

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

27-Jul-10

MELROSE OPERATING COMPANY
ONE CHASEWOOD - SUITE 20333 CHASEWOOD
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

| | | |
|---|---|---------------------------|
| CONE JALMAT YATES POOL UNIT No.103 | Location: 13-22S-35E | 30-025-08604-00-00 |
| Original Well Type: Oil (Producing) | Well Status: Active | |
| Determination or Violation Date: 7/27/2010 | Delinquent Report or Filing(s): - Other Monitoring and Reporting Violation | |

Comments: Reviewing well file and form C-103, converted well to injection, the C-105 completion report for injection is still required. Please send form C-105 with injection information to the OCD Hobbs office. If you have any questions, please call Donna Mull (575) 393 6161 ext 115.

CORRECTIVE ACTION ON THIS WELL DUE BY: 8/26/2010

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.

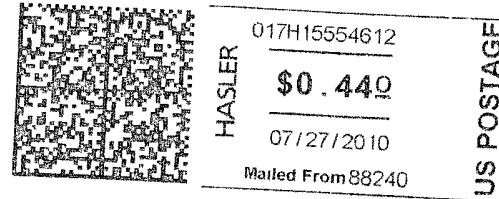
Thank you for your prompt attention to this matter and your efforts in helping to protect our environment and the infrastructure of the oil and gas industry.

Sincerely,



Hobbs OCD District Office

EMNRD
OIL CONSERVATION DIVISION
1625 N FRENCH DRIVE
HOBBS NM 88240



Melrose Operating Co
ATT: Peter Evtimov
20333 State Hwy 249, Suite 310
Houston TX 77077