



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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07-Feb-06

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7008 SALEM AVENUE
LUBBOCK TX 79424-

ATTN: DELBERT McDOUGAL

FAxED
806) 797-5731
2-7-06.

30-015-00630

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 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

SOUTH RED LAKE II UNIT No.017

30-015-00630-00-00

Active Injection - (All Types)

K-35-17S-27E

Test Date: 2/16/2005

Permitted Injection PSI:

Actual PSI:

Test Reason: 5-year Test

Test Result: F

Repair Due: 5/22/2005

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Equipment - Specify in

FAIL CAUSE:

Comments on MIT: Not injecting -Operator Failed

SOUTH RED LAKE II UNIT No.035

30-015-01211-00-00

Active Injection - (All Types)

B-2-18S-27E

Test Date: 2/17/2005

Permitted Injection PSI:

Actual PSI:

Test Reason: 5-year Test

Test Result: F

Repair Due: 5/23/2005

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Tubing

FAIL CAUSE:

Comments on MIT: Well will not hold pressure. Pressure equalizes with tubing.

SOUTH RED LAKE II UNIT No.021

30-015-01219-00-00

Active Injection - (All Types)

K-36-17S-27E

Test Date: 2/16/2005

Permitted Injection PSI:

Actual PSI:

Test Reason: 5-year Test

Test Result: F

Repair Due: 5/22/2005

Test Type: Std. Annulus Pres. Test

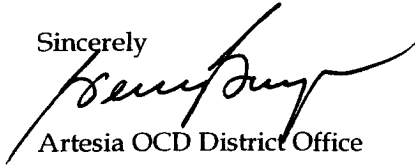
FAIL TYPE: Equipment - Specify in

FAIL CAUSE:

Comments on MIT: Not injecting - Operator failed.

Please note that the "Repair Due" date has passed and no action has been taken to bring this well into compliance. Further extension of time is deemed unnecessary since we have the assurance of your company that work will begin immediately. We will review this matter in 30 days subsequent to the date of this letter to determine if additional action is required on our part.

Sincerely

A handwritten signature in black ink, appearing to read "Artesia OCD", is written over the word "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.