

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

November 27, 2006

AMERICO ENERGY RESOURCES LLC

PO BOX 19163

HOUSTON TX 77224-

LOV NO. 027606
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 section.

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

EAST SHUGART UNIT No.001

Active Injection - (All Types)

30-015-05613-00-00

P-27-18S-31E

Test Date: 8/22/2005

Permitted Injection PSI:

Actual PSI: 1100

Test Reason: Annual IMIT

Test Result: F

Repair Due: 11/14/2006

Test Type: Bradenhead Test

FAIL TYPE: Casing

FAIL CAUSE:

Comments on MIT: Casing pressure 450#. Unable to bleed down due to oil in casing fluid. 8/14/2006: No indication in well file that well has been repaired and retested.

EAST SHUGART UNIT No.029

Active Injection - (All Types)

30-015-05685-00-00

N-34-18S-31E

Test Date: 8/22/2005

Permitted Injection PSI:

Actual PSI:

Test Reason: 5-year Test

Test Result: F

Repair Due: 11/14/2006

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Tubing

FAIL CAUSE:

Comments on MIT: Well is flowing back - Hole in tubing. No record in well file indicating repair to well.

EAST SHUGART UNIT No.016

Active Injection - (All Types)

30-015-05688-00-00

L-34-18S-31E

Test Date: 8/22/2005

Permitted Injection PSI:

Actual PSI: 1350

Test Reason: 5-year Test

Test Result: F

Repair Due: 11/14/2006

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Casing

FAIL CAUSE:

Comments on MIT: Well will not hold pressure 350:320 in 8 minutes

Oil Conservation Division * 1301 W. Grand * Artesia, New Mexico 88210
Phone: 505-748-1283 * Fax: 505-748-9720 * <http://www.emnrd.state.nm.us>

The original letter of violation was sent to Merit Energy Co., on August 14, 2006. Since your company took over operation of these wells on July 20, 2006 this letter is now being sent to your company. The repair due date is being extended until **December 27, 2006**.

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.