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Manzano, LLC

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P.O. Box 2107

Roswell, New Mexico 88202-2107

(575) 623-1996

January 30, 2008

New Mexico Energy, Minerals and Natural Resources Department
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Attention: Engineering Bureau

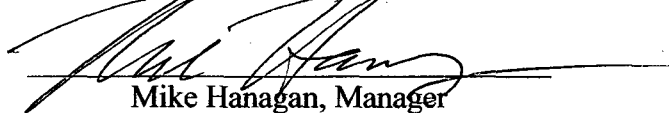
RE: Administrative Order SWD-1021-A
Manzano Peter Grande State #1
Section 1 – T10S – R32E
Lea County, New Mexico

As required by Administrative Order SWD-1021-A, please find enclosed a letter from Yates Petroleum Corporation to the Division regarding remedial work on its Mescalero ARL State No. 1 well and the approval by Yates for Manzano to inject produced water into our Peter Grande State No. 1 well.

We hope to begin re-completion operations starting the first week of February and would appreciate your prompt written approval of the Yates remedial work which is also a requirement in the above referenced order.

Should you have any question or comments, please feel free to call me at 575-623-1996 (cell phone is 575-420-8821 & email is mhanagan@dfn.com). Thank you for your help with this matter.

MANZANO, LLC



Mike Hanagan, Manager

MARTIN YATES, III
1912-1985

FRANK W. YATES
1936-1986



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1220 South St. Francis Drive
Santa Fe, New Mexico 87505

January 28, 2008

Manzano LLC (Manzano) proposed to convert their Peter Grande State Well No. 1 in Sec. 1-10S-32E to water disposal service. Yates Petroleum Corporation (YPC) originally objected to this conversion on the grounds that there was no cement across the proposed injection interval in our Mescalero ARL State No. 1 well.

YPC agreed to place cement in our Mescalero ARL State No. 1 across the proposed injection interval of Manzano's Peter Grande State Well No. 1 with Manzano to reimburse YPC for the cost of the well repair work.

After removing production equipment and setting a RBP at 8500', squeeze holes were perforated at 7200' and 7198'. It was attempted to circulate up the 5½" x 8⅝" annulus at up to 1500 psi down casing but circulation could not be established. Tubing and packer were run but we could not pump into holes at 3000 psi. We then ran a cement bond log to identify where we might be able to perforate for circulation.

Squeeze holes were perforated at 4800'. The casing was pressured to 1500 psi but we were unable to pump into holes. Again, a packer was run and pressured up to 3000 psi, unable to circulate to surface.

Additional holes were perforated at 4100'. A packer was set at 4123'. Circulation was established through holes at 4800' up through holes at 4100'. TOH. A cement retainer was set at 4767'. Circulation was established through perfs at 4100' and the well was cemented with 175 sacks of cement. The tubing was pulled up to 4000' and 27 sacks of cement were circulated out.

After WOC time, bit and collars were run. Cement was tagged at 4160'. Perforations at 4100' were tested to 500 psi. and held OK. Additional cement stringers were drilled to the retainer. The retainer and cement were drilled to 4805'. All squeeze holes were tested to 500 psi, sand was washed off RBP and it was retrieved. The well was returned to production with the proposed injection interval adequately protected.

Yates Petroleum Corporation is satisfied that the wellbore of Mescalero ARL State No. 1 has been adequately protected and access to any fresh water from the injection interval has been eliminated. YPC approves of the proposal to inject produced water into the interval 4350' to 4470' in Manzano's Peter Grande State Well No. 1.

A handwritten signature in black ink, appearing to read "Sam Brandon", with a long, sweeping horizontal line extending to the right.

Sam Brandon
Area Engineer
Yates Petroleum Corporation
(575) 748-4281