

HIGH CAVEKARST

Form 3160-5
(March 2012)

Split Estate

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

OCD Artesia

APPLICATION FOR PERMIT TO DRILL OR REENTER

ATS-12-878

EA-12-1114

FORM APPROVED
OMB No 1004-0137
Expires October 31, 2014

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM-22634	
1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name	
2. Name of Operator RKI EXPLORATION & PRODUCTION, LLC.		7. If Unit or CA Agreement, Name and No.	
3a. Address 3817 NW EXPRESSWAY, SUITE 950 OKLAHOMA CITY, OK. 73112		8. Lease Name and Well No. 439867 EAST PECOS FEDERAL 22-1H	
3b. Phone No. (include area code) 405-996-5750 (BILL AUBREY)		9. API Well No. 30-015-40568	
4. Location of Well (Report location clearly and in accordance with any State requirements *) At surface 250 FSL & 1690 FWL At proposed prod. zone 330 FNL & 1690 FWL		10. Field and Pool, or Exploratory Corral Canyon; B.S., South UNDESIGNATED BONE SPRING	
14. Distance in miles and direction from nearest town or post office* APPROXIMATELY 15 MILES SOUTHEAST OF MALAGA, NM		11. Sec., T. R. M. or Blk. and Survey or Area 22, T. 26 S., R. 29 E. 433547	
15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drig. unit line, if any) 250 FT.	16. No. of acres in lease 480	17. Spacing Unit dedicated to this well 160	
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft 800 ft.	19. Proposed Depth TVD: 7086 MD: 11527	20. BLM/BIA Bond No. on file NLM-NMB-000460	
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 2880' GL	22. Approximate date work will start*	23. Estimated duration 30 DAYS	

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, must be attached to this form:

- | | |
|--|---|
| 1. Well plat certified by a registered surveyor. | 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above). |
| 2. A Drilling Plan. | 5. Operator certification |
| 3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO must be filed with the appropriate Forest Service Office). | 6. Such other site specific information and/or plans as may be required by the BLM. |

25. Signature Barry W. Hunt	Name (Printed/Typed) BARRY W. HUNT	Date 6/22/12
Title PERMIT AGENT FOR RKI EXPLORATION & PRODUCTION, LLC.		
Approved by (Signature) /s/ Don Peterson	Name (Printed/Typed) /s/ Don Peterson	Date AUG - 1 2012
Title FIELD MANAGER	Office CARLSBAD FIELD OFFICE	

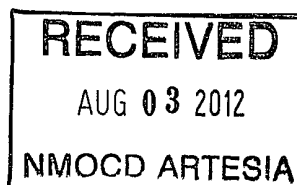
Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.
Conditions of approval, if any, are attached.

APPROVAL FOR TWO YEARS

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Continued on page 2)

Carlsbad Controlled Water Basin



**SEE ATTACHED FOR
CONDITIONS OF APPROVAL**

**Approval Subject to General Requirements
& Special Stipulations Attached**

CERTIFICATION

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access road proposed herein; that I am familiar with the conditions that presently exist; that I have full knowledge of State and Federal laws applicable to this operation; that the statements made in this APD package are, to the best of my knowledge, true and correct, and that the work associated with the operations proposed herein will be performed in conformity with this APD package and the terms and conditions under which it is approved. I also certify that I, or RKI Exploration and Production, LLC am responsible for the operations conducted under this application. These statements are subject to the provisions of 18 U. S. C. 1001 for the filing of false statements. Executed this 22nd. day of June 2012.

Signed: Barry W. Hunt

Printed Name: Barry Hunt

Position: Agent for RKI Exploration & Production, LLC.

Address: 1403 Springs Farm Place, Carlsbad, NM 88220

Telephone: (575) 361-4078

E-mail: specialtpermitting@gmail.com

Field Representative: Gene Simer

Address: P. O. Box 370, Carlsbad, NM 88221

Telephone: Office: (575) 885-1313, Cell: (575) 706-3225

ACKNOWLEDGEMENTS

STATE OF TEXAS)
)
COUNTY OF Dallas)

This instrument was acknowledged before me on this 19th day of June, 2012, by Worth Ross, _____ Manager of George Ross Ranch, LLC.

Given under my hand and seal the day and year last above written.

My commission expires:

August 20, 2013

Commission # _____

Katrina Swindle
Notary Public



STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on this 20th day of June, 2012, by F.G. Taylor, Attorney-in-Fact for RKI Exploration & Production, LLC.

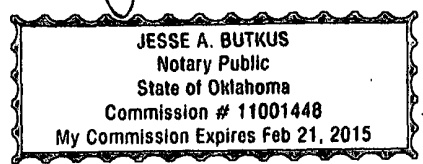
Given under my hand and seal the day and year last above written.

My commission expires:

2/21/2015

Commission # 11001448

Jesse A. Butkus
Notary Public



DISTRICT I
1625 N French Dr. Hobbs, NM 88240
Phone (575) 393-6161 Fax (575) 393-0720
DISTRICT II
811 S First St., Artesia, NM 88210
Phone (575) 748-1283 Fax (575) 748-9720
DISTRICT III
1090 Rio Boscon Rd., Aztec, NM 87410
Phone (505) 334-6178 Fax (505) 334-6170
DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone (505) 476-3460 Fax (505) 476-3462

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Form C-102
Revised August 1, 2011
Submit one copy to appropriate
District Office
☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-015-40568	Pool Code 13354	Pool Name UNDESIGNATED BONE SPRING - South
Property Code 35386	Property Name EAST PECOS FEDERAL 22	Well Number 1H
OGRID No 246289	Operator Name RKI EXPLORATION & PRODUCTION	Elevation 2880'

Surface Location

UL or lot no	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	22	26S	29E		250	SOUTH	1690	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot no	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	22	26S	29E		330	NORTH	1690	WEST	EDDY

Dedicated Acres	Joint or Infill	Consolidated Code	Order No
160			8/1 11527

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.

	EAST PECOS FEDERAL 22-1H BHL NMSP-E (NAD 83) Y = 376374 7' N X = 652315 0' E N LAT. = 32° 02' 03.22" W LONG. = -103° 58' 30.70"	OPERATOR CERTIFICATION 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 or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. Signature Barry W. Hunt Date 6/22/12 Print Name Barry W. Hunt E-mail Address
	EAST PECOS FEDERAL 22-1H SHL NMSP-E (NAD 83) Y = 371687 1' N X = 652363 1' E N LAT. = 32° 01' 16.83" W LONG. = -103° 58' 30.33"	SURVEYORS CERTIFICATION 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. April 26, 2012 Date of Survey Signature and Seal of Professional Surveyor
	EAST PECOS FEDERAL 22-1H SHL NMSP-E (NAD 83) Y = 371629 7' N X = 611177 3' E N LAT. = 32.021216778° W LONG. = -103.974609100°	
	Job No. WTC48509 JAMES E. TOMPKINS 14729 Certificate Number	

SURFACE USE AGREEMENT

FOR AND IN CONSIDERATION of the sum of **One Hundred Dollars (\$100.00)** and other good and valuable consideration, the receipt of which is hereby acknowledged, I/We, **George Ross Ranch, LLC**, whose address is 3710 Rawlins Street, Suite 850, Dallas, Texas 75219, a private fee surface owner, hereinafter referred to 'Grantor', do hereby grant unto **RKI Exploration & Production, LLC**, whose address is 3817 NW Expressway, Suite 950, Oklahoma City, Oklahoma 73112, hereinafter referred to as "Grantee", its successors and assigns, the rights and privileges to use all of Grantor's lands located in Eddy County, State of New Mexico, limited to the following described lands (hereinafter called the "Subject Property"):

Section 22, Township 26 South, Range 29 East

as may be necessary or convenient for Grantee's operations under the terms and provisions contained in this Agreement. Execution of this agreement shall not diminish any of the Grantors rights contained in New Mexico Surface Owner's Protection Act, 2007 New Mexico Laws, Chapter 5 (HB827). Grantee's rights under this Agreement shall be in addition to, and shall not diminish, any of Grantee's rights under its oil and gas leases covering all or any portion of the Subject Property.

Grantor and Grantee knowing and willfully agree to the following:

1. Placement, specification, maintenance and design of well pads, gathering pipelines, utilities and roads to be constructed for oil and gas operations:

See attached survey plats for the East Pecos Federal 22-1H and East Pecos Federal Com 22-2H (Exhibit A). Grantee will consult and obtain prior approval of Grantor regarding the placement and use of future well pads, gathering lines, use of existing roads as well as construction of new roads on the property. These approvals are within Grantor's reasonable discretion, and do not prohibit or unreasonably interfere with Grantor's reasonable use of the surface

2. Grantee agrees to pay to Grantor as damages for the above as follows:

a) Stratigraphic Test:

\$ 5,000.00 per stratigraphic test (well drilled only to obtain geologic information which is not completed for production) on Grantors land. This amount shall be paid by Grantee to Grantor before entering upon the premises to commence drilling operations.

b) Well Locations:

\$ 12,000.00 for each individual well location inclusive of those wells drilled on the same pad site. This amount shall be paid by Grantee to Grantor before

entering upon the premises to drill the well. Grantee shall also pay to Grantor an annual rental of \$ 5,000.00 per year for each individual pad site location regardless of the number of wells drilled on the respective pad site. This annual payment shall be made on the anniversary date of the commencement of drilling of each well in each and every year until the well has been plugged and abandoned and the location of any roads and pipelines constructed in connection therewith have been reclaimed as provided herein.

c) Roads:

Grantee shall pay to Grantor an initial access fee of \$ 15.00 per rod for use of existing roads on Grantor's land, and the rate of \$ 40.00 per rod for new roads constructed by Grantee or existing roads improved by Grantee on Grantor's land. Grantee shall pay to Grantor an annual access fee at the rate of \$ 2.00 per rod for use of all roads on Grantor's land. The annual payment shall commence one year from the anniversary of the execution date of this agreement for the well or wells served by such road(s) and shall be made on the anniversary date in each and every year thereafter until the road(s) are reclaimed and restored by Grantee as provided herein. Grantee shall provide Grantor with a plat showing the location and length of all roads promptly after their first use. Grantee shall, at its sole cost and expense, install new gates or cattle guards at all places where a fence crosses any ingress area onto the Subject Agreement property. The fence on each side of the gate must be firmly and sufficiently braced using an H-frame configuration. Grantee shall H-frame with adequate posts (consisting of four inch (4") pipe or larger, set four feet (4') deep and capped with steel) set in concrete if necessary, on both sides of the easement where cuts are made in fences, before the same are cut.

d) Pipelines:

For each pipeline less than 8 inches in diameter installed by Grantee, Grantee shall pay to Grantor the sum of \$ 45.00 per rod for each such pipeline unless pipelines are located in the same ditch, in which case a single payment shall be made. A take up of any such pipeline shall be at the rate of \$ 15.00 per rod. For pipelines 8 inches in diameter or larger installed by Grantee, Grantee shall pay to Grantor the sum of \$ 50.00 per rod for each such pipeline. A take up of any such pipeline shall be at the rate of \$ 15.00 per rod. Payments for pipelines shall be made by Grantee to Grantor within fifteen (15) days after installation or take up of the pipeline.

- i. The pipelines referred to in this paragraph are only those gathering system pipelines used in connection with wells drilled on Grantor's land by Grantee. Grantor's land may not be used in connection with operations on other lands owned by Grantor that are not described herein or on other premises not owned or leased by Grantor without Grantor's written consent. Surface damages for high pressure (greater than 970 psi) gas

transmission pipelines serving lands other than those owned by Grantor shall be by separate agreement.

- ii. Grantee shall be responsible for backfilling, repacking, reseeding and re-contouring the surface so as not to interfere with Grantor's operations. Grantee shall provide Grantor with a plat showing the length and location of all pipelines and gathering systems promptly after their installation. The Pipelines shall be covered by a minimum of forty-eight inches (48") of soil, both vertically and horizontally, measured from the closest perimeter of the pipe to the surface of the ground. Grantor reserves the right to occupy, use and cultivate the lands affected by such pipelines, and to grant such rights to others, so long as such use does not interfere with Grantee's operations. If Grantee fails to use any pipeline for a period in excess of 24 consecutive months, the pipeline shall be deemed abandoned and Grantee shall promptly take all actions necessary or desirable to clean up, mitigate the effects of use, and render the pipeline environmentally safe and fit for abandonment in place. All such clean up and mitigation shall be performed in compliance with all applicable federal, state and local laws and regulations.

e) Gathering, Metering and Compression Sites:

For each central gathering facility or "battery site" shall pay to Grantor an initial fee of \$ 10,000.00. This amount shall be paid by Grantee to Grantor before entering upon the premises to construct the battery site. Grantee shall also pay to Grantor an annual rental of \$ 2,000.00 per year for each battery site location. Should Grantee leave any pipe or casing transporting liquids or capable of transporting liquids not covered in accordance with section d (ii) above will be subject to the following fees:

- i. In addition to the per rod costs outlined above in paragraph d. an annual fee of \$ 2.00 per Rod will be paid to Grantor by Grantee until such time as the pipe or casing is buried pursuant to d(ii) or removed from the property in accordance with paragraph d(ii) above. This fee will be due annually payable the last day of December.

f) Utilities:

\$ 45.00 per rod

g) Gravel, Caliche & Soil Utilized From Grantor Property:

\$ 4.50 per yard

3. Terms of Ingress and Egress Upon the Surface of the Land for Oil and Gas Operations:

Access to the Subject Property shall be from County Road 725, which crosses the Subject Property. Grantee shall consult and obtain prior approval from Grantor in the placement and construction of roads required during the performance of this agreement. Grantee shall have the right to use (including the right to place suitable road building materials upon, construct bridges and install culverts around roadways), shall maintain, inspect, repair and operate all roadways that existed on the Subject Property on the Effective Date, as required for its operations.

4. Construction, Maintenance and Placement of all Pits and Equipment Used:

Temporary pits for drilling operations, whether steel or earthen as approved by Grantor, if allowed by the New Mexico Oil Conservation Division during the term of this agreement, will be constructed in accordance with the rules in place by the governing agency at the time of applicable operations.

Completion pits, or frac pits, shall be constructed with consultation and prior approval of Grantor. Grantee shall pay to Grantor \$ 7,500.00 per frac pit. A frac pit may be left open to be used by Grantee's operations on the Subject Lands. Frac pits shall be fenced with a 5-strand barbed wire and gated to keep out livestock and wildlife.

5. Use and Impoundment of Water on the Surface of the Land:

Grantor has multiple water wells located on the Subject Lands. Provided Grantor's water is of sufficient quantity and usability, Grantee will purchase from Grantor water used in its drilling and completion operations at a rate of \$ 1.05 per barrel.

In the event water from Grantor's water wells isn't in sufficient quantities or quality for Grantee's operations, Grantee may obtain water from other sources from off of the Subject Lands.

6. Removal And Restoration of Plant Life:

Trees or large brush will be cut, stacked and removed by Grantee. Small brush and grasses will be pushed to the side of location or road. Disturbed surface shall be restored by Grantee, its contractors or subcontractors shall, upon completion of drilling operations or the construction of Pipelines, restore the surface of the land within the Subject Surface Use Agreement. All reseeding shall be done with suitable grasses approved by Grantor and during a planting period approved by Grantor. Reseeding shall be done at the rate of twelve (12) pounds of seed per acre for rangeland, and an amount and type to be determined by Grantor for irrigated ground. In the absence of direction from Grantor, no reseeding (except for borrow pits) will be required on any existing access roads. It shall be the duty of Grantee to insure that a growing ground cover is established upon the disturbed soils and Grantee shall reseed as necessary to accomplish that duty. It shall further be the duty of Grantee to inspect and control all noxious weeds as may become established within areas used or disturbed by Grantee. Grantee shall inspect disturbed areas at such times as Grantor shall reasonably request in order to determine the growth

of ground cover and/or noxious weeds, and Grantee shall reseed ground cover and control noxious weeds from time to time to the extent necessary to accomplish its obligations hereunder. Grantee recognizes that this shall be a continuing obligation and Grantee shall reseed ground cover and/or control noxious weeds until areas disturbed by Grantee are returned to as good condition as existed prior to this Surface Use Agreement.

7. Surface water drainage changes:

None anticipated. Rainwater will be diverted around locations. Culverts or low water crossings will be installed as needed.

8. Actions to limit and effectively control precipitation runoff and erosion:

Water bars may be cut to avoid erosion along roads. Shallow ditches and/or berms may be used to divert water around locations or hold it to prevent erosion.

9. Control and management of noise, weeds, dust, traffic, trespass, litter and interference with the Grantor's use:

- a. Noise – Drilling rig engine shall be muffled as required by State and Federal regulation.
- b. Dust – No control or management required, except during drilling operations, on roads that pass within 100 feet of an occupied residence.
- c. Traffic – Controlled by appropriate signage.
- d. Litter – Controlled by Grantee.
- e. Interference with the surface Grantor's use – The use by Grantee of the surface shall be expressly limited to oil and gas activities.

10. Interim Reclamation:

Grantee shall reclaim and maintain the Subject Property to standards required by this Surface Agreement and as required by the New Mexico Oil Conservation Division ("NMOCD") at the time of this Agreement.

11. Actions to Minimize Surface Damages to the Property Contained in the Surface Agreement:

Grantee's operations shall be limited to reasonable oil and gas operations. Grantee will make reasonable efforts to minimize damage to the surface and surface improvements. This includes road route selection and the movement of surface locations when such movement is considered reasonable by Grantee.

12. Indemnification:

- a) Grantee shall be responsible for any and all damage to persons or property caused, in whole or in part, by operations conducted under this Agreement, or any rights granted hereunder. Grantee hereby releases and shall defend, indemnify, and hold harmless Grantor, Grantor's tenants and agents, and Grantor's heirs and assigns (collectively, the "Indemnified Parties") from and against all liability, damages, losses, suits, claims, actions, or injury, death, penalties or fines, causes of action, costs and expenses of whatsoever nature (including reasonable attorney's fees) (collectively, "Liability") to persons or property that occur during the term of this Surface Agreement and are caused by or arising out of or in connection with any of the Grantee's Drilling, construction, operation, maintenance, inspection, repair, removal, replacement or alteration of equipment and related appurtenances, except to the extent resulting from the gross negligence or willful misconduct of the Indemnified parties. This indemnity obligation shall survive the termination or expiration of this Surface Use Agreement for a period of four (4) years (except as to environmental matters, in which case this indemnity obligation shall survive for a period of ten (10) years).
- b) Grantee shall maintain in effect at all times comprehensive general liability insurance covering operations on the property of Grantor in an amount not less than 20 Million Dollars (\$ 20,000,000) per occurrence, and showing Grantor as an additional insured under such policy. Prior to commencement of any work contemplated by this Agreement Grantee shall furnish to Grantor a copy of its liability policy showing Grantor as an additional insured under said policy. Further, Grantee, its successors and assigns, agree to INDEMNIFY AND HOLD HARMLESS Grantor and their agents, representatives, heirs and assigns (the "Indemnified Parties"), from and against all claims, liabilities, suits, demands, damages, losses, judgments, and expenses (including but not limited to attorneys' fees, experts' fees, and all other expenses of litigation or mediation) of any and every kind, arising out of, in whole or in part, or in any way connected with the exercise of the rights granted herein.

13. No Liens:

Grantee shall not permit any lien or claim for lien for any mechanic, labor, or supplier or any other lien to be filed against the Lands covered in this Subject Property Agreement out of work performed or materials supplied in connection with the work contemplated in this Agreement, or at the direction of, or on behalf of, Grantee, any contractor of Grantee or any of Grantee's agents, employees or representatives, but only to the extent any of the foregoing acts that cause a lien to be asserted occur during the term of this Surface Agreement. If any lien or claim for lien is filed against the Subject Property Agreement Area in breach of the immediately preceding sentence, Grantee shall promptly provide notice thereof to Grantor and Grantee shall cause the lien or claim for lien to be released of record, all at Grantee's sole cost and expense.

14. Prohibited Activities:

- a) It is expressly provided that this Subject Property Agreement does not cover or include any rights or privileges of hunting or fishing of any kind on the Surface Agreement Area, nor the taking of game or fish in any manner, all such hunting and fishing rights being expressly reserved to Grantor.
- b) No firearms, alcoholic beverages, illegal drugs, or contraband of any kind shall be brought onto the Surface Use Agreement by Grantee.
- c) Grantee agrees to instruct its agents, servants, employees and contractors, not to violate 16.a. or 16.b. above, and if such person or persons shall violate any of these provisions, they shall then and thereafter be trespassers thereon and subject to the penalties of the trespass laws of the State of New Mexico. Grantee agrees to instruct such person or persons not to thereafter enter upon the Surface Agreement Area for any purpose whatsoever.

15. Actions Upon Termination:

Upon termination of the Surface Use Agreement, the following terms and conditions shall apply:

- a) Grantee may abandon pipe in the ground installed during the course of this Subject Property Agreement subject to the remaining terms set forth below.
- b) Grantee shall conduct a reasonable environmental site assessment of the Subject Property Area for the existence of any contaminants related to any activity performed during the term this Surface Use Agreement or its operations for any such contaminants which exceed allowable levels under applicable law shall be properly remediated according to all federal, state, county, city or other applicable ordinances, rules and regulations.
- c) All liquids shall be removed from the pipeline before abandonment and the line filled with fresh potable water.
- d) The pipe shall be severed on all ends of the easement and properly capped to seal the entire pipeline being abandoned in the ground.
- e) All portions of the abandoned pipeline or related facilities located above ground shall be removed and any connections to the pipelines shall be capped as described above.
- f) Grantee shall restore the surface to its original condition as near as practical according to the requirements described in this Surface Agreement.

16. Automatic Termination Upon Abandonment:

Should Grantee abandon the use and operation of the Subject Property Agreement, and such abandonment shall be for a continuous period in excess of eighteen (18) months, this Agreement and all rights herein granted to Grantee shall ipso facto cease and

terminate, provided, however, that should Grantee be prevented from using the Pipelines or other equipment as required due to *force majeure*, the non-use shall not be deemed as abandonment.

17. Covenant Running with Title to Land:

The covenants contained in this agreement shall constitute covenants running with the Subject Property Agreement Area and shall be binding upon and inure to the benefits of the parties hereto, their personal representatives, heirs, successors, assigns, lessees, grantees, and beneficiaries. Grantee and Grantor agree that this document may be recorded. Upon the sale by Grantor of the Property, which includes the Surface Agreement Area, Grantor shall be released from all liabilities, obligations, and duties arising after such sale; provided, however that such sale shall be subject to all of the terms, provisions and conditions of this Surface Agreement.

18. Leasehold improvements:

Grantee shall not be responsible for allocating compensation between the Grantor and any tenant, except that a Grantee shall compensate a tenant of the Grantee for any leasehold improvements damaged as a result of Grantor's oil and gas operations if the improvements are approved and authorized by the Grantor. The compensation shall equal only the cost of repairing or replacing the improvements.

21. Payments:

The payments herein provided are acknowledged by Grantor as sufficient and in full satisfaction for damages to Grantor caused or created by the reasonable and customary entry, rights-of-way and operation and use of the roads and well sites, but do not include damage to livestock, buildings or improvements, or injuries to persons or to any damage or destruction caused to Grantor's wells or water supply on the property.

- a) Grantee shall be liable for damages if, as a result of its operations hereunder, any water on or under the premises which had been potable is affected to the extent that it is rendered nonpotable for humans, cattle or other ranch animals on Grantor's premises, or any such water supply, well or reservoir be destroyed or its output diminished.

22. Downstream damage:

Grantee shall be liable for any downstream damage caused to other lands or the operations of other landowners. This Agreement does not relieve Grantee from liability due to Grantee's negligence or due to spills or discharges of any hydrocarbon or toxic or hazardous chemicals or wastes, or from leaks or breaks in Grantee's pipelines.

23. Damage to livestock and crops:

Damage to livestock and damage to crops shall be paid for by Grantee at current market value. Any fires caused by Grantee's personnel, agents, or assigns shall be paid for by paying the cost of replacement pasture, fences, the costs of trailing or trucking cattle to replacement pasture plus replacement and/or repair costs for all personal property destroyed or damaged. The cost of replacement pasture will be determined by the amount generally accepted in the area for like kind pasture.

24. Restoration:

Unless Grantor otherwise agrees in writing, upon termination of any of Grantee's operations on Grantor's land, Grantee shall fully restore and level the surface of the land affected by such terminated operations as near as possible to the contours which existed prior to such operations. Grantee shall use water bars and such other measures as appropriate to prevent erosion and nonsource pollution. Grantee shall fully restore all private roads and drainage and irrigation ditches disturbed by Grantee's operations as near as possible to the condition that existed prior to such operations. All surface restoration shall be accomplished to the satisfaction of Grantor.

25. Change of Ownership:

In the event of a change of ownership relating to the Subject Property, Grantee shall not be bound by the same until it is furnished with a certified copy from the Eddy County Clerk reflecting the change of ownership. In addition, Grantor acknowledges and accepts that the provisions of this Agreement, including the payments made hereunder, are covenants running with the land and that none of the rights or obligations of the Grantor contained herein may be severed from the ownership of the Subject Property. All payments made hereunder by Grantee shall always and only be payable to the fee surface owner of the Subject Property.

26. Payment Escalation Terms:

On the fifth anniversary of this Surface and Damage Agreement, and every five years thereafter, surface damage payments provided for in this Surface Agreement shall be increased or decreased (but never below the amounts stated herein) by a percentage equal to the increase or decrease in the Consumer Price Index as published by the United States Department of Commerce for the preceding five year period.

This Agreement incorporates all the agreements between the parties and no representation or statements, verbal or written, have been made modifying, adding to, or changing the terms of this Agreement.

27. Notice:

Notice may be given to either party to this Agreement by depositing the same in the United States mail postage prepaid, duly addressed to the other party at the address set out below the party's signature on this Agreement. Such notice shall be deemed delivered when deposited in the United States mail.

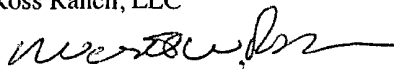
38. Designated Contact Person:

Grantee and Grantor will each from time to time designate an individual, with appropriate twenty-four hour telephone and fax numbers, who is to be the primary contact person for discussions and decisions concerning matters related to this Agreement.

This instrument may be executed in multiple counterparts and has been executed as of each person's respective acknowledgement EXECUTED as of the dates acknowledged below but effective as of the 19th day of, June, 2012.

Grantor:

George Ross Ranch, LLC

By: 
Worth Ross, Manager

Grantee:

RKI Exploration & Production, LLC

By: 
F.G. Taylor, Attorney-in-Fact

DRILLING PLAN

Well East Pecos Federal 22-1H
 Location Surface: 250 FSL 1,690 FWL
 Bottom Hole: 330 FNL 1,690 FWL
 22-26S-29E
 County Eddy
 State New Mexico

- 1) The elevation of the unprepared ground is 2,880 feet above sea level.
- 2) The geologic name of the surface formation is Quaternary - Alluvium.
- 3) A rotary rig will be utilized to drill the well to 11,527 feet and run casing.
 This equipment will then be rigged down and the well will be completed with a workover rig.
- 4) Proposed depth is 11,527 feet.

5) Estimated tops:

*	MD	TVD	
Rustler	400		
Salado	700		
Castile	1,200		
Lamar Lime	2,590		
Base of Lime	2,610		
Delaware Top	3,010		BHP = .44 psi/ft x depth
Bell Canyon Sand	3,010		Oil 1,324 psi
Cherry Canyon Sand	3,650		Oil 1,606 psi
Brushy Canyon Sand	4,646		Oil 2,044 psi
Bone Spring	6,336		
KOP	6,513	6,513	
Landing Point (Avalon Shale)	7,413	7,086	Oil 3,262 psi
TD	11,527	7,086	BHT = 140 degree F

*Water anticipated at 200 feet.

6) Casing program: All new casing.

	Hole Size	Top	Bottom	OD Csg	Wt/Grade	Connection	Collapse Design Factor	Burst Design Factor	Tension Design Factor
SCP COT	17 1/2"	0	450 325	13 3/8"	54.5#/J-55	ST&C	5.71	27.58	20.96
	12 1/2"	0	2,600 2850	9 5/8"	40#/J-55	LT&C	1.77	6.91	5.00
	8 3/4"	0	11,527	5 1/2"	17#/HCP-110	LT&C	1.69	1.55	6.16
	Collapse	1.125							
	Burst	1.0							
	Tension	2.0							

7) Cement program:

Surface 17 1/2" hole
 Pipe OD 13 3/8"
 Setting Depth ~~450~~ 2 ft
 Annular Volume 0.69462 cf/ft
 Excess 0.35 35 %

Lead 88 sx 1.75 cf/sk 13.5 ppg
 Tail 200 sx 1.34 cf/sk 14.8 ppg

Lead: "C" + 4% PF20 (gel) + 2% PF1 (CC) + .125 pps PF29 (CelloFlake) + .2% PF46 (antifoam)

Tail: "C" + 1% PF1 (CC)

Top of cement:

Surface

Cement volume will be determined from fluid caliper

Intermediate 12 1/2" hole
 Pipe OD 9 5/8"
 Setting Depth ~~2,600~~ 2 ft
 Annular Volume 0.31318 cf/ft 0.3627 cf/ft
 Excess 0.35 35 %

Lead 372 sx 2.07 cf/sk 12.6 ppg
 Tail 200 sx 1.33 cf/sk 14.8 ppg

Lead: 35/65 Poz "C" + 5% PF44 (salt) + 6% PF20 (gel) + 3 pps PF42 (KoalSeal) + .125 pps PF29 (CelloFlake) + .2% PF46 (antifoam) + 1% PF1 (CC)

Tail: "C" + .2% PF13 (retarder)

Top of cement:

Surface

Cement volume will be determined from fluid caliper

Production 8 3/4" hole
 Pipe OD 5 1/2"
 Setting Depth 11,527 ft
 Annular Volume 0.2526 cf/ft 0.26074 cf/ft 300 ft
 Excess 0.35 35 %
 Total Annular Volume 2,333 cf
 With Excess 3,150 cf
 DV Tool Depth 5000 ft

Stage 1

Lead: 1,190 sx 1.87 cf/sk 13.0 ppg

Lead: PVL + 30% PF151 (expander) + 5% PF174 (expanding agent) + .7% PF606 (gel suppressing agent) + .5% PF13 (retarder) + .2% PF153 (Uniflac)

Top of cement:

DV tool

Stage 2

Lead: 388 sx 2.04 cf/sk 12.6 ppg

Tail: 100 sx 1.33 cf/sk 14.8 ppg

Lead: 35/65 Poz "C" + 5% PF44 (salt) + 6% PF20 (gel) + .2% PF13 (retarder) + .125 pps PF29 (CelloFlake) + .25 pps PF46 (antifoam)

Tail: "C" + .3% PF13 (retarder)

Top of cement:

2,300 ft

See
COA

Final cement cement volume will be determined from caliper

8) Pressure control equipment:

The blowout preventer equipment (BOP) shown in Exhibit #1 will consist of a double ram type (3,000 psi WP) preventer, a bag-type annular preventer (3,000 psi WP), and rotating head. Both units will be hydraulically operated and the ram type preventer will be equipped with blind rams on top and pipe rams (sized to accommodate the drill pipe size being utilized) on bottom. A 13 3/8" SOW x 13 5/8" 3M casing head will be installed on the 13 3/8" casing and utilized until total depth is reached. All BOP and associated equipment will be tested to 3,000 psi and the annular will be tested to 1,500 psi after setting the 13 3/8" string. The 13 3/8" and 9 5/8" casing will be tested to .22 psi per ft of casing string length or 1,500 psi whichever is greater, but not to exceed 70% of the minimum yield.

The 9 5/8" casing will be hung in the casing head and the stack will not be nipped down at this point.

The stack will not be isolated and tested after running the 9 5/8" casing, but will be tested along with the 9 5/8" casing. Pipe rams will be operated and checked each 24 hour period and each time the drill string is out of the hole.

These function test will be documented on the daily driller's log.

A drilling spool or blowout preventer with 2 side outlets (choke side shall be 3" minimum diameter, kill side shall be at least 2" diameter).

2 kill line valves, one of which will be a check valve.

2 chokes on the manifold along with a pressure gauge.

Upper kelly cock valve with handle available.

Safety valve and subs to fit all drill string connections in use.

All BOP equipment connections subjected to pressure will be flanged, welded, or clamped.

Fill up line above the upper most preventer.

See COA

9) Mud program:

	Top	Bottom	Mud Wt.	Vis	PV	YP	Fluid Loss	Type System
	0	450	8.5 to 8.9	32 to 36	1 - 6	1 - 6	NC	Fresh Water
325	450	2,600	9.8 to 10.0	28 to 30	1 - 3	1 - 3	NC	Brine
2850	2,600	11,527	8.9 to 9.1	28 to 36	1 - 3	1 - 3	NC	Fresh Water

10) Logging, coring, and testing program:

No drillstem test are planned

KOP to intermediate: CNL, Caliper, GR, DLL,

Intermediate to surface: CNL, GR

No coring is planned

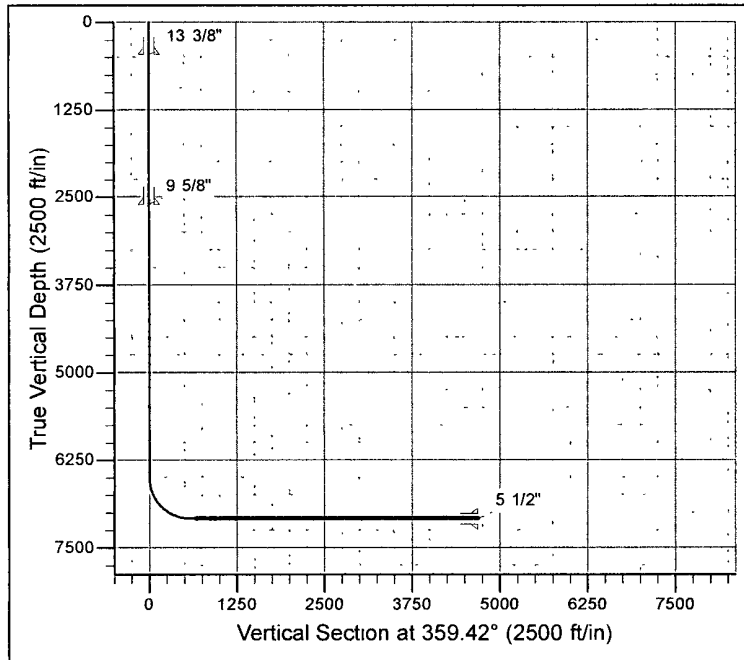
See COA

11) Potential hazards:

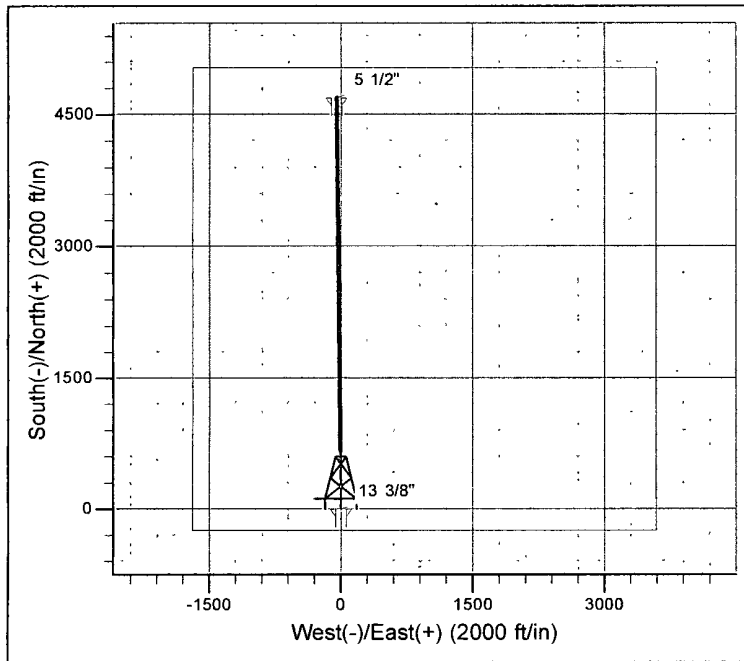
No abnormal pressure or temperature is expected. No H2S is known to exist in the area.

Though lost circulation is not anticipated, lost circulation material will be available on location.

12) Anticipated start date June '12
Duration 25 days



East Pecos Fed 22-1H
Section 22-26S-29E
Eddy County, NM



BHL

Surface Location

SECTION DETAILS

Sec	MD	Inc	Azi	TVD	+N/-S	+E/-W	Dleg	TFace	VSect	Target
1	0.0	0.00	0.00	0.0	0.0	0.0	0.00	0.00	0.0	
2	6513	0.00	0.00	6513.0	0.0	0.0	0.00	0.00	0.0	
3	7413	90.00	359.42	7086.0	572.9	-5.8	10.00	359.42	573.0	
4	11527	90.00	359.42	7086.0	4687.5	-47.4	0.00	0.00	4687.8	East Pecos Fed 22-1H

H HEADER INFORMATION -----

H COMPANY : RKI 2
H FIELD : Eddy County, NM
H SITE : Section 22-26S-29E
H WELL : East Pecos Fed 22-1H
H WELLPATH: Wellbore #1
H DEPTHUNT: ft
H SURVDATE: 1/1/1990

H-----

H WELL INFORMATION

H WELL EW MAP : 198840.56
H WELL NS MAP : 113290.43
H DATUM ELEV : 0.00
H VSECT ANGLE : 359.42
H VSECT NORTH : 0.00
H VSECT EAST : 0.00

H-----

H SURVEY TYPE INFORMATION

H 0.00 - 11527.84 DESIGN #1 :

H-----

H SURVEY LIST

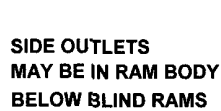
H MD	INC	AZI	TVD	NS	EW
0.00	0.00	0.00	0.00	0.00	0.00
100.00	0.00	0.00	100.00	0.00	0.00
200.00	0.00	0.00	200.00	0.00	0.00
300.00	0.00	0.00	300.00	0.00	0.00
400.00	0.00	0.00	400.00	0.00	0.00
500.00	0.00	0.00	500.00	0.00	0.00
600.00	0.00	0.00	600.00	0.00	0.00
700.00	0.00	0.00	700.00	0.00	0.00
800.00	0.00	0.00	800.00	0.00	0.00
900.00	0.00	0.00	900.00	0.00	0.00
1000.00	0.00	0.00	1000.00	0.00	0.00
1100.00	0.00	0.00	1100.00	0.00	0.00
1200.00	0.00	0.00	1200.00	0.00	0.00
1300.00	0.00	0.00	1300.00	0.00	0.00
1400.00	0.00	0.00	1400.00	0.00	0.00
1500.00	0.00	0.00	1500.00	0.00	0.00
1600.00	0.00	0.00	1600.00	0.00	0.00
1700.00	0.00	0.00	1700.00	0.00	0.00
1800.00	0.00	0.00	1800.00	0.00	0.00
1900.00	0.00	0.00	1900.00	0.00	0.00
2000.00	0.00	0.00	2000.00	0.00	0.00
2100.00	0.00	0.00	2100.00	0.00	0.00
2200.00	0.00	0.00	2200.00	0.00	0.00
2300.00	0.00	0.00	2300.00	0.00	0.00
2400.00	0.00	0.00	2400.00	0.00	0.00
2500.00	0.00	0.00	2500.00	0.00	0.00
2600.00	0.00	0.00	2600.00	0.00	0.00
2700.00	0.00	0.00	2700.00	0.00	0.00
2800.00	0.00	0.00	2800.00	0.00	0.00
2900.00	0.00	0.00	2900.00	0.00	0.00
3000.00	0.00	0.00	3000.00	0.00	0.00
3100.00	0.00	0.00	3100.00	0.00	0.00
3200.00	0.00	0.00	3200.00	0.00	0.00
3300.00	0.00	0.00	3300.00	0.00	0.00
3400.00	0.00	0.00	3400.00	0.00	0.00

3500.00	0.00	0.00	3500.00	0.00	0.00
3600.00	0.00	0.00	3600.00	0.00	0.00
3700.00	0.00	0.00	3700.00	0.00	0.00
3800.00	0.00	0.00	3800.00	0.00	0.00
3900.00	0.00	0.00	3900.00	0.00	0.00
4000.00	0.00	0.00	4000.00	0.00	0.00
4100.00	0.00	0.00	4100.00	0.00	0.00
4200.00	0.00	0.00	4200.00	0.00	0.00
4300.00	0.00	0.00	4300.00	0.00	0.00
4400.00	0.00	0.00	4400.00	0.00	0.00
4500.00	0.00	0.00	4500.00	0.00	0.00
4600.00	0.00	0.00	4600.00	0.00	0.00
4700.00	0.00	0.00	4700.00	0.00	0.00
4800.00	0.00	0.00	4800.00	0.00	0.00
4900.00	0.00	0.00	4900.00	0.00	0.00
5000.00	0.00	0.00	5000.00	0.00	0.00
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5200.00	0.00	0.00	5200.00	0.00	0.00
5300.00	0.00	0.00	5300.00	0.00	0.00
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6500.00	0.00	0.00	6500.00	0.00	0.00
6513.04	0.00	0.00	6513.04	0.00	0.00
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6600.00	8.70	359.42	6599.67	6.59	-0.07
6650.00	13.70	359.42	6648.70	16.29	-0.16
6700.00	18.70	359.42	6696.70	30.23	-0.31
6750.00	23.70	359.42	6743.30	48.30	-0.49
6800.00	28.70	359.42	6788.15	70.37	-0.71
6850.00	33.70	359.42	6830.91	96.25	-0.97
6900.00	38.70	359.42	6871.25	125.77	-1.27
6950.00	43.70	359.42	6908.86	158.69	-1.60
7000.00	48.70	359.42	6943.46	194.76	-1.97
7050.00	53.70	359.42	6974.78	233.71	-2.36
7100.00	58.70	359.42	7002.59	275.25	-2.78
7150.00	63.70	359.42	7026.67	319.04	-3.23
7200.00	68.70	359.42	7046.85	364.77	-3.69
7250.00	73.70	359.42	7062.96	412.09	-4.17
7300.00	78.70	359.42	7074.88	460.62	-4.66
7350.00	83.70	359.42	7082.54	510.02	-5.16
7400.00	88.70	359.42	7085.85	559.89	-5.66
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7800.00	90.00	359.42	7086.00	959.87	-9.70
7900.00	90.00	359.42	7086.00	1059.86	-10.72
8000.00	90.00	359.42	7086.00	1159.86	-11.73

8100.00	90.00	359.42	7086.00	1259.85	-12.74
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8300.00	90.00	359.42	7086.00	1459.84	-14.76
8400.00	90.00	359.42	7086.00	1559.84	-15.77
8500.00	90.00	359.42	7086.00	1659.83	-16.78
8600.00	90.00	359.42	7086.00	1759.83	-17.79
8700.00	90.00	359.42	7086.00	1859.82	-18.80
8800.00	90.00	359.42	7086.00	1959.82	-19.81
8900.00	90.00	359.42	7086.00	2059.81	-20.83
9000.00	90.00	359.42	7086.00	2159.81	-21.84
9100.00	90.00	359.42	7086.00	2259.80	-22.85
9200.00	90.00	359.42	7086.00	2359.79	-23.86
9300.00	90.00	359.42	7086.00	2459.79	-24.87
9400.00	90.00	359.42	7086.00	2559.78	-25.88
9500.00	90.00	359.42	7086.00	2659.78	-26.89
9600.00	90.00	359.42	7086.00	2759.77	-27.90
9700.00	90.00	359.42	7086.00	2859.77	-28.91
9800.00	90.00	359.42	7086.00	2959.76	-29.92
9900.00	90.00	359.42	7086.00	3059.76	-30.94
10000.00	90.00	359.42	7086.00	3159.75	-31.95
10100.00	90.00	359.42	7086.00	3259.75	-32.96
10200.00	90.00	359.42	7086.00	3359.74	-33.97
10300.00	90.00	359.42	7086.00	3459.74	-34.98
10400.00	90.00	359.42	7086.00	3559.73	-35.99
10500.00	90.00	359.42	7086.00	3659.73	-37.00
10600.00	90.00	359.42	7086.00	3759.72	-38.01
10700.00	90.00	359.42	7086.00	3859.72	-39.02
10800.00	90.00	359.42	7086.00	3959.71	-40.03
10900.00	90.00	359.42	7086.00	4059.71	-41.04
11000.00	90.00	359.42	7086.00	4159.70	-42.06
11100.00	90.00	359.42	7086.00	4259.70	-43.07
11200.00	90.00	359.42	7086.00	4359.69	-44.08
11300.00	90.00	359.42	7086.00	4459.69	-45.09
11400.00	90.00	359.42	7086.00	4559.68	-46.10
11500.00	90.00	359.42	7086.00	4659.68	-47.11
11527.84	90.00	359.42	7086.00	4687.52	-47.39

[illegible]

**COMPONENT PRESSURE RATINGS
MAY EXCEED 3M (E.G. 5M)**



(SEQUENCE OPTIONAL)

3M CKV 3M MGV

N	X	
MIN 2" NOM 3M KILL LINE		

DRILLING SPOOL

(SEQUENCE OPTIONAL IF HCR)

3M MGV 3M MGV (OR HCR)

X	X	
MIN 3" NOM 3M CHOKE LINE		

3M ADJUSTABLE CHOKE		(1)	
		NOM 2" LINE	
3M MG V	X	2ND MG V OPTIONAL	
	NOM 2" LINE		
3M MG V (L IF HCR) OR HCR)	X		
		3M MG V	3M MG V (2)
		X	X
KE LINE		NOM 3" LINE	
		3M MG V W/ PRES GAUGE ON TOP OF BLOCK	
3M MG V	X		
	NOM 2" LINE		
3M MG V	X	2ND MG V OPTIONAL	
		(1)	
		NOM 2" LINE	
3M ADJUSTABLE CHOKE (REMOTE OPERATED CHOKE OPTIONAL FOR ONE SIDE ONLY)			

- (1) Line to mud gas separator and/or pit
(2) Bleed line to pit

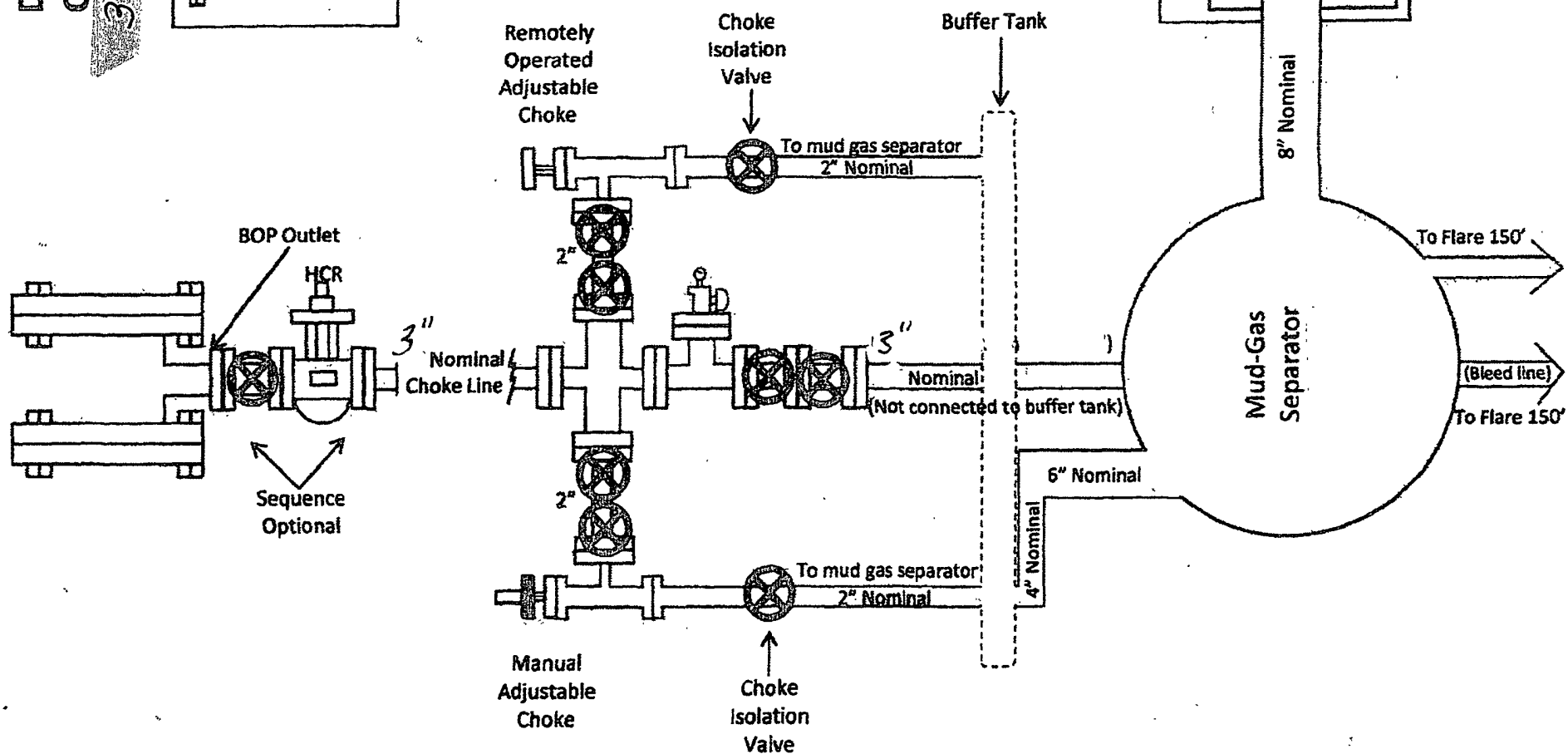
MGV - Manual Gate Valve

CKV - Check Valve

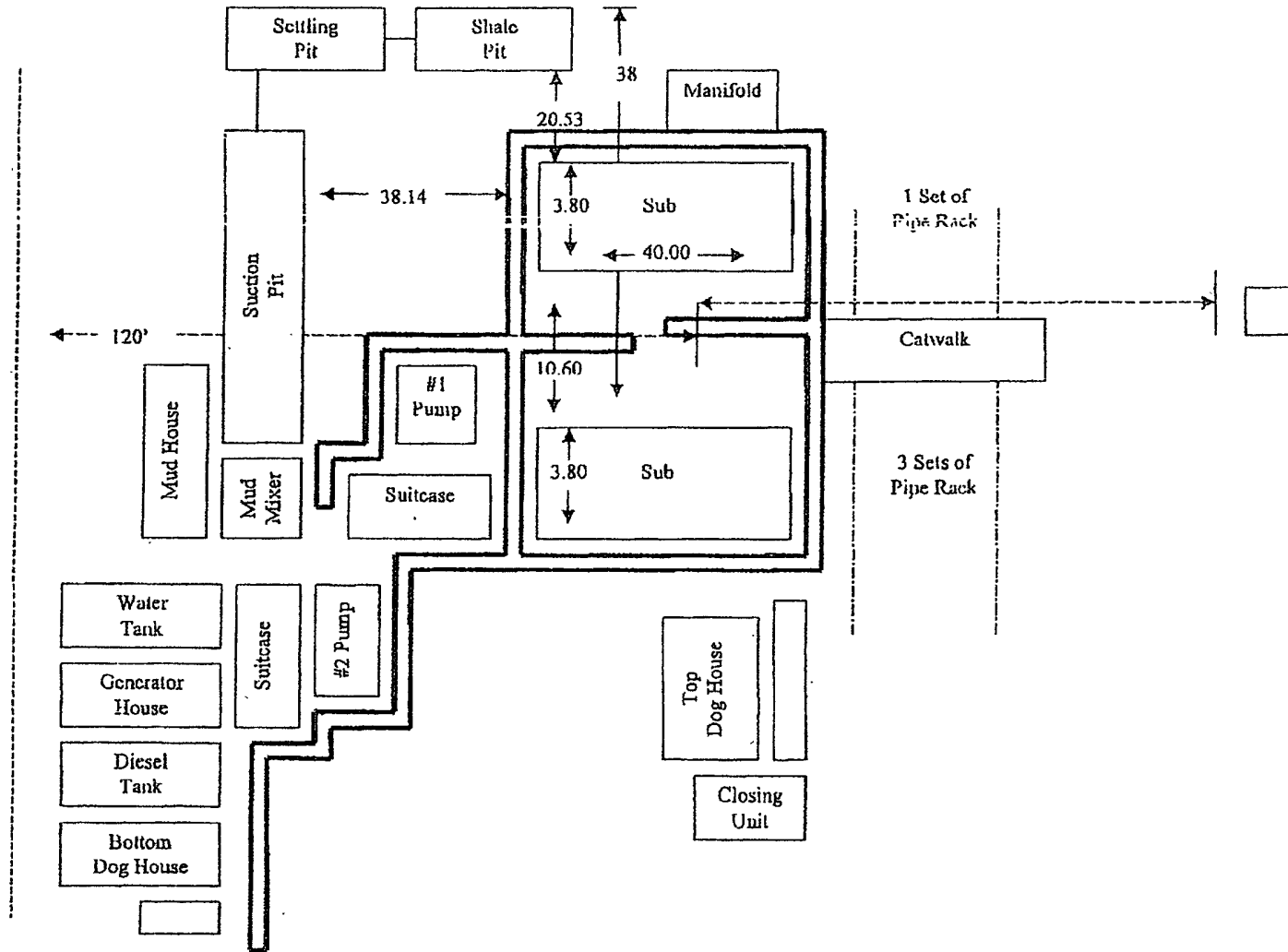
HCR - Hydraulically Controlled Remote Valve

Drilling Operations Choke Manifold 3M Service

Exhibit E-1 -- Choke Manifold Diagram



Plat for Closed Loop System



RKI Exploration and Production
3817 N. W. Expressway, Suite 950
Oklahoma City, OK. 73112

Closed Loop System

Design Plan

Equipment List

- 2 – 414 Swaco Centrifuges
- 2 – 4 screen Mongoose shale shakers
- 2 – 250 bbl. tanks to hold fluid
- 2 – CRI Bins with track system
- 2 – 500 bbl. frac tanks for fresh water
- 2 – 500 bbl. frac tanks for brine water

Operation and Maintenance

- Closed Loop equipment will be inspected daily by each tour and any necessary maintenance performed
- Any leak in system will be repaired and/or contained immediately
- OCD notified within 48 hours
- Remediation process started

Closure Plan

During drilling operations, all liquids, drilling fluids and cuttings will be hauled off via CRI (Controlled Recovery Incorporated). Permit #: R-9166.

EXHIBIT 'D'

**Rig Plat Only
EAST PECOS FEDERAL 22-1H
V-DOOR NORTH**

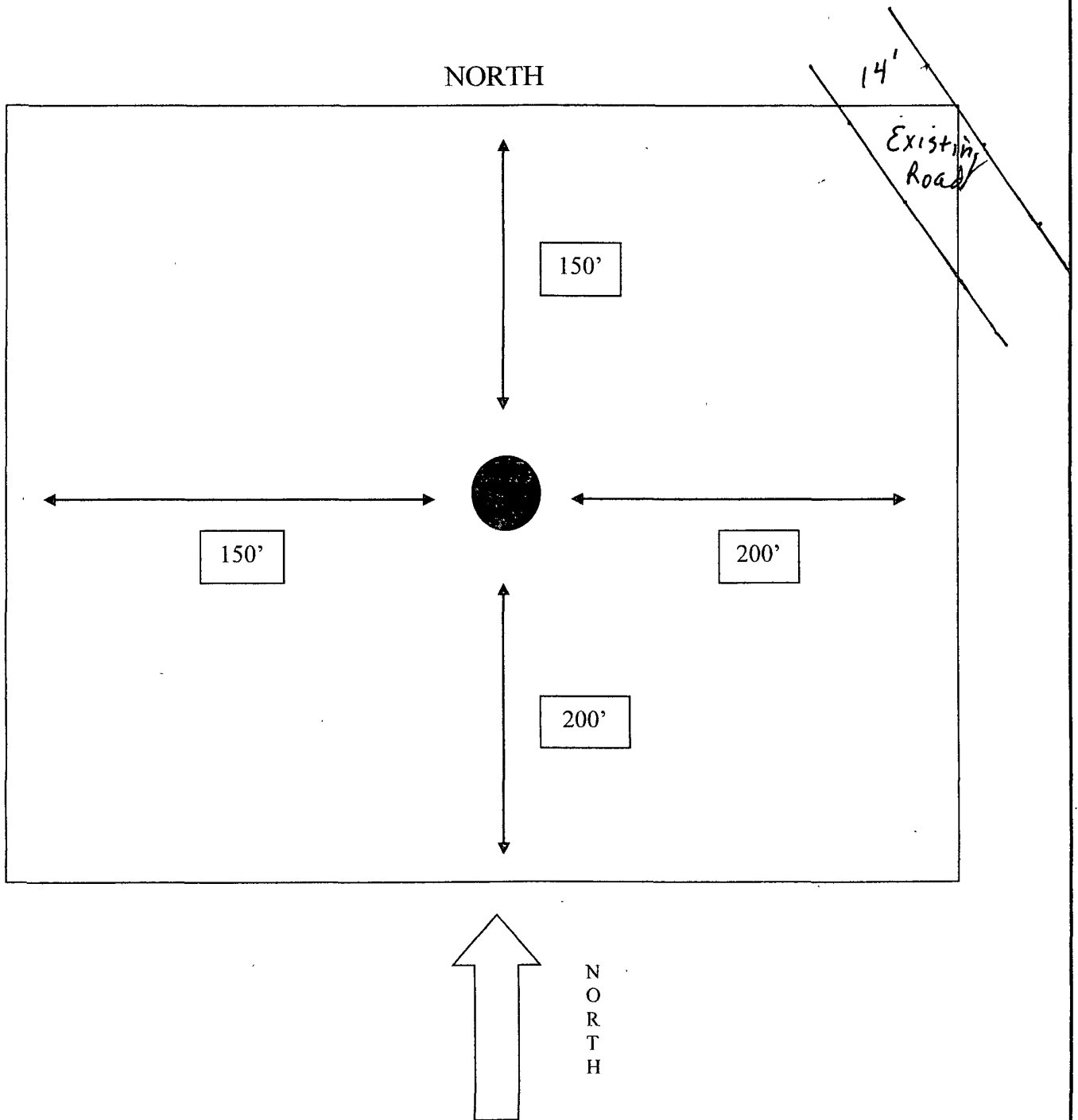
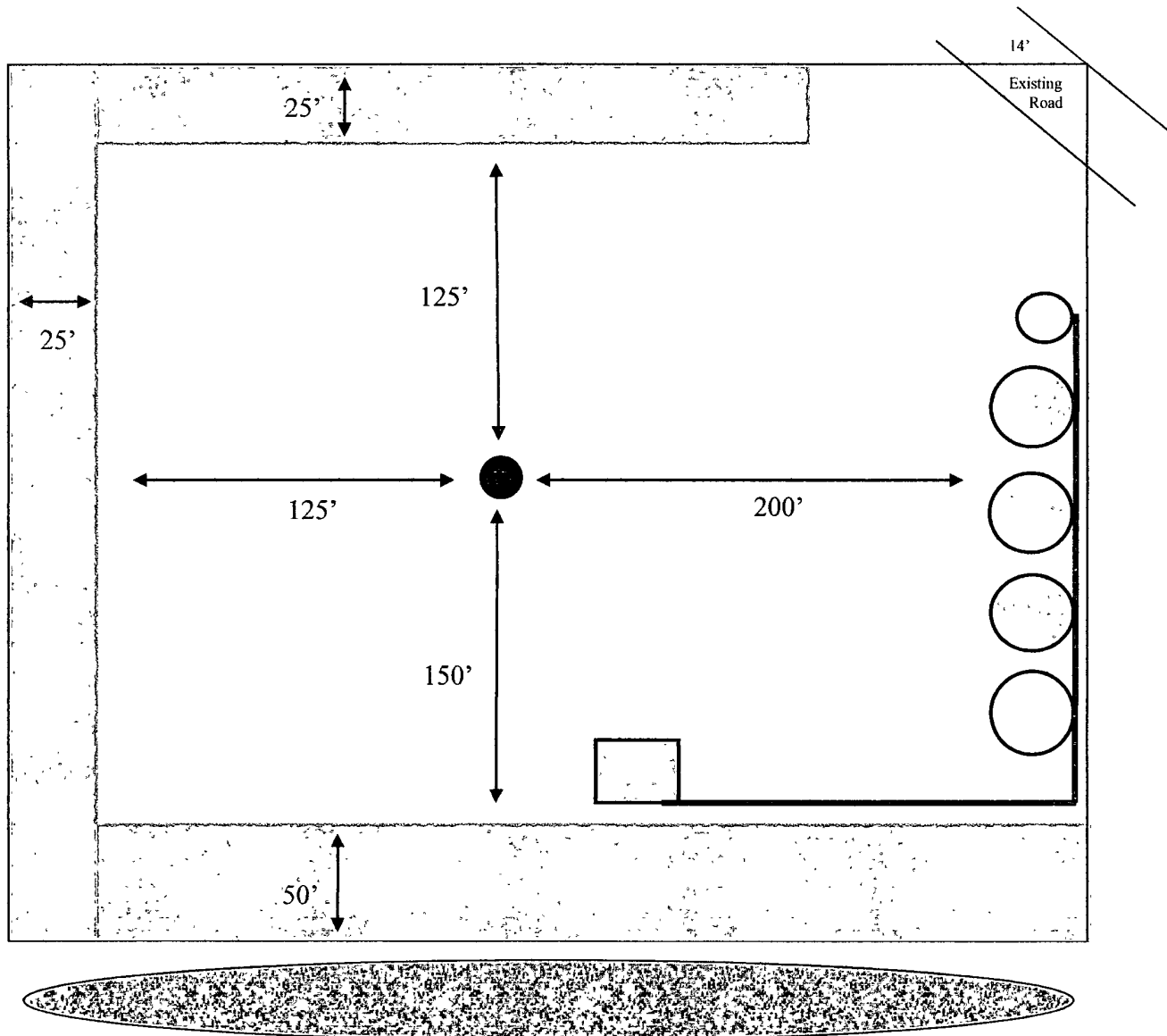


EXHIBIT C

Interim Reclamation & Production Facilities EAST PECOS FEDERAL 22-1H V-DOOR NORTH



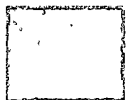
LEGEND



Well Bore



Topsoil



Interim Reclamation



Production Facilities



NORTH

PECOS DISTRICT CONDITIONS OF APPROVAL

OPERATOR'S NAME:	RKI Exploration & Production, LLC.
LEASE NO.:	NMNM22634
WELL NAME & NO.:	East Pecos Federal 22-1H
SURFACE HOLE FOOTAGE:	250' FSL & 1690' FWL
BOTTOM HOLE FOOTAGE:	330' FNL & 1690' FWL
LOCATION:	Section 22, T. 26 S., R 29 E., NMPM
COUNTY:	Eddy County, New Mexico

TABLE OF CONTENTS

Standard Conditions of Approval (COA) apply to this APD. If any deviations to these standards exist or special COAs are required, the section with the deviation or requirement will be checked below.

- ☐ **General Provisions**
- ☐ **Permit Expiration**
- ☐ **Archaeology, Paleontology, and Historical Sites**
- ☐ **Noxious Weeds**
- ☐ **Special Requirements**
 - Cave/Karst
- ☐ **Construction**
 - Notification
 - Topsoil
 - Closed Loop System
 - Federal Mineral Material Pits
 - Well Pads
 - Roads
- ☐ **Road Section Diagram**
- ☒ **Drilling**
 - Logging Requirements
 - High Cave/Karst
 - Waste Material and Fluids
- ☐ **Production (Post Drilling)**
 - Well Structures & Facilities
- ☐ **Interim Reclamation**
- ☒ **Final Abandonment & Reclamation**