

# CANO PETRO OF NEW MEXICO, INC.

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Fort Worth, TX 76102

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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.

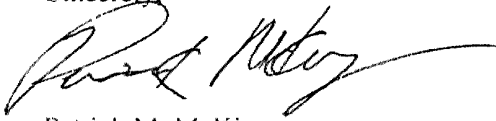
Per the enclosed materials, we successfully addressed all of the matters specified in your letter before the corrective action deadline of November 25, 2009. Following our compliance meeting in Santa Fe on November 20<sup>th</sup>, Jayme Wollison, our Senior Director of Operations, personally inspected each of the well sites on November 24<sup>th</sup> 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 remediating those as we find them.

Maxey Brown  
December 2, 2009  
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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<br>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 ✓ | 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 ✓ |                 | 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 ✓ |                 | 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.