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March 2, 2007

Merit Energy Company
13727 Noel Rd. Ste 500
Dallas, Texas 75240

Re: Site Remediation Update
South Lane Rd. SWD site
T10S, R33E, Section 35, UL – D, 500 FNL, 500 FWL
Lea County, New Mexico

This update includes the project information summary, State Land Office's written orders, and summary of reclamation activities.

A. PROJECT INFORMATION SUMMARY

The South Lane Road SWD site is located approximately 5 miles north of Highway 380 and 500 feet east of County Road 155, northwest of Tatum, New Mexico. The site is located on property overseen by the New Mexico State Land Office (SLO).

The site is a disposal well for produced water from a lease operated by Merit Energy Company (Merit). The site features included the well head, a 500 barrel (bbl) fiberglass tank, a 300 bbl steel tank, a 210 bbl steel tank and an approximate 1,000 bbl wooden tank. The 300, 210 and 1,000 bbl tanks were not in use and the 1,000 bbl tank was partially below grade.

B. SLO WRITTEN ORDERS

A site visit was performed by a SLO Engineer on December 12, 2006. Following the visit the subsequent written orders have been issued:

- remove obsolete equipment;
- remove all trash and debris;
- remove underground tank in compliance with New Mexico Oil Conservation Division (OCD) rules and regulations;
- Excavate and dispose contaminated soils and collect confirmation samples; and,
- Install a berm around the tank battery sufficient to contain 1.5 times the volume of the tankage.

C. ACTIVITIES TO DATE

During the week of February 5, 2007 a back-hoe and roustabout crew were utilized to remove the 300, 210 and 1,000 bbl tanks. Soil samples were collected from under the tanks and analyzed for chloride. Samples were collected from various depths, down to 19 feet below ground surface (bgs), from under the 1,000 bbl tank in two locations, labeled east and west. The samples from 19 feet bgs had chloride concentrations of 5,310 mg/kg and 12,700 mg/kg, respectively. Samples were collected from under the 300 and 210 bbl tanks at 6 feet bgs and had chloride concentrations of 6,500 mg/kg and 2,210 mg/kg, respectively.

D. PROPOSED ACTIVITIES

A mobile air-rotary drilling rig has been scheduled for Monday, March 12, 2007, to collect additional delineation samples. A total of six soil borings are anticipated to be advanced, one boring will be advanced directly under the tank's bottom and five soil borings will be advanced around the perimeter of the tank. The anticipated depth to groundwater is 32 feet bgs and in the event groundwater is encountered, the boring will be advanced to a point which is determined to be the bottom of the water bearing zone. A sample of the water will be collected and field screened for chlorides, should chlorides be detected above 250 mg/kg the soil boring will be converted to a monitor well.

The soil and water samples collected will be sealed in laboratory prepared containers, placed on ice in a cooler. The samples and completed chain-of-custody form will be relinquished to Environmental Lab of Texas in Odessa, Texas for analysis. The samples will be analyzed for chlorides using EPA Method 300.0.

The laboratory analysis will be used to determine if the affected area has been successfully delineated. Once the affected area has been delineated, a work plan will be developed and submitted to Merit and the SLO and OCD for approval.

If you should have any questions or comments regarding this update, please contact the undersigned.

Sincerely,

Jim Hollon PM-249
Jim Hollon Consulting

Cc: Thaddeus Kostrubala, Environmental Engineer – NMSLO
Larry Johnson, District 1 - NMOCD

Overview of site after removal of tanks

Figure 3. View from road down right-of-way

Figure 4. View from end of flow path back to road

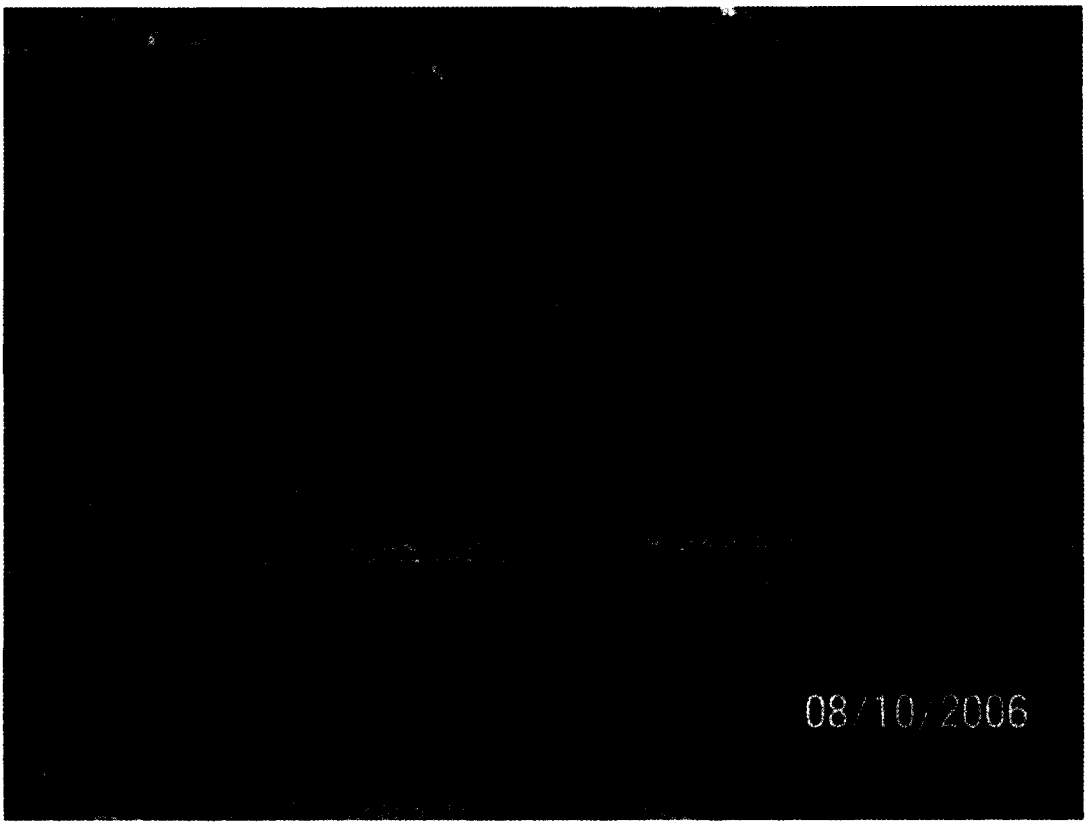

Figure 1. View from wellhead down the road

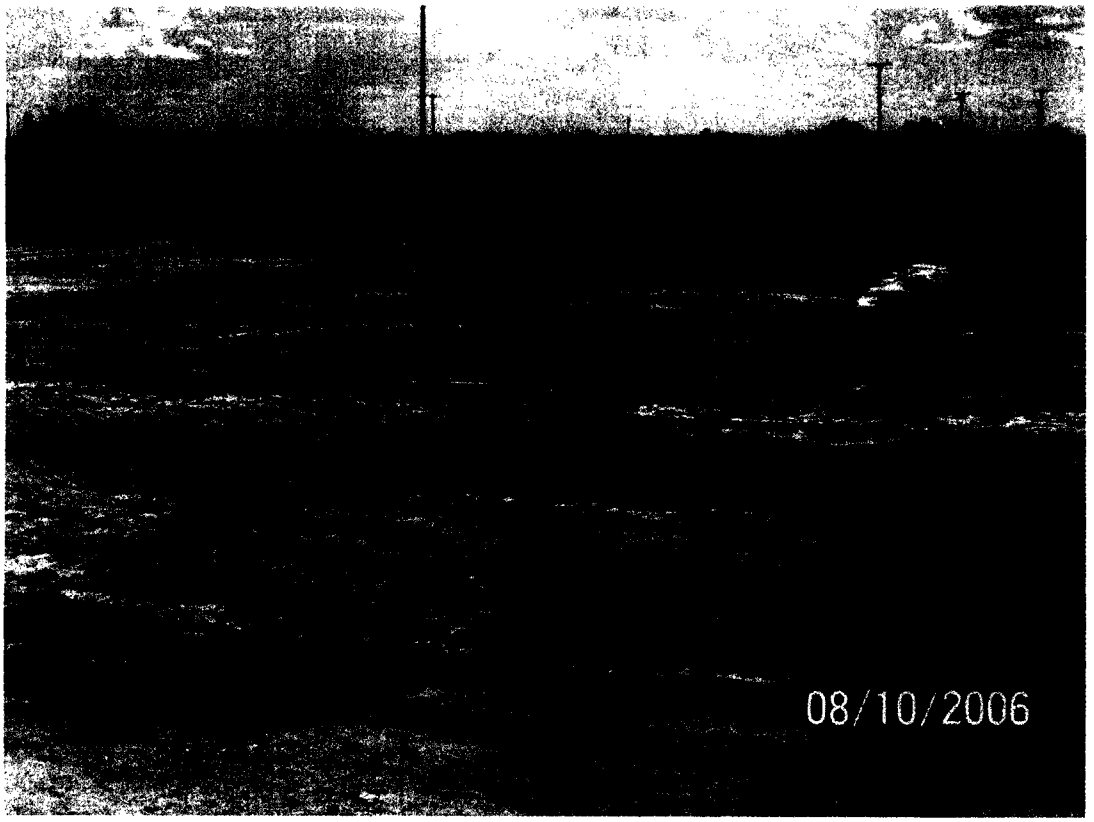

Figure 2. View from wellhead towards pipeline right-of-way