



New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



November 19, 2008

Tandem Energy Corp.
PO Box 1559
Midland, Texas 79702

RE: Square Lake 12 Unit #100; API No. 30-015-04092

Dear Operator;

A well file review has indicated the above well is reporting production without approval of a Request for Allowable and Authorization to Transport (C-104). This is in violation of NMOCD Rule 19.15.13.1104 (Rule 1104).

This well was converted from injection to an oil producer in September 2006, however the required subsequent reports (Forms C-103 (Rule 1103), C-105 (Rule 1105) and C-104) were not received by OCD. Your well files should be reviewed to determine if additional wells fall under the provisions of this rule. If so, C-104s must be submitted prior to any sales of product. Prior to Division approval of these C-104s all sales from wells without an approved C-104 must be suspended.

OCD rules require an approved C-104 prior to the sale of, or handling of any product. Your attention is drawn to NMOCD Rule 19.15.10.801 which states "The sale or purchase or acquisition, or the transporting, refining, processing or handling in any other way, of crude petroleum oil or of any crude petroleum produced in excess of the amount allowed by any statute of this state, or by any rule, regulation or order of the division made thereunder, is prohibited."

Submission of the required documentation as required by Rule 1104 may be hindered by your company's failure to comply with Rule 40 (Inactive Wells and Financial Assurance).

Please contact Daniel Sanchez (505)476-3493 within ten (10) days of the date of this letter to schedule an administrative conference to discuss this matter. OCD legal counsel may be present for this conference, and you may bring legal counsel if you wish. The purpose of the administrative conference is to discuss the facts surrounding this letter of



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violation, and to determine if the matter can be resolved administratively through an agreed compliance order.

Failure to comply with this request will require further enforcement action which may include penalties authorized by NMSA Section 70-2-31(A) of up to One Thousand Dollars (\$1,000.00) per day per violation for any knowing and willful violation of any provision of the Oil and Gas Act or any rule adopted pursuant to the Act.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerry Guye", with a long, sweeping horizontal stroke extending to the right.

Gerry Guye
Compliance Officer