



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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AMERISTATE EXPLORATION, L.L.C.
111 CONGRESS AVE., STE. 2700
AUSTIN TX 78701-

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

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 until it is successfully repaired and a new MIT test has been performed. 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.

As you can see, the tests were performed prior to your assuming ownership however we have not received information that the wells were in fact repaired. The "Repair Due;" date has been adjusted to allow your company time to address this matter. Please notify the District Office in Artesia, prior to the new due date, when these wells will be ready for testing.

MECHANICAL INTEGRITY TEST DETAIL SECTION

STATE 648 AC 811 No.064

30-015-02201-00-00
C-10-19S-28E

Active Injection - (All Types)

Test Date:	8/30/2005	Permitted Injection PSI:		Actual PSI:	
Test Reason:	5-year Test	Test Result:	F	Repair Due:	04/15/2006
Test Type:	Std. Annulus Pres. Test	FAIL TYPE:	Casing	FAIL CAUSE:	
Comments on MIT: Well would not pressure-up.					

EAST MILLMAN UNIT No.145

30-015-02247-00-00
M-14-19S-28E

Active Injection - (All Types)

Test Date:	8/30/2005	Permitted Injection PSI:		Actual PSI:	
Test Reason:	5-year Test	Test Result:	F	Repair Due:	04/15/2006
Test Type:	Std. Annulus Pres. Test	FAIL TYPE:	Casing	FAIL CAUSE:	
Comments on MIT: Well will not hold pressure					

In the event that a satisfactory response is not received to this letter of direction by the "Repair Due:" date shown above, or if the well(s) are not immediately shut-in, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

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.