

CANO PETRO OF NEW MEXICO, INC.

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December 2, 2009

Via E-Mail

Maxey Brown
New Mexico Energy, Mineral and
Natural Resources Department
Oil Conservation Division
1625 N. French Drive
Hobbs, New Mexico 88240

Re: Letter of Violation -- Inspection performed October 22, 2009
Cato San Andres Unit Well Nos. 20, 21, 23, 26, 27, 28, 30, 48, 49, 50, 50J, 51,
55, 56, 57, 73, 77, 78, 79, 80, 81, 520, 533, 544, 547, 822, 827, 854

Dear Mr. Brown:

This responds to your October 23, 2009 letter setting out compliance matters regarding the above-referenced wells and identifies the corrective actions that Cano undertook prior to the deadline in your letter.

Enclosed for each of the referenced wells are photographs taken at each well site and a spreadsheet identifying the corrective actions undertaken at each well site, as well as the current status of each of the wells. Each photograph is dated and timed and demonstrates the corrective actions undertaken in response to the matters addressed in your October 23, 2009 letter.

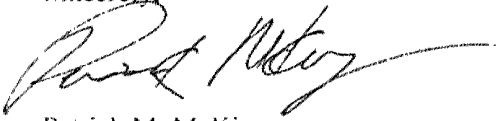
Per the enclosed materials, we successfully addressed all of the matters specified in your letter before the corrective action deadline of November 25, 2009. Following our compliance meeting in Santa Fe on November 20th, Jayme Wollison, our Senior Director of Operations, personally inspected each of the well sites on November 24th to verify that all required corrective actions had been completed and ensure that all of the injection wells were in compliance with the Division's order.

We have ordered signs for all our well sites that do not have a current Cano sign. The signs are being made at this time and should all be shipped by December 27, 2009. We are also beginning the process of inspecting all of our other wells, for purposes of checking for any possible compliance issues and remedying those as we find them.

Maxey Brown
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Please contact us if you have any questions regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick McKinney", with a long horizontal flourish extending to the right.

Patrick M. McKinney
Vice President of Operations

Enclosures

cc: Sonny Swazo

CANO PETRO OF NEW MEXICO

LIST OF DEFICIENCIES ON CATO LEASE THAT HAVE BEEN CORRECTED

FOLLOW UP ON

OCD INCIDENT REPORT FILED 10-22-09

Inspected on 11/24/2008 by Jayme Wollison, Cano Petroleum, Inc Sr. Director of Operations

WELL NAME	WELL NUM.	API NUMBER	PERMIT PRESSURE	CURRENT STATUS	CURRENT PRESSURE	CURRENT SIGN	COURSE OF ACTION TAKEN STARTING ON 10-23-09 Cano Petro New Mexico
C.S.A.U.	20	30-005-10504-0000 J	1540	INJ	1300	YES	Shut-in immediately and reopened on 10-24-09 below permit pressure
C.S.A.U.	21	30-005-20069-0000 J	1365	INJ	1250	YES	Shut-in immediately and reopened on 10-25-09 below permit pressure, cleaned trash and sandline from site 11-13-09
C.S.A.U.	23	30-005-10523-0000 ✓	1220	INJ	1100	YES	Shut-in immediately and reopened on 10-25-09 below permit pressure
C.S.A.U.	26	30-005-10514-0000 J		P&A		NA	P & A MARKER installed 11-17-09
C.S.A.U.	27	30-005-10491-0000 ✓		prod		YES	Well sign installed 11-20-09
C.S.A.U.	28	30-005-10503-0000 J	650	INJ	200	YES	Shut-in immediately and reopened on 10-23-09 below permit pressure
C.S.A.U.	30	30-005-10483-0000 ✓	0	SI	0	YES	Installed sign on 11-20-09
C.S.A.U.	48	30-005-10484-0000 J	1530	INJ	1490	YES	ACIDIZED 10-26-09 Left shut in until 10-28-09 Returned to injection below permitted pressure
C.S.A.U.	49	30-005-10455-0000 ✓	1010	INJ	1000	YES	Shut in ran BHP bomb in to record fall off, started re-injection on 11-13-09
C.S.A.U.	50	30-005-10580-0000 J	850	INJ	775	YES	Shut-in immediately and reopened on 10-25-09 below permit pressure installed sign on 11-20-09
C.S.A.U.	50 J	30-005-10580-0000		P&A		NA	Removed concrete base, re set P&A marker 11-20-09
C.S.A.U.	51	30-005-10539-0000 ✓	650	SI	600	YES	Shut-in immediately only bled off to 1100#, flowed back on 11-22-09 well still shut in, installed sign 11-20-09
C.S.A.U.	55	30-005-10560-0000 ✓		SI		YES	Installed sign 11-20-09
C.S.A.U.	56	30-005-10579-0000 J	650	INJ	525	YES	Shut-in immediately and reopened on 10-27-09 below permit pressure
C.S.A.U.	57	30-005-10502-0000 ✓	650	INJ	600	YES	Shut-in immediately and reopened on 11-04-09 below permit pressure Stood sign up that had fallen over
C.S.A.U.	73	30-005-20017-0000 ✓		prod		YES	Installed sign 11-20-09
C.S.A.U.	77	30-005-10532-0000 J	650	SI	650	YES	Shut-in immediately and reopened on 11-21-09 below permit pressure SI ON 11-26-09 hit max pressure, installed sign on 11-20-09
C.S.A.U.	78	30-005-10581-0000 J		P & A		NA	Crew picked up location, removed sign 10-28-09
C.S.A.U.	79	30-005-10540-0000 J		P & A		NA	Crew picked up location, removed old flowline and sign 10-28-09
C.S.A.U.	80	30-005-20124-0000 ✓		P & A		NA	Corrected marker installed, location cleaned off and moved our chemical pump to another spot for our header 11-12-09
C.S.A.U.	81	30-005-10572-0000 J		TA		YES	Installed sign 11-20-09
C.S.A.U.	520	30-005-28027-0000 ✓		A P		YES	Installed sign 11-20-09
C.S.A.U.	533	30-005-27985-0000 ✓	1380	INJ	1100	YES	Shut in well, reopened and Acidized on 10-27-09 injecting @ 1100 # Re set P & A marker on old well 11-16-09
C.S.A.U.	544	30-005-27986-0000 ✓		A P		YES	Installed well sign 11-20-09
C.S.A.U.	547	30-005-27988-0000 ✓		A P		YES	Installed well sign 11-20-09
C.S.A.U.	822	30-005-29028-0000 J	1370	INJ	1050	YES	Shut in well, reopened and Acidized on 10-26-09 injecting @ 1050#
C.S.A.U.	827	30-005-29030-0000 J		TA		YES	Installed well sign 11-20-09, filled mouse hole with caliche
C.S.A.U.	854	30-005-29031-0000	650	INJ	500	YES	Shut-in immediately and reopened on 10-24-09 below permit pressure

All injection wells are in compliance in addition to wells with violations.

ALL OTHER ADJOINING LEASES HAVE BEEN INSPECTED AND ARE BEING MADE SURE THEY ARE ALSO IN COMPLIANCE .

All wells have had new signs ordered and are awaiting them to be made and delivered.