

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"

23-Jun-10

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

LOV NO. 02-09-153

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.

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

EMPIRE J FEDERAL No.001

30-015-00167-00-00

P-1-18S-26E

Active Injection - (All Types)

Test Date: 6/23/2010

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/07/2010

Test Type: Bradenhead Test

FAIL TYPE: Operational Violation

FAIL CAUSE:

Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

SAUNDERS A No.002

30-015-01247-00-00

B-13-17S-27E

Active Injection - (All Types)

Test Date: 6/23/2010

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/07/2010

Test Type: Bradenhead Test

FAIL TYPE: Operational Violation

FAIL CAUSE:

Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.



WEST ARTESIA GRAYBURG UNIT No.018**30-015-01899-00-00**

Active Injection - (All Types)

D-17-18S-28E

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

WEST ARTESIA GRAYBURG UNIT No.013**30-015-02636-00-00**

Active Injection - (All Types)

I-7-18S-28E

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

WEST ARTESIA GRAYBURG UNIT No.001**30-015-02645-00-00**

Active Injection - (All Types)

C-8-18S-28E

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

WEST ARTESIA GRAYBURG UNIT No.004**30-015-02648-00-00**

Active Injection - (All Types)

E-8-18S-28E

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

WEST ARTESIA GRAYBURG UNIT No.012**30-015-02649-00-00**

Active Injection - (All Types)

L-8-18S-28E

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

GREEN FEDERAL No.005**30-015-03198-00-00****Active Injection - (All Types)****E-31-17S-29E**

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

GREEN FEDERAL No.001**30-015-10320-00-00****Active Injection - (All Types)****D-31-17S-29E**

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

WEST ARTESIA GRAYBURG UNIT No.006**30-015-10328-00-00****Active Injection - (All Types)****G-8-18S-28E**

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

FIVE J No.002**30-015-10543-00-00****Active Injection - (All Types)****G-36-17S-28E**

Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

BERRY A No.033**30-015-25154-00-00****Active Injection - (All Types)****K-24-17S-27E**

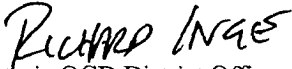
Test Date: 6/23/2010 **Permitted Injection PSI:** **Actual PSI:**
Test Reason: Annual IMIT **Test Result:** F **Repair Due:** 7/07/2010
Test Type: Bradenhead Test **FAIL TYPE:** Operational Violation **FAIL CAUSE:**
Comments on MIT: No Company Representative to witness MIT test. I was on location about 7:15a. We had agreed to meet @ this well location to begin at 7:30a. At 7:45 I called Al Perry to find out where everyone was. He said he had other things to do this morning, but he was on his way. He said he arranged for an I&W truck to be there at 8am. I went to the Saunders A well in case the truck was waiting there - it was not. At 8:30, no one was on location yet, so I left. All of the injection wells are to be shut-in until these tests are rescheduled.

June 23, 2010

Page 4

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,

Handwritten signature of Richard Inge in black ink.

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.