

DECEMBER 18, 1997

MERIT ENERGY CO.
12222 MERIT DRIVE, SUITE 1500
DALLAS, TX 75251

RE: Shut In Wells

The State of New Mexico is in the process at this time of reviewing leases and determining the number of shut in wells.

Rule 201 A. states "The operator of any well drilled for oil, gas or injection, for seismic, core or other exploration, or for a service well, whether cased or uncased, will be responsible for the plugging thereof."

Rule 201 B. states "A well will be either properly plugged and abandoned or temporarily abandoned in accordance with these rules within 90 days after: (1) a 60-day period following suspension of drilling. (2) A determination that the well is no longer usable for beneficial purposes. (3) A period of one year in which a well has been continuously inactive."

House Bill 65 has been passed by the Legislature and provides a 3.75% tax incentive for wells put back in production. However, if there are no plans to put this well back in service then it needs to either be plugged or properly temporarily abandoned.

Please use Form C-103 and Form C-139 for the 3.75% tax incentive to indicate your intentions for the following well(s):

E 36-23-23696 MALAGA C #1 API# 30-015-23696

Please advise this office within 30 days of the date shown above as to your intentions or any change of status for the above listed well(s). If you have any questions or if you need any help - feel free to stop by the office and visit with us.

Sincerely,

Tim W. Gum
Supervisor District II