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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	GUADALUPE	RUSTLER SALADO TANSILL YATES SEVEN RIVERS QUEEN GRAYBURG SAN ANDRES GLORIETA PADDOCK BLINEBRY (U. Clearfork) TUBB (Sandy Lime) DRINKARD (L. Clearfork) ABO REEF	RUSTLER SALADO CASTILE BELL CANYON CHERRY CANYON BRUSHY CANYON BONE SPRING BS Lime 1st BS Sd 2nd BS Sd 3rd BS Sd ABO REEF	RUSTLER SALADO TANSILL YATES SEVEN RIVERS QUEEN GRAYBURG SAN ANDRES GLORIETA PADDOCK BLINEBRY TUBB DRINKARD ABO REEF WOLF. Bursum WOLF. Bursum MISSING ST. MISS ATOKA MORROW BARNETT MISS. WOODFORD DEVONIAN FUSSELMAN MONTOYA SIMPSON ELLENBURGER GRANITE
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CORRELY ON CHELSEA
SENE MEX

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.