			185												DONE, WORKING ON FINAL REPORT
			187												DONE, WORKING ON FINAL REPORT
			142												DONE, WORKING ON FINAL REPORT
			240												MUD MIXED, WAITING ON LABS
			237												DONE, WORKING ON FINAL REPORT
				195											DONE, WORKING ON FINAL REPORT
				233											DONE, WORKING ON FINAL REPORT
				234											DONE, WORKING ON FINAL REPORT
				235											DONE, WORKING ON FINAL REPORT
				143											MUD MIXED, WAITING ON LABS
				241											DONE, WORKING ON FINAL REPORT
					146										NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
					242										DONE, WORKING ON FINAL REPORT
					250										DONE, WORKING ON FINAL REPORT
						148									NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
							239								NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
								247							MUD MIXED, WAITING ON LABS
									249						MUD MIXED, WAITING ON LABS
										126					NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
											130				MUD MIXED, WAITING ON LABS
												127			NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
													128		NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
														137	NO ACTIVITY, C-144 CLOSURE REPORT SUBMITTED TO OCD
														243	NEW DRILLING PITS, NOT DRILLED
														144	NEW DRILLING PITS, NOT DRILLED
														145	NEW DRILLING PITS, NOT DRILLED