

District II
1301 W. Grand Ave., Artesia, NM 88210
Phone:(505) 748-1283 Fax:(505) 748-9720

Form C-101
Permit 25975

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

1. Operator Name and Address MELROSE OPERATING COMPANY 5813 NW GRAND BLVD STE B OKLAHOMA CITY, OK 73118 <div style="text-align: right; font-size: 1.5em; margin-top: 10px;">184860</div>		2. OGRID Number 184860 <hr/> 3. API Number 30-015-35192
4. Property Code 26081	5. Property Name ARTESIA UNIT	6. Well No. 108

7. Surface Location

UL - Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
D	2	18S	28E	4	965	N	339	W	EDDY

8. Pool Information

ARTESIA;QUEEN-GRAYBURG-SAN ANDRES	3230
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Additional Well Information

9. Work Type New Well	10. Well Type OIL	11. Cable/Rotary	12. Lease Type State	13. Ground Level Elevation 3655
14. Multiple N	15. Proposed Depth 3500	16. Formation San Andres Formation	17. Contractor	18. Spud Date 4/5/2006
Depth to Ground water 400		Distance from nearest fresh water well > 1000		Distance to nearest surface water > 1000
Pit: Liner: Synthetic <input checked="" type="checkbox"/> 12 _____ mils thick Clay <input type="checkbox"/> Pit Volume: 4000 _____ bbls Drilling Method: Closed Loop System <input type="checkbox"/> Fresh Water <input type="checkbox"/> Brine <input checked="" type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>				

19. Proposed Casing and Cement Program

Type	Hole Size	Casing Type	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	12.25	8.625	24	450	300	0
Prod	7.875	5.5	15.5	3500	600	0

Casing/Cement Program: Additional Comments

Sending BOP diagram, H2S exception request, vicinity & location verification map.

Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
DoubleRam	3000	3000	Weatherford

I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines <input checked="" type="checkbox"/> , a general permit <input type="checkbox"/> , or an (attached) alternative OCD-approved plan <input type="checkbox"/> .	OIL CONSERVATION DIVISION
Printed Name: Electronically filed by Michael Corjay	Approved By: Bryan Arrant
Title: Manager	Title: Geologist
Email Address: Mjcokc@cs.com	Approved Date: 10/19/2006 Expiration Date: 10/19/2007
Date: 10/17/2006 Phone: 405-848-4012	Conditions of Approval Attached

Permit Conditions of Approval

Operator: MELROSE OPERATING COMPANY , 184860

Well: ARTESIA UNIT #108

API: 30-015-35192

OCD Reviewer	Condition
BArrant	Pit construction and closure must satisfy all requirements of your approved plan, O.C.D. Rule 19.15.2.50, and the Pit and Below-Grade Tank Guidelines
BArrant	As noted, operator to drill surface hole with 'fresh water' mud.
BArrant	Please notify OCD time of spud and time to witness the cementing to surface of all casing strings.

Permit Comments

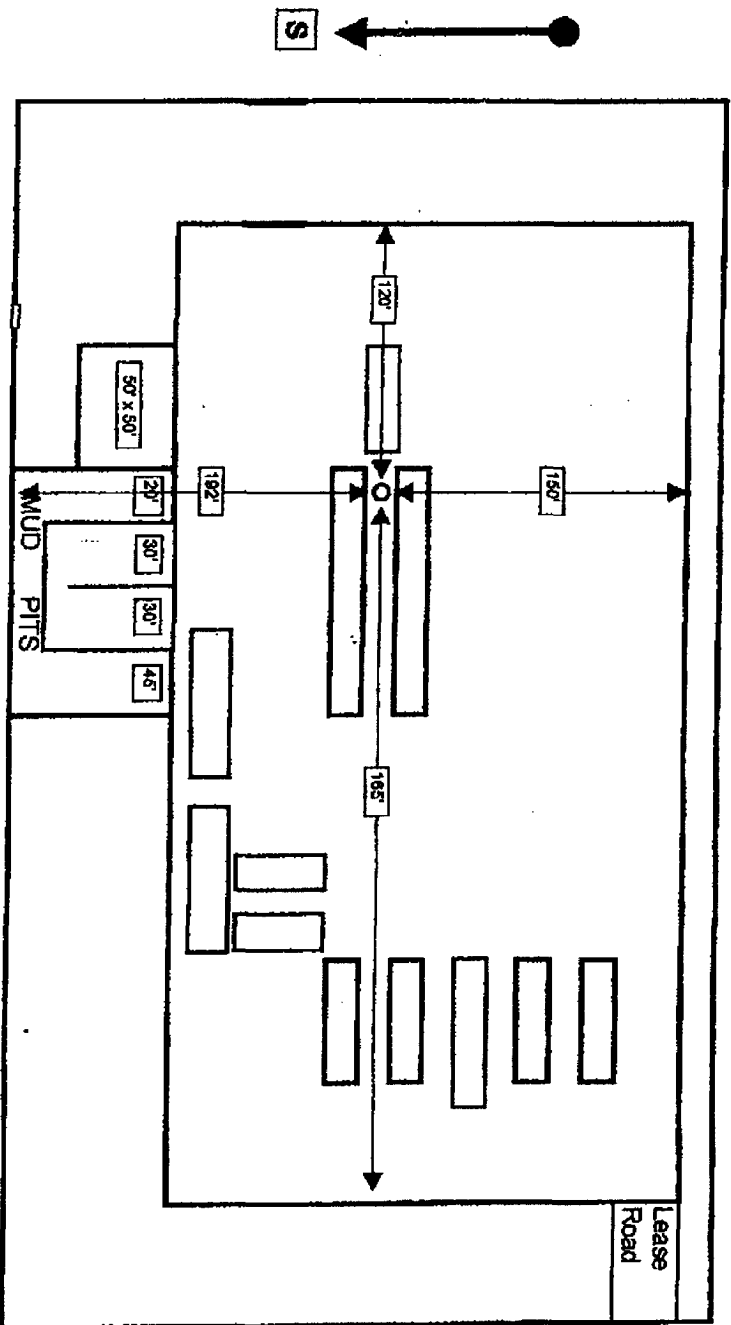
Operator: MELROSE OPERATING COMPANY , 184860

Well: ARTESIA UNIT #108

API:

There are no comments for this permit

Drilling Rig Pad Schematic
United Drig-Standard
 County, New Mexico
 Wellbore is 40' North of the pit



DISTRICT I
1625 N. FRENCH DR., HOBBS, NM 88240

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number 30-015	Pool Code 03230	Pool Name Artesia, Queen-Grayburg-SA
Property Code 26081	Property Name ARTESIA UNIT	Well Number 108
OGRID No. 184860	Operator Name MELROSE OPERATING COMPANY	Elevation 3655'

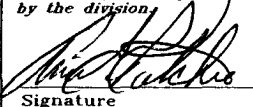
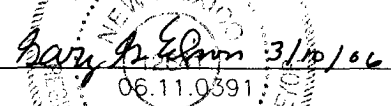
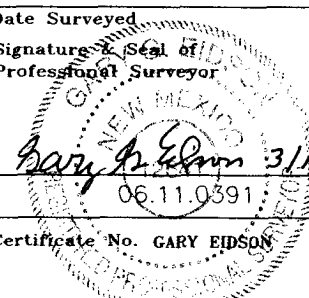
Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
4	2	18-S	28-E		965	NORTH	330	WEST	EDDY

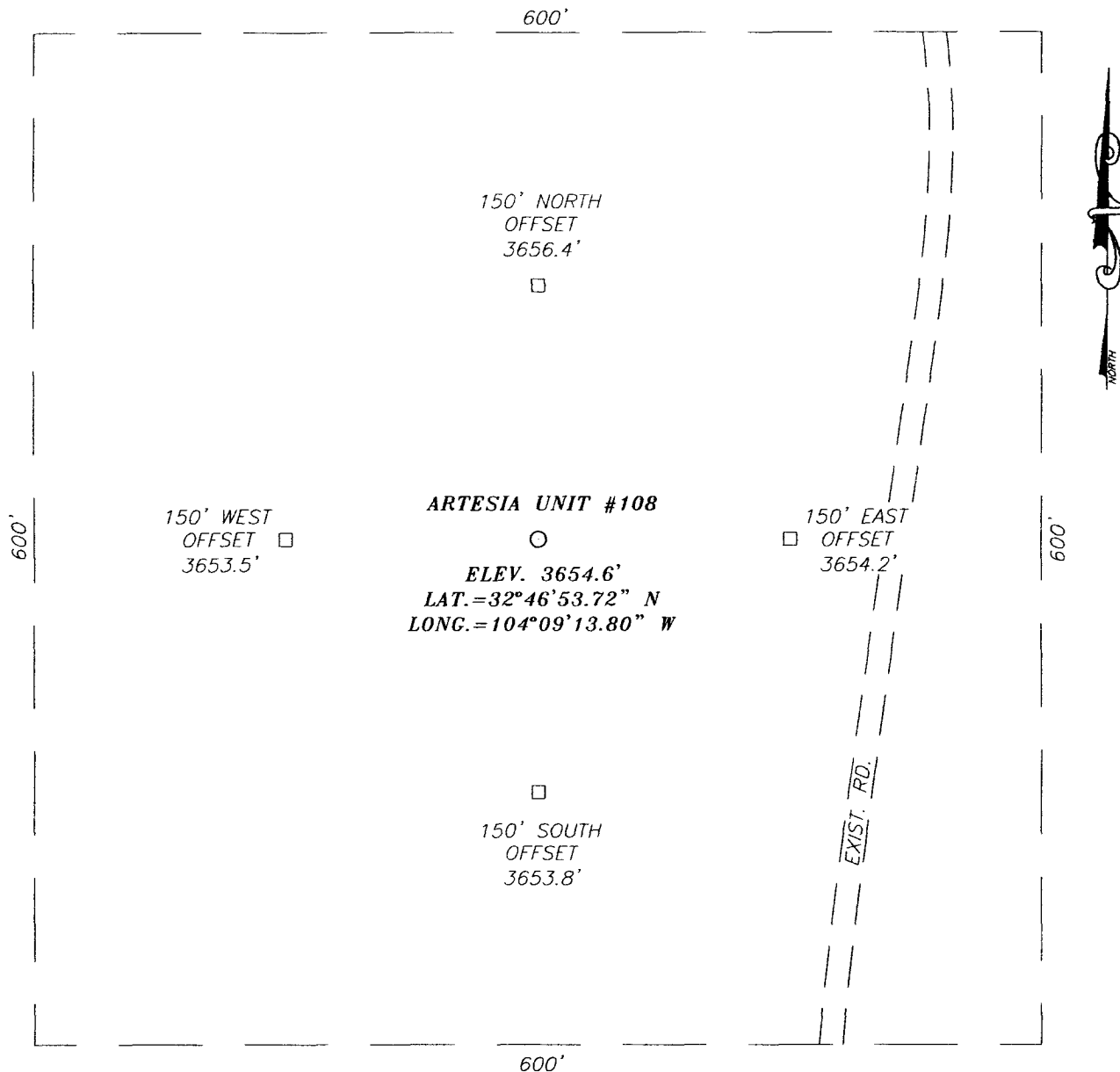
Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres 40	Joint or Infill	Consolidation Code	Order No. Water flood Unit						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

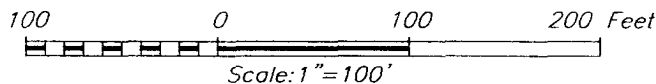
LOT 4	LOT 3	LOT 2	LOT 1
965'			
330'			
RECEIVED MAR 23 2006 NEW MEXICO			
GEODETIC COORDINATES NAD 27 NME Y=648099.7 N X=555166.6 E LAT.=32°46'53.72" N LONG.=104°09'13.80" W			
OPERATOR CERTIFICATION I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.  3-17-06 Signature Date Ann E. Ritchie, Agent Printed Name			
SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. FEBRUARY 27, 2006 Date Surveyed MR  3/10/06 Signature of Professional Surveyor  Certificate No. GARY EDSON 12641			

SECTION 2, TOWNSHIP 18 SOUTH, RANGE 28 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF ST. HWY. 83 AND ST. HWY. 360. GO SOUTHEAST ON US HWY. 360 APPROX. 1.52 MILES. TURN RIGHT AND GO SOUTHWEST APPROX. 0.28 MILES. TURN RIGHT AND GO NORTH APPROX. 0.1 MILES. THIS LOCATION IS APPROX. 200 FEET WEST.



MELROSE OPERATING COMPANY

ARTESIA UNIT #108
 LOCATED 965 FEET FROM THE NORTH LINE
 AND 330 FEET FROM THE WEST LINE OF SECTION 2,
 TOWNSHIP 18 SOUTH, RANGE 28 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO.

Survey Date: 02/27/06	Sheet 1 of 1 Sheets
W.O. Number: 06.11.0391	Dr By: M.R. Rev 1:N/A
Date: 03/07/06	Disk: CD#1 06110391 Scale: 1"=100'

PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 383-3117

March 21, 2006

Oil Conservation Division
1301 Grand Ave.
Artesia, NM 88210

RE: **Melrose Operating Company**, Artesia Unit, Wells #104, 105, 106, 107 &
#108, Sections 2 & 3, T18S, R38E, Eddy County, NM

It is not anticipated that we will encounter any H2S during the drilling or completion of the above referenced wells. There are no dwelling in the area as per the Vicinity Maps submitted to OCD. Closest highway is Hwy 360. We are respectfully requesting an exemption from H2S requirements as per NMOCD Rule 118. The anticipated TVD is 3500' for these vertical wells. Drilling duration is approximately 5 days.

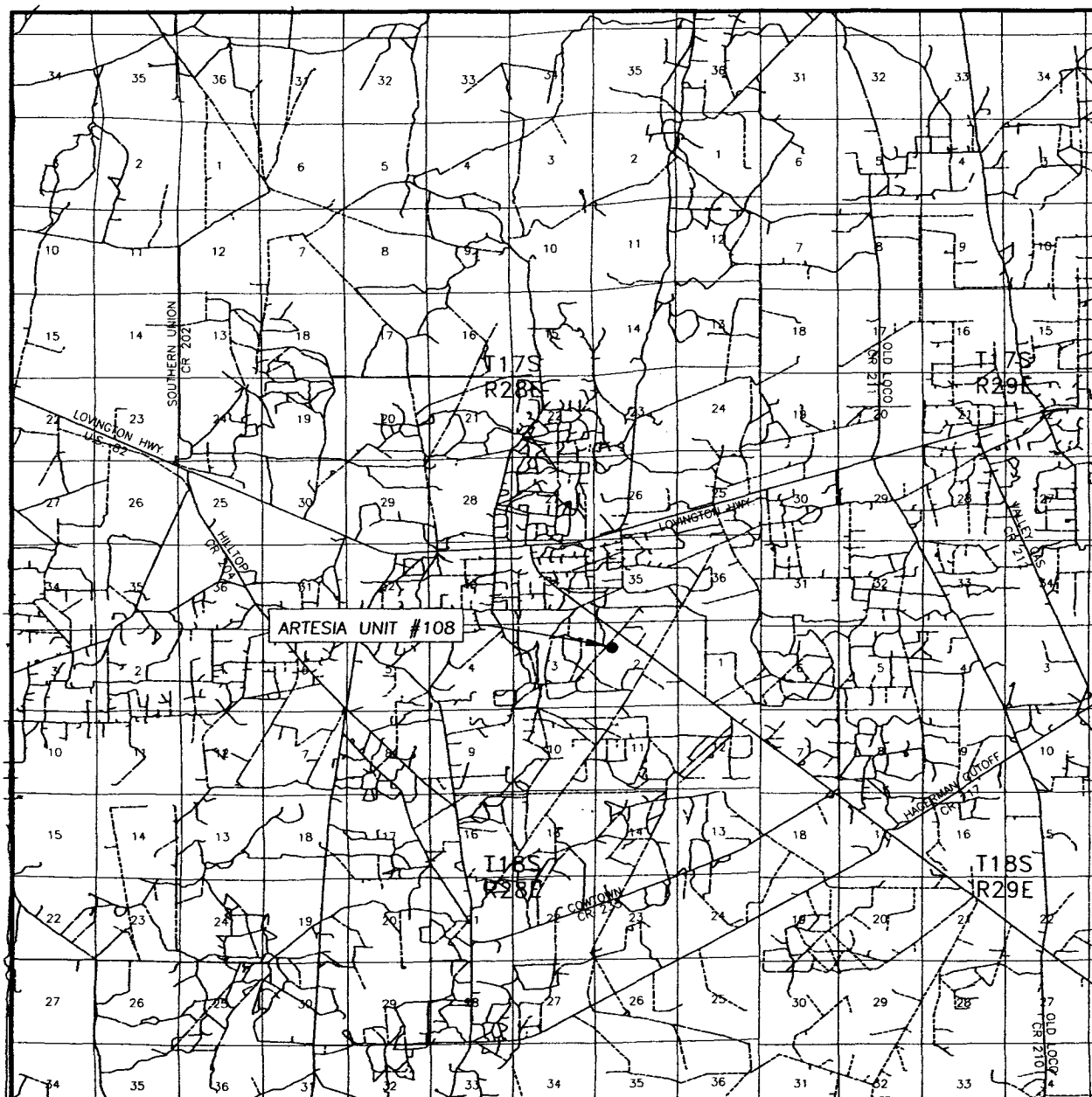
Thank you,



Ann E. Ritchie, Regulatory Agent
Melrose Operating Company
c/o P.O. Box 953
Midland, TX 79702
432 684-6381/682-1458-fax
ann.ritchie@wtor.net

RECEIVED
MAR 23 2006
OCD-ARTESIA

VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 2 TWP. 18-S RGE. 28-E

SURVEY N.M.P.M.

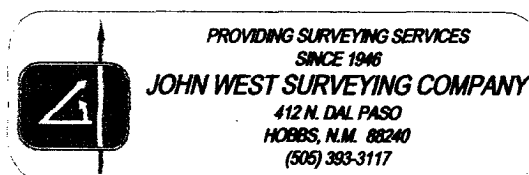
COUNTY EDDY STATE NEW MEXICO

DESCRIPTION 965' FNL & 330' FWL

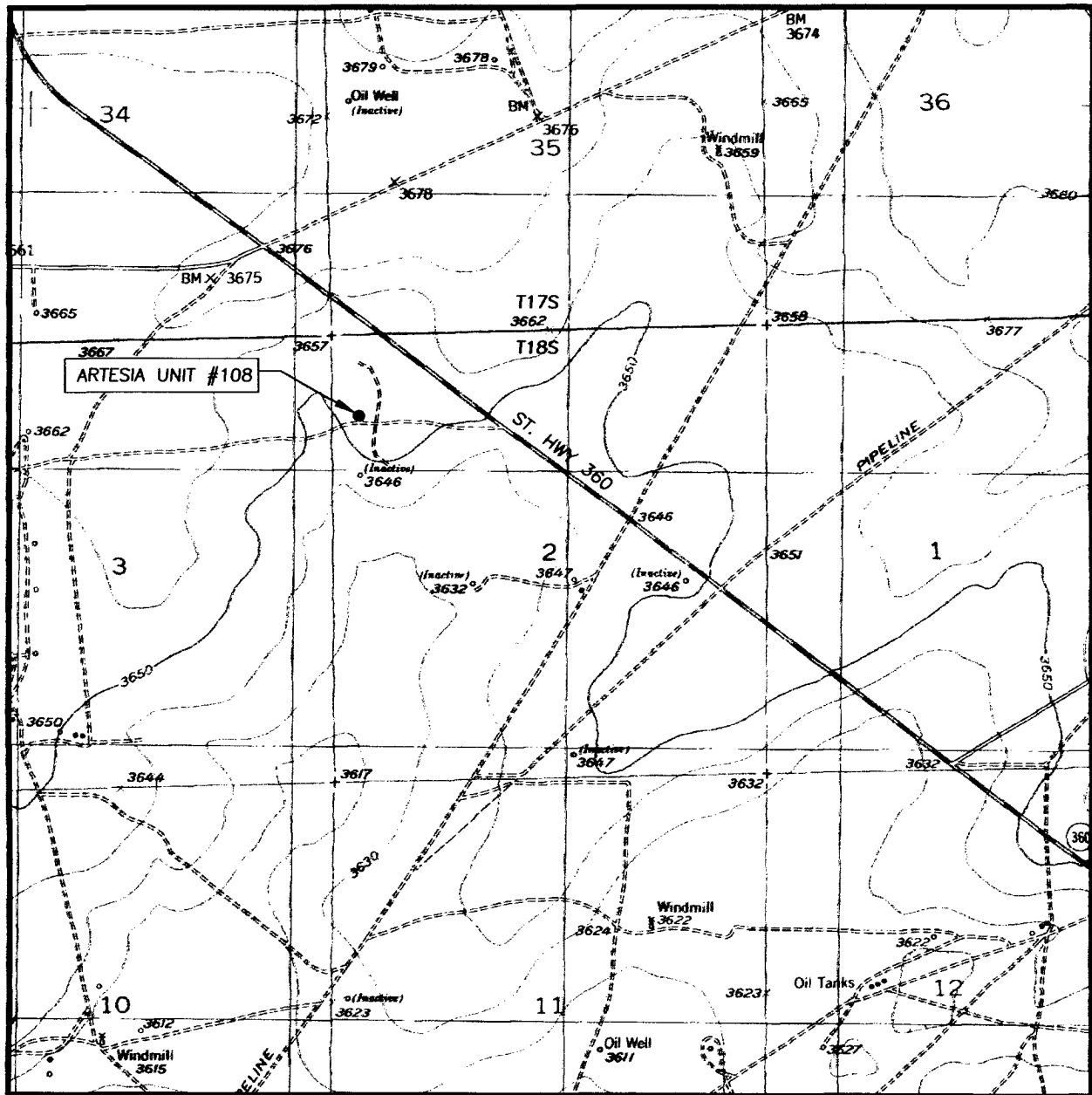
ELEVATION 3655'

OPERATOR MELROSE OPERATING COMPANY

LEASE ARTESIA UNIT



LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
RED LAKE, N.M. - 10'

SEC. 2 TWP. 18-S RGE. 28-E

SURVEY N.M.P.M.

COUNTY EDDY STATE NEW MEXICO

DESCRIPTION 965' FNL & 330' FWL

ELEVATION 3655'

OPERATOR MELROSE OPERATING COMPANY

LEASE ARTESIA UNIT

U.S.G.S. TOPOGRAPHIC MAP
RED LAKE, N.M.



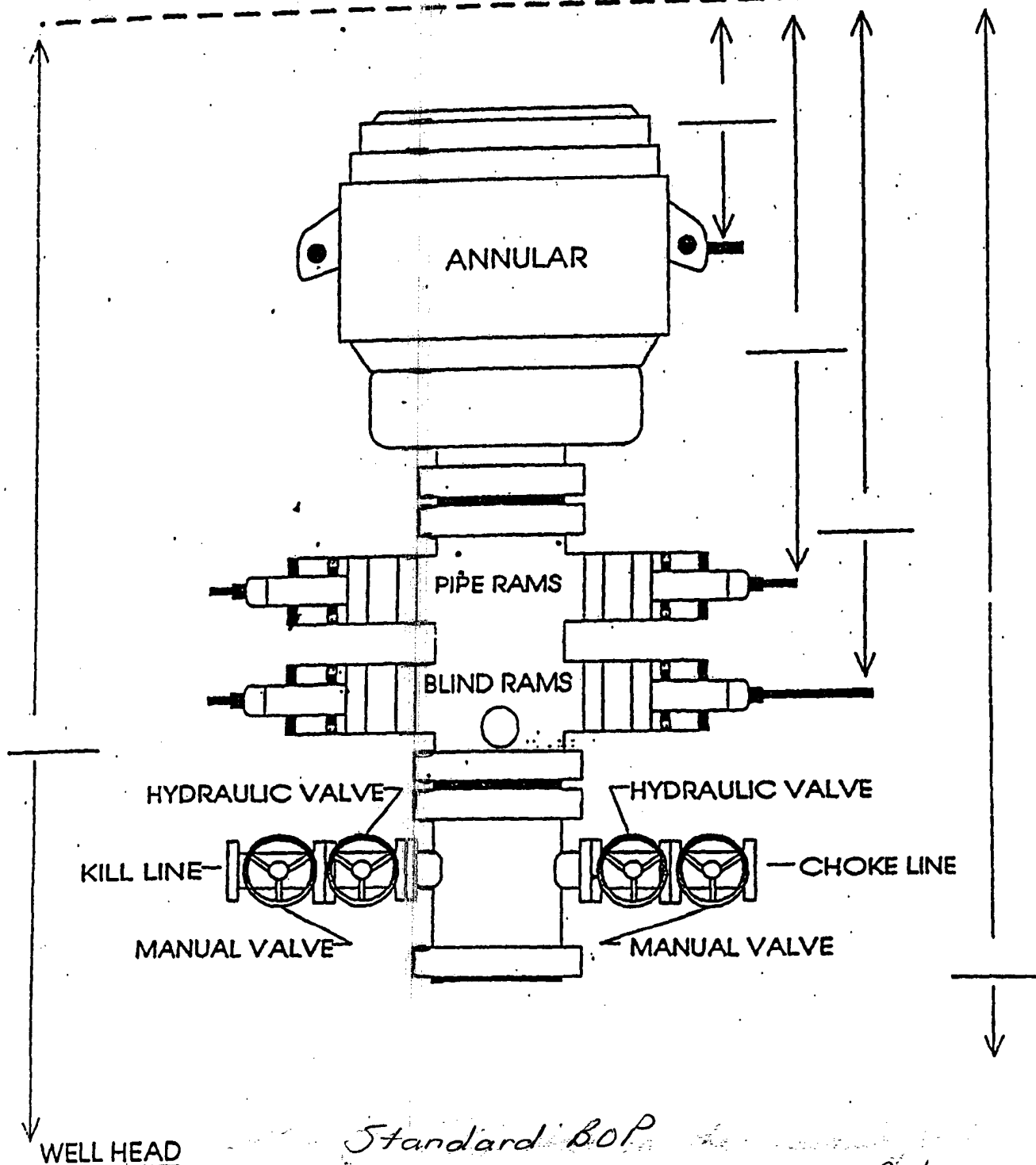
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SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(505) 383-3117

EXHIBIT A

B.O.P. STACK SPACING

SIZE: 3000#

TOP OF ROTARY



Standard BOP
Melrose Operating Co. - United Drilg.

March 21, 2006

RECEIVED
MAR 23 2006
OCD-ARTESIA

Oil Conservation Division
1301 Grand Ave.
Artesia, NM 88210

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Thank you,



Ann E. Ritchie, Regulatory Agent
Melrose Operating Company
c/o P.O. Box 953
Midland, TX 79702
432 684-6381/682-1458-fax
ann.ritchie@wtor.net



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

October 19, 2006

Melrose Operating Company
5813 NW Grand Blvd., Suite B
Oklahoma City, OK 73118

RE: Application for Permit to Drill, Deepen or Plug Back:
Artesia Unit #108
API # 30-015-35192

Dear Michael Corjay or To Whom It ~~M~~ay Concern:

Rule 102.C [19.15.3.102.C NMAC] provides that the Director of the Oil Conservation Division or his designee may deny a permit to drill, deepen or plug back if the applicant is not in compliance with Rule 40.A [19.15.1.40.A NMAC]. An operator who operates from 100 to 500 wells is out of compliance with Rule 40.A(4) if it has more than 5 wells on the inactive well list kept pursuant to Rule 40.F [19.15.1.40.F NMAC]. In considering whether to deny the application, Rule 102.C requires the Director or his designee to consider the number of wells not in compliance, the length of time the wells have been out of compliance, and the operator's efforts to bring the wells into compliance.

Melrose Operating Company ("Melrose") operates 432 wells; 6 of those wells appear on the inactive well list. Melrose is out of compliance with Rule 40.A(4).

Daniel Sanchez, Enforcement and Compliance Manager and the Director's designee, has determined to grant Melrose's application.

Please note, however, that under Rule 1104 [19.15.13.1104 NMAC] the Oil Conservation ("OCD") cannot assign an allowable to a well or issue authorization to transport oil or natural gas from a well if the operator is out of compliance with Rule 40. **If Melrose is not in compliance with Rule 40 at the time it requests an allowable and authorization to transport, its request shall be denied.**

Melrose can return to compliance with Rule 40 by reducing the number of wells that appear on the Rule 40 inactive well list. A well will be removed from the inactive well list when the operator takes one of the following actions: 1) plugs the well bore and files an approved C-103 reporting the plugging; 2) places the well on approved temporary abandonment status; 3) returns the well to production or other beneficial use and files a C-115 reporting that production or use; or 4) enters into an Agreed Compliance Order with the OCD covering the well. An Agreed Compliance Order sets a schedule for returning the operator's inactive wells to compliance and imposes a penalty if the schedule is not met. If you would like to discuss entering into an Agreed Compliance Order for your non-compliant wells, please contact OCD attorney Gail MacQuesten at (505) 476-3451.

Yours truly,

OIL CONSERVATION DIVISION

Bryan G. Arrant
District II Geologist

CC: Well File
EC: OCD Santa Fe -- Gail MacQuesten, Assistant General Counsel

OCD Santa Fe – Daniel Sanchez, Enforcement and Compliance Manager
OCD Artesia- Tim Gum, District II Supervisor