

September 6, 2006

Jim Hollon Consulting

Environmental and Regulatory

Texas RRC & New Mexico OCD

Site Assessments & Remediation

Spill Response, H₂S Compliance

Due Diligence

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Attn: Mr. Mike Self

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Re: Summary
MRU 35 # 1 site
UL – I, Section 35, T19S, R34E, 1980 FSL, 560 FEL
Lea County, New Mexico
1.5 miles southwest of Hwy 62 & Cr 27-A

Dear Mr. Self:

This summary includes the project information summary and preliminary site investigation.

A. PROJECT INFORMATION SUMMARY

The MRU 35 # 1 site is located approximately 1.5 miles southwest of the Highway 62 and County Road 27-A intersection. The site is located on property overseen by the Bureau of Land Management (BLM).

The release occurred on August 5, 2006 from a connection at the wellhead. The integrity failure released approximately 24 barrels of produced water to the surface affecting primarily the well location and road with a narrow strip, approximately six feet by fifty feet, running down a pipeline right-of-way. The release covered a total area of approximately 775 square yards. There were no standing fluids to recover. The caliche location and road was dragged with a backhoe to blend the hydrocarbon carryover and facilitate in drying.

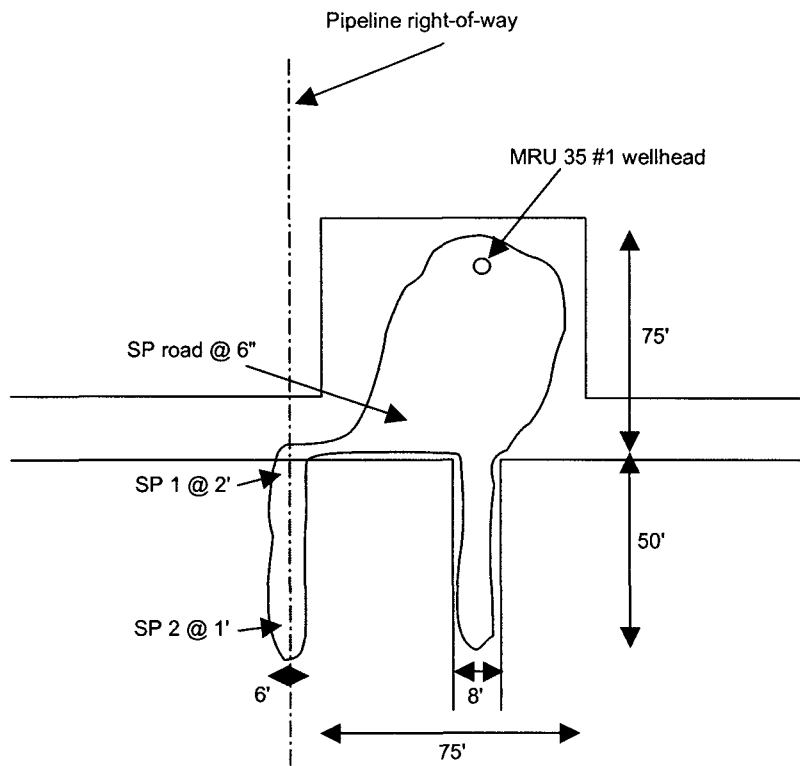
B. PRELIMINARY SITE INVESTIGATION

A limited site investigation was performed by Jim Hollon to delineate the extent of soil impact on August 10, 2006. The New Mexico Oil Conservation Division (NMOCD) "Guidelines for Remediation of Leaks, Spills and Releases" dated August 13, 1993 was used as a guide during the site investigation.

No surface water bodies or water wells were identified within 1,000 feet of the project site. The New Mexico Office of the State Engineer web site was utilized to determine that the ground water depth is greater than 100 feet below ground surface (bgs) for the surrounding area.

A soil auger was utilized to collect soil samples which were analyzed to evaluate the extent of chloride impact in the soil. One sample was collected from the road at a depth of six inches bgs which had a chloride concentration of 1,350 mg/kg. Two samples were collected from the pipeline right-of-way. Sample number one was near the road and collected from two feet bgs and sample number two was from near the end of the flow path from one foot bgs. The chloride concentration of the soil sample number one at two feet bgs was 2,630 mg/kg and the sample number two at one foot bgs was 601 mg/kg.

Shaded area represents affected area



* = Sample points		Merit Energy Company	Figure 1 Site Map
Not to Scale		Mescalero Ride Unit 35#1	Prepared By: Jim Hollon Consulting
↑ N		1.5 miles southwest of Hwy 62 & Cr 27-A Lea County, New Mexico	

Table 1

CONCENTRATIONS OF CHEMICALS OF CONCERN IN SOIL

Merit Energy
MRU 35 # 1 Site
1.5 mi. SW of Hwy 62 & Cr 27-A
Lea County, New Mexico

All concentrations are in mg/kg

Sample Date	Sample Location	Sample Depth	Total Chlorides EPA 300.0
8/10/2006	road	6"	1,350
	1	2'	2,630
	2	1'	601

CONCENTRATIONS IN BOLD ARE ABOVE REGULATORY GUIDELINES