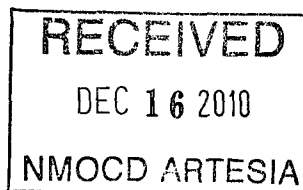




December 10, 2010



AMARILLO
921 North Bivins
Amarillo, Texas 79107
Phone 806.467.0607
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ARTESIA
408 West Texas Ave.
Artesia, New Mexico 88210
Phone 575.746.8768
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HOBBS
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MIDLAND
2901 State Hwy 349
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Fax 210.568.2191

TULSA
525 South Main Street
Suite 535
Tulsa, Oklahoma 74103
Phone 918.742.0871
Fax 918.382.0232

Mr. Mike Bratcher
NMOCD District 2
1301 W Grand Avenue
Artesia, NM 88210

RE: Final Closure Report for the Finney Oil Company Malco #1 Storage Tank Crude Release (Lease # LC 067849) 2RP-398.

Dear Mr. Bratcher,

Background

On February 6, 2010 a crude oil release was discovered at the Malco #1 storage tank. The leak resulted from a hole in the tank which was subsequently repaired. The property owner, US Bureau of Land Management (BLM) was informed of the release and a C-141 was filed with the New Mexico Oil Conservation Division (NMOCD). The estimated quantity of release was reported as 25.5 barrels, of which nothing was immediately recovered. The resultant spill measured up to 700 feet in length along the larger of the two divergent flow paths, downhill to the north and northwest. The width of the flow paths averaged between 3 feet to 20 feet in width. To minimize the immediate effects of the release, Mr. Finney spread soil and caliches on parts of the flow path to act as an absorbent.

Field Activities

Mr. Finney contacted Talon on March 9, 2010 to request assistance with the remediation activities. Talon subsequently visited the site and then received verbal approval from the NMOCD District 2 office to perform preliminary sampling activities (3/17/10). Talon collected samples along the flow path at depths ranging from 1.5 feet to 3.5 feet below ground surface (bgs). These samples were collected in laboratory provided sample containers, preserved on ice and relinquished to Cardinal Laboratories in Hobbs, NM for analysis of TPH GRO/DRO by SW-846 Method 8015B, BTEX by SW-846 Method 8021, and total chlorides. These analytical results are provided with this letter. Please note that sample point FP-6 is incorrectly identified as a duplicate of FP-5 on the laboratory summary page (i.e. the second FP-5 should be labeled as "FP-6"). This laboratory report was submitted with the original work plan.

While performing the site sampling, Talon identified numerous historic release flow paths from apparent chloride impacts originating from sources not associated with the Malco #1 incident. The Malco #1 release does appear to cross some of these historic flow paths. This is a very old field and exhibits visual evidence of heavy historic chloride impacts in the surrounding terrain. The area is heavily traversed by flow lines and contains many oil production appurtenances.

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Based on this visual observation and the background sampling performed by Talon, it appears that Mr. Finney's declaration that the release should have contained little, if any, produced water appears valid.

Analytical results for the sample collected by Mr. Finney from the surface of the flow path (as requested by the BLM - sample I.D. "Tank Battery") indicate a chloride level of 320 mg/kg. Laboratory results from Talon's delineation sampling indicate that only two sample locations exhibited chlorides above 500 mg/kg, and one of these locations (FP-2) was collected outside of the Malco #1 release (between the two flow paths) for use as a background sample. The FP-2 sample indicated very low hydrocarbon content, but elevated chlorides (3,120mg/kg). Additionally, Talon collected three off-site background samples up gradient of the location. Two of these samples (001 and 003) were submitted to the laboratory for chloride analysis. The results indicate background chloride concentrations at 12,400 and 14,000 mg/kg, respectively. This data was submitted with the original work plan.

Final Closure Report

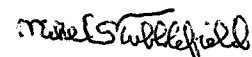
Talon mobilized equipment to the Malco Federal #1 site on May 3, 2010. The flow path located north of the Malco tank battery was ripped and then treated using an emulsion of 50 gallons of micro blaze and 1700 gallons of fresh water. The site was monitored over a four (4) month period. Proper notification to witness soil sampling was provided to the NMOCD on August 18, 2010.

On August 20, 2010 a composite soil sample was collected for analytical testing from 0.5 feet to one (1') foot below ground surface (bgs) along the flow path to evaluate the remedial results. This sample was collected in laboratory provided containers, preserved on ice, and relinquished to Cardinal Lab in Hobbs, NM for analysis for TPH GRO/DRO by SW-846 Method 8015B, BTEX by SW-846 8021. Analytical results dated September 1, 2010 are attached.

The analytical results received from Cardinal Lab dated September 1, 2010 reported the TPH to be 4610 mg/kg. BTEX was reported to be <50 mg/kg. The site ranking score for the Malco #1 is 0. The TPH and BTEX as reported by analytical results were under the corrective actions level for this site. Therefore Finney Oil Company respectfully requests closure for the release that occurred on February 6, 2010.

If you have any questions please feel free to call us.

Respectfully Submitted,


Mike Stubblefield
Project Manager
Talon/LPE - Artesia

APPENDIX I
LABORATORY REPORT



September 01, 2010

GARY SMITH

TALON LPE

408 W. TEXAS AVE.

ARTESIA, NM 88210

RE: MALCO FEDERAL #1

Enclosed are the results of analyses for samples received by the laboratory on 08/20/10 16:47.

Cardinal Laboratories is accredited through Texas NELAP for:

Method SW-846 8021	Benzene, Toluene, Ethyl Benzene, and Total Xylenes
Method SW-846 8260	Benzene, Toluene, Ethyl Benzene, and Total Xylenes
Method TX 1005	Total Petroleum Hydrocarbons

Certificate number T104704398-08-TX. Accreditation applies to solid and chemical materials and non-potable water matrices.

Cardinal Laboratories is accredited through the State of Colorado Department of Public Health and Environment for:

Method EPA 552.2	Haloacetic Acids (HAA-5)
Method EPA 524.2	Total Trihalomethanes (TTHM)
Method EPA 524.4	Regulated VOCs (V2, V3)

Accreditation applies to public drinking water matrices.

This report meets NELAP requirements and is made up of a cover page, analytical results, and a copy of the original chain-of-custody. If you have any questions concerning this report, please feel free to contact me.

Sincerely,

Celey D. Keene

Lab Director/Quality Manager

Analytical Results For:

TALON LPE
GARY SMITH
408 W. TEXAS AVE.
ARTESIA NM, 88210
Fax To: (575) 745-8905

Received: 08/20/2010
Reported: 09/01/2010
Project Name: MALCO FEDERAL #1
Project Number: MALCO #1
Project Location: EDDY COUNTY

Sampling Date: 08/20/2010
Sampling Type: Soil
Sampling Condition: Cool & Intact
Sample Received By: Jodi Henson

Sample ID: COMPOSITE (H020690-01)

BTX 8021B		mg/kg	Analyzed By: CK						
Analyte	Result	Reporting Limit	Analyzed	Method Blank	BS	% Recovery	True Value QC	RPD	Qualifier
Benzene*	<0.050	0.050	08/24/2010	ND	0.810	81.0	1.00	5.27	
Toluene*	<0.050	0.050	08/24/2010	ND	0.860	86.0	1.00	3.68	
Ethylbenzene*	<0.050	0.050	08/24/2010	ND	0.906	90.6	1.00	2.96	
Total Xylenes*	0.383	0.150	08/24/2010	ND	2.65	88.2	3.00	3.89	

Surrogate: 4-Bromofluorobenzene (PIL) 94.5 % 80-120

Chloride, SM4500Cl-B		mg/kg	Analyzed By: HM						
Analyte	Result	Reporting Limit	Analyzed	Method Blank	BS	% Recovery	True Value QC	RPD	Qualifier
Chloride	80.0	16.0	08/24/2010	ND	416	104	400	3.77	

TPH 8015M		mg/kg		Analyzed By: AB				S-06	
Analyte	Result	Reporting Limit	Analyzed	Method Blank	BS	% Recovery	True Value QC	RPD	Qualifier
GRO C6-C10	<50.0	50.0	08/31/2010	ND	187	93.3	200	6.38	
DRO >C10-C28	4610	50.0	08/31/2010	ND	191	95.7	200	6.38	

Surrogate: 1-Chlorooctane 21.4 % 70-130

Surrogate: 1-Chlorooctadecane 26.0 % 70-130

Cardinal Laboratories

*=Accredited Analyte

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Celey D. Keene, Lab Director/Quality Manager

Notes and Definitions

S-06	The recovery of this surrogate is outside control limits due to sample dilution required from high analyte concentration and/or matrix interference's.
QM-07	The spike recovery was outside acceptance limits for the MS and/or MSD. The batch was accepted based on acceptable LCS recovery.
ND	Analyte NOT DETECTED at or above the reporting limit
RPD	Relative Percent Difference
**	Samples not received at proper temperature of 6°C or below.
***	Insufficient time to reach temperature.
-	Chloride by SM4500Cl-B does not require samples be received at or below 6°C Samples reported on an as received basis (wet) unless otherwise noted on report

Cardinal Laboratories

* = Accredited Analyte

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Celey D. Keene, Lab Director/Quality Manager



101 East Marland, Hobbs, NM 88240

(575) 393-2326 Fax (575) 393-2476

Page 1 of 1

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Terms and Conditions: Interest will be charged on all accounts more than 30 days past due at the rate of 24% per annum from the original date of invoice, and all costs of collections, including attorney's fees.

Sampler Relinquished: <i>Kay Smith</i>		Date: <i>8-20-10</i> Time: <i>2:41</i>		Received By: 		Phone Result: <input type="checkbox"/> No Add'l Phone #: Fax Result: <input checked="" type="checkbox"/> No Add'l Fax #: REMARKS:	
Relinquished By: 		Date: <i>8/20/10</i> Time: <i>4:47</i>		Received By: <i>Jodi Henson</i>			
Delivered By: (Circle One) (Sampler) - UPS - Bus - Other:		Temp. <i>60</i> <i>65</i>		Sample Condition Cool Intact <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		CHECKED BY: (Initials) <i>JH</i>	

† Cardinal cannot accept verbal changes. Please fax written changes to 575-393-2476.

#26