

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Response Required – Deadline Enclosed

24-Mar-10

MELROSE OPERATING COMPANY
20333 STATE HIGHWAY 249 SUITE 310
HOUSTON, TX 77070-

LETTER OF VIOLATION
Delinquent Regulatory Filings

Dear Operator:

Oil Conservation Division ("OCD") records indicate that you failed to file the required reports identified below, or that your filings were incomplete or inaccurate.

NON-COMPLIANT WELL DETAIL SECTION

JALMAT FIELD YATES SAND UNIT No.221
Original Well Type: Oil (Producing)
Determination or Violation Date: 3/24/2010

Location: 10-22S-35E
Well Status: Active
Delinquent Report or Filing(s): - Other Monitoring and Reporting Violation

30-025-37240-00-00

Comments: OCD Hobbs has received sundry report on converting this well to injection. Form C-105 is also required for any well recompleted to injection or another formation. Please send the C-105 to the OCD Hobbs office. If you have any questions on this matter, please call Donna Mull (575) 393-6161 ext 115.

CORRECTIVE ACTION ON THIS WELL DUE BY: 4/23/2010

Please file or correct the reports identified above by the corrective action due date indicated. If you fail to file or correct the reports by that date, the OCD will take enforcement action that may include but is not limited to applying for an order assessing civil penalties and/or requiring you to plug and abandon the wells associated with those reports.

Thank you for your prompt attention to this matter and your efforts in helping to protect our environment and the infrastructure of the oil and gas industry.

Sincerely,



Hobbs OCD District Office

Well Compliance Deadlines:

Commencement of drilling operations	10 days
Casing and cement test	10 days
Altering well's casing installation	10 days
Work to secure approved TA	30 days
Plugging back or deepening / same pool	20 days
Remedial work	30 days
Installation of artificial lift equip	30 days
All other operations not specified above	10 days

Completion Report + logs (C-105, 3160-4)	20 days
Deviation / Directional Survey	Filed with or prior to C104
C104 Authorization to Transport	Approval prior to producing well

Plug and Abandonment 30 days
(Form C105 must accompany notice of intent to P&A if not previously filed)

P&A Restoration 30 days

Please note: Each form submitted on a well should include the date(s) the work was performed on the well, especially particular dates which affect the status of a well or given pool (i.e., CIBP set @ 4050' 10/01/06)