



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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Oil Conservation Division

June 22, 2006

Fairway Resources Operating LLC
538 Silicon Drive Suite 101
Southlake, Texas 76092

**LETTER OF VIOLATION and SHUT-IN
DIRECTIVE Failed Mechanical Integrity Test**

W.D.V. NO. 02069

Dear Operator:

The following test(s) were performed on the listed dates on the following well(s) shown below in the test detail. The test(s) indicates that the well or wells failed to meet mechanical integrity standards of the New Mexico Oil Conservation Division. To comply with guidelines established by the U.S. Environmental Protection Agency, the well(s) must be shut-in immediately until it is successfully repaired. The test detail section which follows indicates preliminary findings and/or probable causes of the failure. This determination is based on a test of your well or facility by an inspector employed by the Oil Conservation Division. Additional testing during the repair operation may be necessary to properly identify the nature of the well failure.

Please notify the proper district office of the Division, at least 48 hours prior to the date and time that the well(s) will be retested so the test may be witnessed by a field representative.

MECHANICAL INTEGRITY TEST DETAIL SECTION

SOUTH RED LAKE II UNIT No.017

30-015-00630-00-00
K-35-17S-27E

Active Injection - (All Types)

Test Date:	2/16/2005	Permitted Injection PSI:	Actual PSI:
Test Reason:	5-year Test	Test Result:	F
Test Type:	Std. Annulus Pres. Test	FAIL TYPE:	Equipment - Specify in
Comments on MIT:	Not injecting -Operator Failed		

Repair Due: 5/22/2005
FAIL CAUSE:

SOUTH RED LAKE II UNIT No.035

30-015-01211-00-00
B-2-18S-27E

Active Injection - (All Types)

Test Date:	2/17/2005	Permitted Injection PSI:	Actual PSI:
Test Reason:	5-year Test	Test Result:	F
Test Type:	Std. Annulus Pres. Test	FAIL TYPE:	Tubing
Comments on MIT:	Well will not hold pressure. Pressure equalizes with tubing.		

Repair Due: 5/23/2005
FAIL CAUSE:

SOUTH RED LAKE II UNIT No.021

30-015-01219-00-00
K-36-17S-27E

Active Injection - (All Types)

Test Date:	2/16/2005	Permitted Injection PSI:	Actual PSI:
Test Reason:	5-year Test	Test Result:	F
Test Type:	Std. Annulus Pres. Test	FAIL TYPE:	Equipment - Specify in
Comments on MIT:	Not injecting - Operator failed.		

Repair Due: 5/22/2005
FAIL CAUSE:

Please note that the "Repair Due" date has passed and no action has been taken to bring these wells into compliance. The Oil Conservation Division is very concerned, that these wells are still not in compliance, however due to the fact your company has just recently acquired this lease (5/1/2006) the "Repair .Due" date is extended until September 22, 2006. All wells must be brought into compliance by this date.

Thank you for your assistance in this matter. If you have any questions please do not hesitate to call.

Sincerely



Artesia OCD District Office

Note: Pressure Tests are performed prior to initial injection, after repairs and otherwise, every 5 years; Bradenhead Tests are performed annually.

Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data. "Failure Type" and "Failure Cause" and any Comments are not to be interpreted as a diagnosis of the condition of the wellbore. Additional testing should be conducted by the operator to accurately determine the nature of the actual failure. * Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.