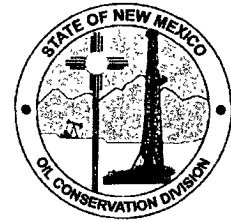


New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Jim Noel
Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



Response Required – Deadline Enclosed
Underground Injection Control Program
"Protecting Our Underground Sources of Drinking Water"

13-Jul-10

DORAL ENERGY CORP.
415 W. WALL ST, SUITE 500
MIDLAND TX 79701

LOV NO. 02-09-156

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.

While Inspector Inge was testing Doral Energy's injection wells on July 12th, 2010, he observed that none of Doral's injection wells were shut in as required by LOV 02-09-153 which was issued on June 23rd, 2010. Inspector Inge actually observed the injection pump working at the Berry A #33 on June 29th. On June 23rd, Inspector Inge also informed Al Perry of Doral Energy via a phone call that all of Doral's injection wells had to be shut-in until they were tested. Due to Doral's disregard to follow the rules of the OCD, **the wells listed in this LOV must be shut-in immediately and they must be immediately disconnected from their injection lines.** If it is observed that these wells are not disconnected from their injection lines, it will be assumed that Doral is still injecting into these wells and the OCD will pursue further enforcement action.

MECHANICAL INTEGRITY TEST DETAIL SECTION

EMPIRE J FEDERAL No.001

30-015-00167-00-00
P-1-18S-26E

Active Injection - (All Types)

Test Date: 7/12/2010	Permitted Injection PSI:	Actual PSI:
Test Reason: Annual IMIT	Test Result: F	Repair Due: 10/15/2010
Test Type: Bradenhead Test	FAIL TYPE: Operational Violation	FAIL CAUSE:
Comments on MIT: Casing valve not closed. Unable to test. Was not shut-in as required by the OCD.		

WEST ARTESIA GRAYBURG UNIT No.018

30-015-01899-00-00
D-17-18S-28E

Active Injection - (All Types)

Test Date: 7/12/2010	Permitted Injection PSI:	Actual PSI: 1110
Test Reason: 5-year Test	Test Result: F	Repair Due: 10/15/2010
Test Type: Std. Annulus Pres. Test	FAIL TYPE: Other Internal Failure	FAIL CAUSE:
Comments on MIT: Pressure started building during last 7 minutes and it climbed about 10 percent allowable. Was not shut-in as required by the OCD.		



July 13, 2010

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WEST ARTESIA GRAYBURG UNIT No.013

30-015-02636-00-00

Active Injection - (All Types)

I-7-18S-28E

Test Date:	7/12/2010	Permitted Injection PSI:	Actual PSI:	850
Test Reason:	5-year Test	Test Result:	Repair Due:	10/15/2010
Test Type:	Std. Annulus Pres. Test	FAIL TYPE:	Other Internal Failure	FAIL CAUSE:
Comments on MIT: Strong blow of oil from casing valve. Was not shut-in as required by the OCD.				

WEST ARTESIA GRAYBURG UNIT No.004

30-015-02648-00-00

Active Injection - (All Types)

E-8-18S-28E

Test Date:	7/12/2010	Permitted Injection PSI:	Actual PSI:	950
Test Reason:	Annual IMIT	Test Result:	Repair Due:	10/15/2010
Test Type:	Bradenhead Test	FAIL TYPE:	Other Internal Failure	FAIL CAUSE:
Comments on MIT: Strong blow of oil from casing valve. Was not shut-in as required by the OCD.				

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.