



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Pecos District
Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201-2019
www.nm.blm.gov



In Reply Refer To:
NM-88748
3108 (P0130)

CERTIFIED-RETURN RECEIPT REQUESTED
7003 0500 0000 4454 0235

Cano Petroleum of New Mexico, Inc.
801 Cherry Street, Suite 3200
Fort Worth, TX 76102

JUN 07 2010

#1 30-005-20588

RECEIVED

#2 30-005-20610

JUN 09 2010

HOBBSOCD

Gentlemen:

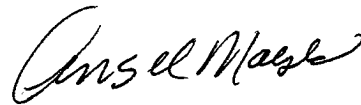
This notification under 43 CFR 3107.2-1 and 43 CFR 3107.2-2 is a result of a review of our files because the subject lease is in its extended term by production and can only remain in full force and effect so long as oil or gas is being produced in paying quantities under 43 CFR 3107.2-1. According to our records the wells No. 1 and 2-Amoco Federal in Sec. 1, T. 8 S., R. 30 E. have not produced since February 1998, therefore lease NM-88748 must contain a well capable of producing oil or gas in paying quantities. Paying quantities is defined as enough oil and gas to pay the day-to-day operating and lease maintenance costs, including minimum royalty on a sustained basis.

BLM has determined that this lease is not capable of production in paying quantities. Under 43 CFR 3107.2-2, Cano Petroleum of New Mexico, Inc. is allowed 60 days from receipt of this letter within which to commence reworking or drilling operations on the leasehold. The lease will remain in full force and effect if approved operations are commenced and are conducted with reasonable diligence during the period of nonproduction.

If reworking or drilling operations have not commenced or at least one of the Amoco Federal wells is not placed on continuous production within 60 days of receipt of this letter, oil and gas lease NM-88748 will automatically terminate the date of receipt of this letter. If one or more of the Amoco Federal wells is placed on continuous production and production ceases, oil and gas lease NM-88748 will automatically terminate. Cano Petroleum of New Mexico, Inc. will be responsible for plugging the Amoco Federal wells and any other related facilities located on the leasehold within 90 days of receipt of this letter.

The aforementioned information is furnished so you may take such action as you consider appropriate. You are further reminded that no production tests or other operations should be conducted on oil and gas lease NM-88748 without prior approval of this office. If you need additional information and/or have any questions regarding this letter, please contact David Glass, Petroleum Engineer at the above address or at (575) 627-0275.

Sincerely,

A handwritten signature in cursive script, reading "Angel Mayes".

Angel Mayes
Assistant Field Manager,
Lands and Minerals