

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
- Engineering Bureau -
1220 South St. Francis Drive, Santa Fe, NM 87505



RKI Exploration & Production LLC.

PINNACLE STATE #18

ADMINISTRATIVE APPLICATION CHECKLIST

5772

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] TYPE OF APPLICATION - Check Those Which Apply for [A]
[A] Location - Spacing Unit - Simultaneous Dedication
☒ NSL ☐ NSP ☐ SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

- [D] Other: Specify _____

- [2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☒ Does Not Apply

- [A] ☐ Working, Royalty or Overriding Royalty Interest Owners

- [B] ☒ Offset Operators, Leaseholders or Surface Owner

Common Ownership

- [C] ☐ Application is One Which Requires Published Legal Notice

- [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

- [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,

- [F] ☐ Waivers are Attached

- [3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

- [4] CERTIFICATION: I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Print or Type Name

Signature

Kellahin & Kellahin
Attorneys At Law
706 Gonzales Rd.
Santa Fe, NM 87501

1/2/08
Date

KELLAHIN & KELLAHIN
Attorney at Law

W. THOMAS KELLAHIN
706 GONZALES ROAD
SANTA FE, NEW MEXICO 87501

TELEPHONE 505-982-4285
FACSIMILE 505-982-2047
TKELLAHIN@COMCAST.NET

January 2, 2008

HAND DELIVERED

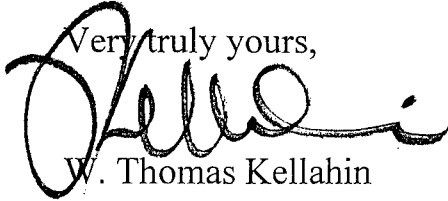
Mr. Mark Fesmire, PE, Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Administrative Application of RKI Exploration
& Production, LLC for Approval of an
Unorthodox Well Location for its
Pinnacle State Well No. 18, Unit G,
NSL Footage: 2630 FNL and 1685 FEL
of Section 36, T22S, R28E, Eddy County New Mexico
Dedication of 40-acre spacing unit consisting of the
SW/4NE/4 for East Herradura Bend-Delaware Pool (30670)
Dedication of 80-acre spacing unit consisting of the W/2NE/4 for the
South Culebra Bluff-Bone Spring Pool (15011)

RECEIVED
2008 JAN 2 PM 2 36

Dear Mr. Fesmire:

On behalf of RKI Exploration & Production, LLC, please find enclosed our referenced application that is being filed in accordance with Division Rule 104.D (2)(b)). This location crowds towards the NE/4SE/4 of Section 36.

Very truly yours,

W. Thomas Kellahin

CC: RKI Exploration & Production, LLC
Attn: Chip Taylor

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE ADMINISTRATIVE
APPLICATION OF RKI EXPLORATION & PRODUCTION, LLC
FOR AN UNORTHODOX WELL LOCATION
EDDY COUNTY, NEW MEXICO**

ADMINISTRATIVE APPLICATION

Comes now RKI EXPLORATION & PRODUCTION, LLC (“RKI”) and by and through its attorneys, Kellahin & Kellahin, and in accordance with Division General Rule 104.F, applies to the New Mexico Oil Conservation Division (“Division”) for approval of an Unorthodox Well Location for its Pinnacle State Well No. 18, Unit G, NSL Footage: 2630 FNL and 1685 FEL of Section 36 T22S, R28E, Eddy County New Mexico to be dedicated to a 40-acre spacing unit consisting of the SW/4NE/4 for East Herradura Bend-Delaware Pool (30670) and to be dedicated of 80-acre spacing unit consisting of the W/2NE/4 for the South Culebra Bluff-Bone Spring Pool (15011) in the event this well is productive from said pool or pools.

In support, RKI states:

1. RKI’s Pinnacle State Well No. 18 is to be located in Unit G of Section 36 (see C-102 attached as Exhibit “A”) and if productive:
 - a. in the Delaware formation will be located within 1-mile of the outer boundary of the East Herradura Bend-Delaware Pool and among other things, subject to a standard 40-acre spacing units. In that event, RKI would dedicate the SW/4NE/4 of Section 36 to this well. The well would encroach towards the NW/4SE/4 of Section 36 where RKI and its affiliated entities own this entire tract and thus have common interest.

- b. in the Bone Springs formation will be located within 1-mile of the outer boundary of the South Culebra Bluff- Bone Spring Pool and among other things, subject to a standard 80-acre spacing units. In that event, RKI would dedicate the W/2NE/4 of Section 36 to this well. The well would encroach towards the SE/4 of Section 36 where RKI and its affiliated entities own three of the four 40-acre tracts with Chevron USA owning the SE/4SE/4.
2. RKI desires to test the Bone Spring formation as part of this well. See locator map attached as Exhibit "B"
3. All of the offsetting wells were drilled to the Bone Spring formation but only produce from the Delaware formation.

TECHNICAL EVIDENCE

4. RKI's geologist and petroleum engineer have concludes that the four existing, the Pinnacle Wells 5, 6, 10 and 14 will drain approximately 20-acres thus leaving an area of the reservoir between these wells that would not otherwise be recovered at a standard location or in the wells currently production in the subject unit and the 3 offsetting units therefore justifying this additional well. See Drainage plat attached as Exhibit "C" and typical volumetric calculation for similar wells in Section 36 being the 3, 5, 12, and 13 attached as Exhibit "D"

NOTIFICATION AND OWNERSHIP

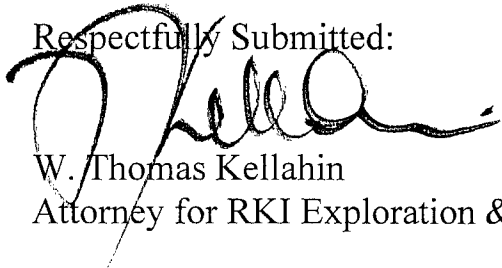
5. All of the S/2 of Section 36 is part of the same State of New Mexico Oil and Gas Lease V-3491-1 with Chevron being the WIO for the SE/4SE/4 and with RKI and its affiliated entities being the WIO for the balance of this half-section.
6. While the SE/4 does not currently contain any Bone Spring wells, hypothetically the SE/4SE/4 of Section 36 could not be included in an 80-acre unit that would be affected by this well.
7. Therefore no notice will be sent to Chevron USA.

CONCLUSION

8. Approval of this application will afford the owners and the applicant the opportunity to produce their just and equitable share of the hydrocarbons in the Delaware and Bone Spring formation, will promote the orderly development in this area, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

WHEREFORE, Applicant requests that this application be approve by the Division.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the printed name.

W. Thomas Kellahin

Attorney for RKI Exploration & Production, LLC

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

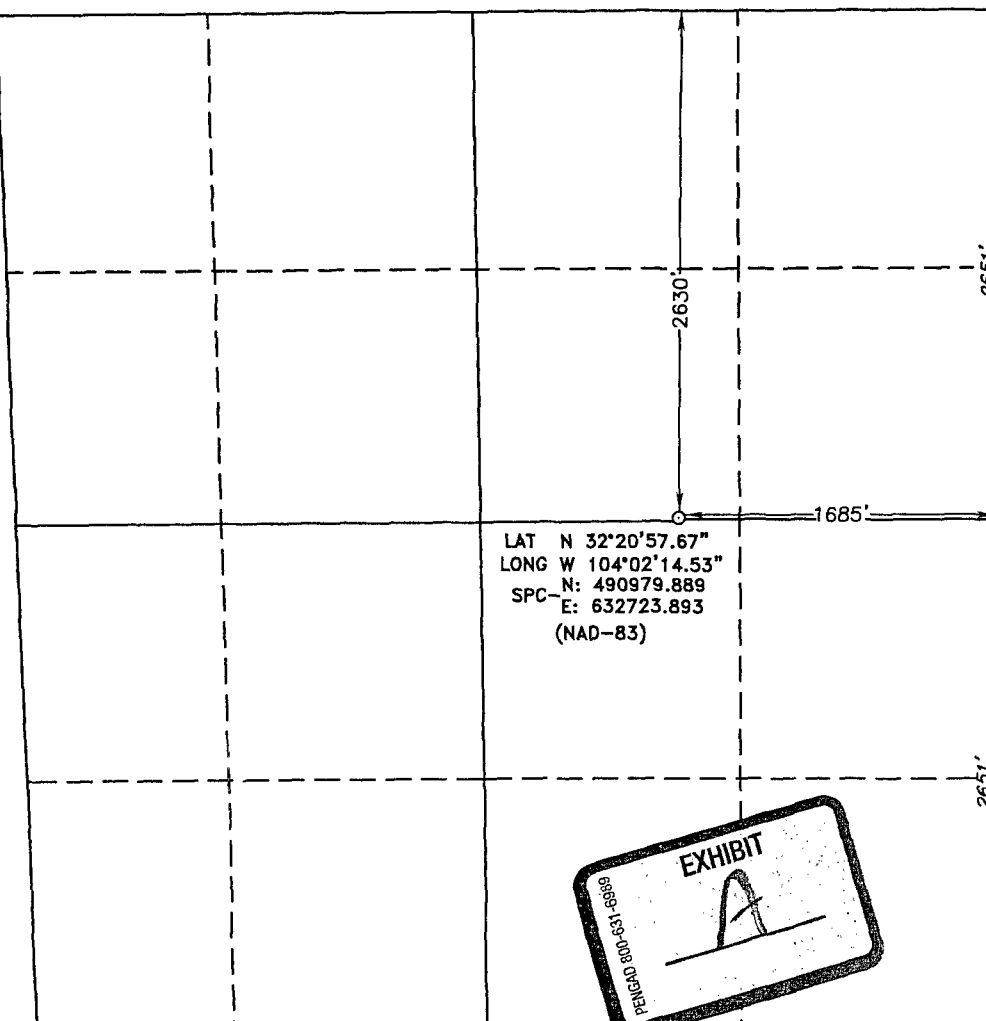
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

API Number	Pool Code	Pool Name <i>E. Hernandez Fund & Co under 3 Cabana Bldg</i>
Property Code	Property Name PINNACLE STATE	Well Number 18
OGRID No.	Operator Name RKI EXPLORATION & PRODUCTION	Elevation 3120'

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	36	22 S	28 E		2630	NORTH	1685	EAST	EDDY

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						

 <p style="text-align: center;"> LAT N 32°20'57.67" LONG W 104°02'14.53" SPC- N: 490979.889 E: 632723.893 (NAD-83) </p>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <h3 style="text-align: center; margin: 0;">OPERATOR CERTIFICATION</h3> <p style="font-size: small; margin: 5px 0;">I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> Signature _____ Date _____ </div> <div style="margin-top: 10px;"> Printed Name _____ </div> </div> <div style="border: 1px solid black; padding: 5px;"> <h3 style="text-align: center; margin: 0;">SURVEYOR CERTIFICATION</h3> <p style="font-size: small; margin: 5px 0;">I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <div style="text-align: center; margin: 10px 0;"> <h2 style="margin: 0;">DECEMBER 3, 2007</h2> </div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> Date Surveyed L. Jones No. 7977 </div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> Signature & Seal of Professional Surveyor No. 2818 </div> <div style="margin-top: 10px;"> Certificate No. Gary L. Jones 7977 </div> <div style="text-align: center; margin-top: 10px;"> BASIN SURVEYS </div> </div>
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State of New Mexico
V-3479-1

300162714300
PINNACLE STATE
8

300163686400
PINNACLE STATE
17

300162720100
PINNACLE STATE
9

300162917900
PINNACLE STATE
15

300162709300
PINNACLE STATE
4

300162714100
PINNACLE STATE
6

300162733400
PINNACLE STATE
14

No API
PINNACLE
18

300162707200
PINNACLE STATE
3

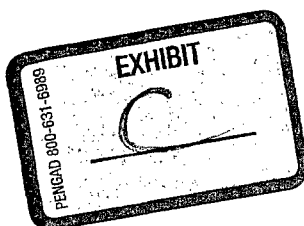
300162710700
PINNACLE STATE
5

300162718800
PINNACLE STATE
10

20 acre
drainage

☐ 40 Acre Tract
☐ RKI 100% Interest

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RKI Exploration & Production

Pinnacle State 18

SECTION 36-22S-28E

EDDY CO.N.M.

12-11-07

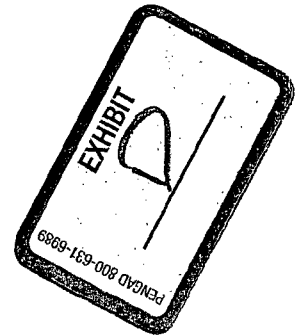
By: KCC

22S-28E

Pinnacle 16

Lease	H (FT)	Porosity	Sw	Drainage (ACRES)	Bo (RB/STB)	R.F. (%)	VOLUMETRIC EUR (MBO)	HIST. CUM. (MBO)	RATE/TIME EUR MBO
Pinnacle 3	117	0.15	0.62	20	1.128	13	120,980	37,504	52,725
Pinnacle 5	65	0.19	0.57	20	1.128	13	94,962	94,119	152,627
Pinnacle 12	56	0.18	0.60	20	1.128	13	72,100	62,379	75,630
Pinnacle 13	66	0.18	0.63	20	1.128	13	78,222	16,137	39,159
TOTAL							366,264	210,139	320,141

The Pinnacle 3, 5, 12 and 13 have volumetric reserves of 366 MBO based on 20 acre spacing. The historical cumulative oil production for the same wells is 210 MBO. From Rate/Time analysis, the four wells will produce another 110 MBO over a time frame of approximately 40 years. The four wells calculate a total EUR of 320 MBO from Rate/Time analysis showing a drainage area between 15 and 20 acres. The additional well will attempt to drain the remaining 20 acres.



Brooks, David K., EMNRD

From: Brooks, David K., EMNRD
Sent: Tuesday, January 29, 2008 9:39 AM
To: 'Tom Kellahin'
Subject: RKL - Pinnacle State #18 and #20

Dear Tom:

I see I should have looked at the applications for the #18 and #20 together. However, that still does not resolve all my questions.

The recitation in the application regarding the #18 regarding the ownership of the SE/4 of Section 36-22S-28E satisfies my concerns about encroachment of the #20 towards the SE/4. I agree that there is no need to notice Chevron of either application by reason of their ownership of the SE/SE.

My remaining concerns are as follows:

Regarding the #20: In addition to the encroachment toward the NW/SE, it encroaches toward the SW/NE, which, of course, is the drillsite tract for the #18. The fact that that is the drillsite tract, however, does not establish that RKL owns 100% of the working interest in the SW/NE, and I find no recitation to that effect in either application.

Regarding the #18: If the #18 is dedicated to a W/2 unit in the S Culebra Bluff Bone Spring, due to the Special Pool Rule, it seems to encroach toward the SE/NE, and I have not found a recitation of ownership as to that tract.

Once again, please address these issues by way of response.

Thanks

David

Brooks, David K., EMNRD

From: Tom Kellahin [tkellahin@comcast.net]
Sent: Tuesday, January 29, 2008 12:08 PM
To: Brooks, David K., EMNRD
Subject: FW: Pinnacle wells

Hi David

The following is confirmation from RKO that it owns 100% of the WIO in the N/2 of Section 36 including the tracts you were concerned about for notice.

Please let me know if you need anything else.

Regards, Tom

From: Chip Taylor [mailto:ctaylor@rkixp.com]
Sent: Tuesday, January 29, 2008 11:55 AM
To: Tom Kellahin
Cc: Matt Huhnke; Pat McCollom
Subject: RE: Pinnacle wells

Tom,

RKI/Lobos owns 100% of the working interest in the entire section 36 from the surface to base of Bone Spring, less and except the se/se of the section.

Thanks,

Chip

From: Tom Kellahin [mailto:tkellahin@comcast.net]
Sent: Tuesday, January 29, 2008 12:19 PM
To: Chip Taylor
Subject: Pinnacle wells

Chip,

David Brooks of the OCD is processing RKI's application this morning and has asked me some ownership questions about the SW/4NE/4 and also the SE/4NE/4 of Sec 36 22S-28E.

What is the ownership? If RKI does not have 100% of the WIO then I will be asked to send notice to the WIO.

Tom

This inbound email has been scanned by the MessageLabs Email Security System.

1/29/2008