

April 14, 2010

Mr. Mohammed Merchant
Penroc Oil Corp
PO Box 2769
Hobbs, NM 88241-2769

Re: Failure to notify of a release and to perform corrective action of release per NMAC
Rules 19.15.29.8 – 19.15.29.11

Mr. Merchant

On March 23, 2010, Geoffrey Leking, Environmental Engineer, NMOCD-Hobbs accompanied Elido Gonzales, Inspection Supervisor, NMOCD-Hobbs to the Clabe Pearson Ranch to investigate a potential release(s) upon this property.

Investigation displayed the presence of two releases:

- 1) A flow line leak approximately 200 yards east of the Penroc State GC Well No.2, C-7-22S-35E, API# 30-025-38617-00-00. The area affected by the release was approximately 12' X 18' of pasture land. The flow line displayed one patch on the flow line at the release area.
- 2) A release at the Penroc State GC Lease, State Lease No. L-6377, O-7-22S-35E tank battery which is adjacent to the east of the State GC Well No.1, 660' FSL and 1980 FEL, O-7-22S-35E, API# 30-025-26559-00-00. The area affected by the release was portions of the inside of the diked area, portions of the pad outside the diked area and a flow of approximately 100 to 200 yards east of the tank battery in the adjoining pasture land. A secondary release was observed at a valve south of the diked area near the lease road.

The company is required to immediately:

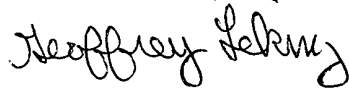
- 1) Evaluate the releases and report them on C-141 Forms to NMOCD-Hobbs.
- 2) Submit an investigation and subsequent remediation plan to NMOCD-Hobbs for its approval in order to perform the appropriate corrective action at the release sites.

Please submit the above referenced documents within 14 days of the reception of this letter to:

Geoffrey Leking
Environmental Engineer
NMOCD-Hobbs
1625 N. French Drive
Hobbs, New Mexico 88240

Please contact Geoffrey Leking at 575-393-6161 Ext. 113 or 575-399-2990 if you have any questions. I can also be contacted by email at the following address: geoffreyr.leting@state.nm.us. Thank you for your attention to this matter.

Geoffrey Leking

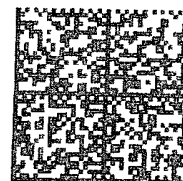
A handwritten signature in black ink that reads "Geoffrey Leking". The signature is written in a cursive, flowing style.

Environmental Engineer
NMOCD-Hobbs

EC: Larry Hill, District Supervisor, NMOCD-Hobbs
Elido Gonzalez, Inspector Supervisor, NMOCD-Hobbs

EMNRD
OIL CONSERVATION DIVISION
1625 N FRENCH DRIVE
HOBBS NM 88240

MR. MOHAMMED MERCHANT
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