

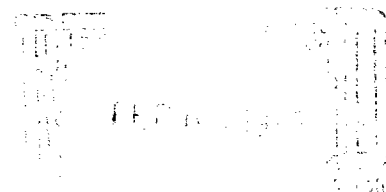


SIETE OIL & GAS CORPORATION

*Petroleum Building Suite 200
P.O. Box 2523 Roswell, New Mexico 88201
Telephone (505) 622-2202*

February 3, 1988

William J. LeMay, Director
Oil Conservation Division
State Land Office Building
P.O. Box 2088
Santa Fe, New Mexico 87504



Re: Application for Exception of Commission Rule 303-A for the Jade Federal Lease; SE/4 NW/4 Sec. 19, T-18S, R-32E in Lea County, NM.

Dear Mr. LeMay:

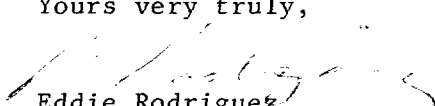
Siete Oil and Gas Corporation respectfully requests exception to the above rule and administrative approval to surface commingle production from our Jade Federal No. 1 Delaware and Jade Federal No. 2 Penrose producers.

Initial development of the Jade Federal Lease (40 acres) begin with the drilling and completion of the Jade Federal No. 1 well in the East Shugart Delaware pool in July, 1987. The well had an IP of 142 BOPD, 150 MCFGPD and 101 BWPD from the Delaware formation. The Jade Federal No. 1 produced an average of 104 BOPD and 138 MCFGPD, and 92 BOPD and 122 MCFGPD in December, 1987 and January, 1988, respectively. This well is no longer capable of producing in allowable quantities. The Jade Federal No. 2 well was recently drilled and completed as a Penrose producer in the Shugart Yates-7-Rvrs-Q-Grayburg pool for an initial potential of 60 BOPD, 3 BWPD and 25 MCFGPD. This well currently produces 41 BOPD, 0 BWPD and 15 MCFGPD.

The Jade Federal Nos. 1 and 2 wells share common ownership and the product value of Delaware and Penrose oil will not be reduced by surface commingling. Recent oil analysis show the Jade Federal No. 1 Delaware oil having an API gravity of 41.5 degrees and sulfur content of .15 wt. %, and the Jade Federal No. 2 Penrose oil having an API gravity of 33 degrees and a sulfur content of .394 wt. %. The commingled oil will have an approximate gravity of 39 degrees API, and a sulfur content of .225 wt. %.

Siete Oil and Gas Corporation proposes to allocate individual well production on the basis of current well tests. Subsequently, the Jade Federal No. 1 will receive 69 percent of oil and 89% of gas production. The Jade Federal No. 2 will receive the remaining percentages, 31% of oil and 11% of gas production.

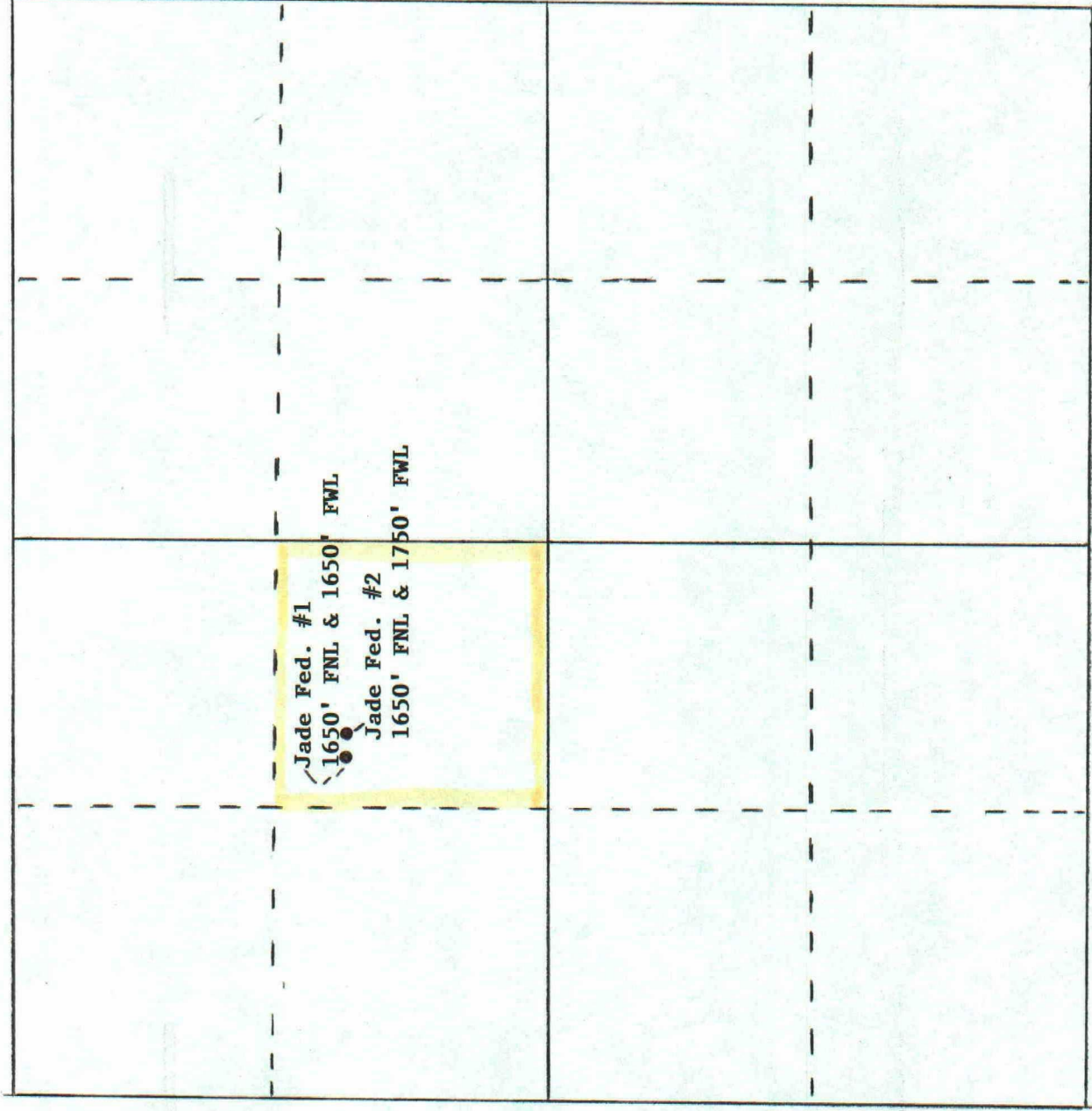
Yours very truly,


Eddie Rodriguez
Production/Reservoir Engineer

SIETE OIL & GAS CORPORATION

Jade Federal Lease

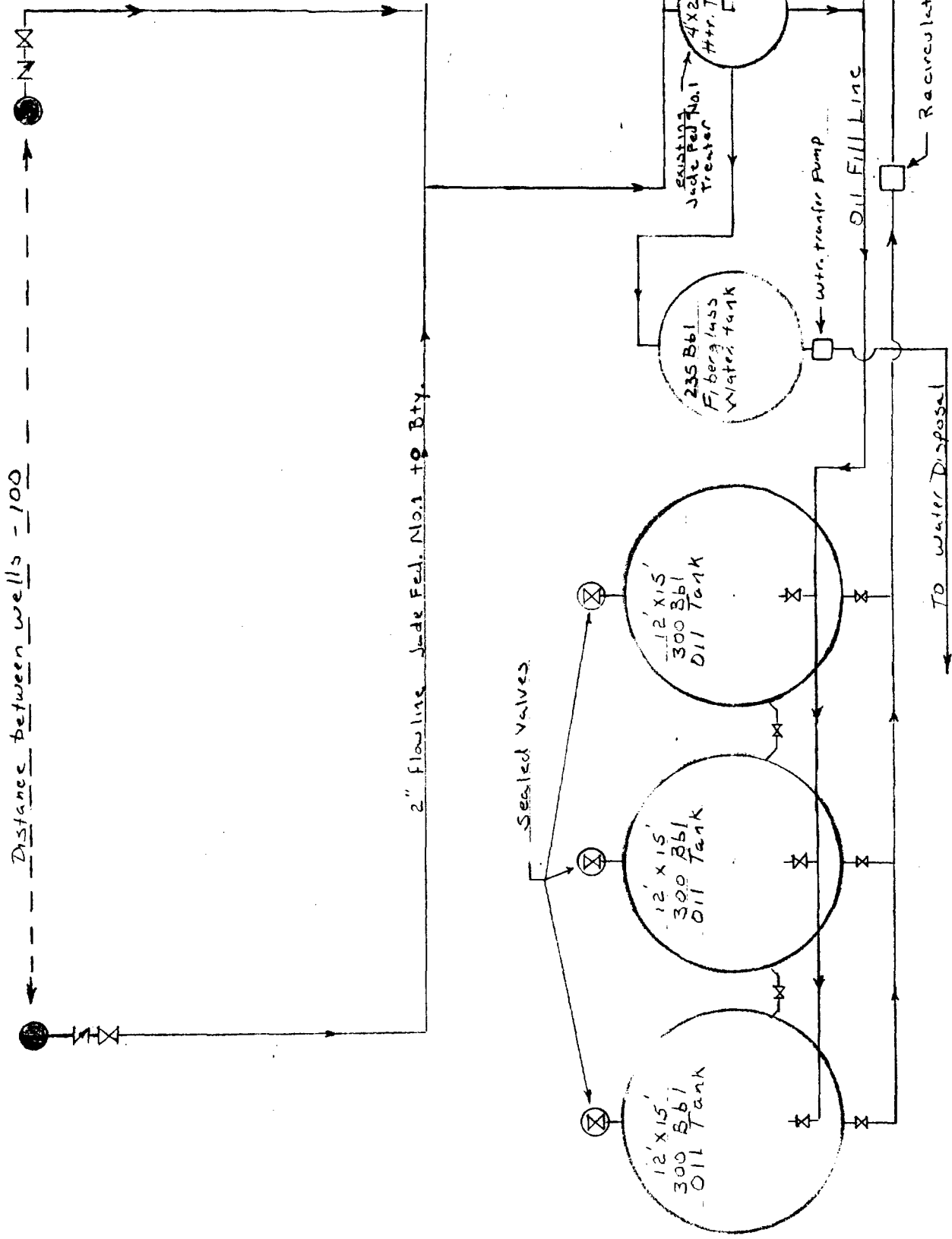
Section 19: Township 18 South, Range 32 East
Lea County, New Mexico



Jade Federal Battery Layout
 SE/4 NW/4 Sec. 19 T-185 R-32 E
 Leas County, N.M.

Jade Federal No. 1
 Delaware Producer
 E. Shugart Delaware

Jade Federal No. 2
 Penrose Producer
 Shugart Yate-7201-A-6 by



Drawn by: Eddie Rodriguez 26