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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

15-May-08

DINERO OPERATING CO

PO BOX 10505

MIDLAND TX 79702

LOV NO. 02-08-090

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

DINERO STATE COM No.002

P-16-22S-28E

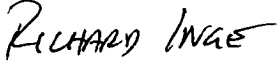
30-015-25093-00-00

| Inspection Date | Type Inspection | Inspector | Violation? | *Significant Non-Compliance? | Corrective Action Due By: | Inspection No. |
|---|------------------|--------------|------------|------------------------------|---------------------------|----------------|
| 05/15/2008 | Routine/Periodic | Richard Inge | Yes | No | 5/30/2008 | iREI0813637573 |
| Comments on Inspection: Drilling pit still open. No visible liner. | | | | | | |

Violation of Rule 50 - Please submit C-144 Pit Closure form by Corrective Action Due By date. This report must contain a closure plan that includes the taking of soil samples to be witnessed by the OCD. The pit closure must occur within 30 days of the pit closure approval by the OCD.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, 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,

Handwritten signature of Richard Inge in black ink.

Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.