State of New Mexico Energy Minerals and Natural Resources

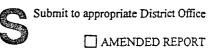
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Form C-101 May 27, 2004

District II 1301 W. Grand Avenue, Artesia, NM 88210

District III

APR 1 4 2008 Oil Conservation Division



1220 S. St. Francis Dr., Santa Fe, NM 87505 CD-ARTESIA 1220 South St. Francis Dr. APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE Operator Name and Address
RKI EXPLORATION & PRODUCTION, LLC.
3817 NW EXPRESSWAY SUITE 950
OKLAHOMA CITY. OKLAHOMA 73112 OGRID Number Property Name Property Code 21 303271 PINNACLE STATE Proposed Pool 1 Proposed Pool 2 #u-BONE SPRING Surface Location Feet from the 1,330 UL or lot no. Section Township Range Lot Idn North/South line Feet from the East/West line County South 1145' 22S 36 28E West EDDY ⁸ Proposed Bottom Hole Location If Different From Surface Lot Ida Feet from the North/South line UL or lot no. Section Township Range East/West line County Additional Well Information 13 Cable/Rotary 11 Work Type Code 14 Lease Type Code 15 Ground Level Elevation 12 Well Type Code 3<u>0</u>90 0 ROTARY S N 16 Multiple 17 Proposed Depth 18 Formation 19 Contractor 20 Spud Date 7120' BONE SPRING TEACO DRILLING WHEN APPROVED NO Distance from nearest fresh water well UNKNOWN Depth to Groundwater Less than 100' Distance from nearest surface water Pecos River 2 miles Southwest mils thick Clay Pit Volume: Liner: Synthetic [bbls Drilling Method: Closed-Loop System XX Fresh Water Brine Diesel/Oil-based Gas/Air ²¹ Proposed Casing and Cement Program Casing weight/foot Estimated TOC Hole Size Casing Size Setting Depth Sacks of Cement 20" 26" 53# 801 Redi-mix Surface 121" 9 5/8" 36# 300**'**± 155 Sx. Surface 7 7/8" 53" 17# 7120**'**± 675 Sx. Surface ²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary. NOTE: NEW PIT RULE 19.15.17 NOTE: New Pit Rule NMAC. NMAC 19-15-17 For use of closed loop systemcomplete new form C-144. ²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines XX, a general permit , or Approve an (attached) alternative OCD-approved plan Printed name: Joe T. Janica MACA Title: Title: Permit Engineer Expiration Date: 6 Approval Date: E-mail Address: joejanica@valornet.com Phone: 575-391-8503 Conditions of Approval Attached 04/11/08



New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson

Governor

Joanna Prukop Cabinet Secretary Reese Fullerton Deputy Cabinet Secretary Mark Fesmire
Division Director
Oil Conservation Division



June 1, 2008

Mr. W. Thomas Kellahin Kellahin & Kellahin 706 Gonzales Rd Santa Fe, NM 87501

Administratiygp pdg 2008L-5834

OCD-ARTESIA

Re: RKI Exploration & Production, LLC Pinnacle State Well No. 21 API No. 30-015

Unit L, Section 36-22S-28E

Eddy County

Dear Mr. Kellahin:

Reference is made to the following:

- (a) your application (administrative application reference No. pKVR08-12330467) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico, on behalf of RKI Exploration & Production, LLC (RKI) on May 1, 2008, and
 - (b) the Division's records pertinent to this request.

RKI has requested to drill the above-referenced well at an unorthodox Delaware and Bone Spring oil well location, 1330 feet from the South line and 1145 feet from the West line (Unit L) of Section 36, Township 22 South, Range 28 East, N.M.P.M., in Eddy County, New Mexico.

The NW/4 SW/4 of Section 36 will be dedicated to this well in order to form a standard 40-acre oil spacing unit in the East Herradura Bend-Delaware Pool (30670). This pool is governed by statewide Rule 104.B(1), which provides for 40-acre units, with wells located at least 330 feet from a unit outer boundary. This location is less than 330 feet from the southern and eastern unit boundaries.

The W/2 SW/4 of Section 36 will be dedicated to this well in order to form a standard 80-acre oil spacing unit in the South Culebra Bluff-Bone Spring Pool (15011). Spacing in this pool is governed by Rules 2 and 4 of the Special Rules and Regulations for the South Culebra Bluff-



Bone Spring Pool, as adopted by Order R-6139 issued on October 12, 1979, which provide for 80-acre units with wells to be located within 150 feet of the center of a quarter/quarter section. The proposed location is more than 150 feet south and east from the center of the NW/4 SW/4 of Section 36.

Your application on behalf of RKI has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

It is our understanding that this location is being requested because RKI's geologic interpretation indicates that the well can tap into stranded reserves located on the margins of existing spacing units that cannot be effectively drained by wells located at standard locations.

It is also understood that notice of this application to offsetting operators or owners is unnecessary because of common ownership

Pursuant to the authority conferred by Division Rule 104.F(2), the above-described unorthodox location is hereby approved.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 40.

Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

Mark E. Fesmire, P.E.

Director

MEF/db

cc: New Mexico Oil Conservation Division - Artesia

New Mexico State Land Office - Santa Fe

- 1. Drill a 26" hole to 80'. Set 80' of 20" 53# conductor pipe and cement to wurface with Redi-mix.
- 2. Drill $12\frac{1}{2}$ " hole to $300^{\circ}\pm$. Run and set 300° of 9 5/8" 36# J-55 ST&C CASING. Cement with 160 Sx. of Class "C" cement \pm 2% CaCl \pm \pm # Flocele/Sx (Yield 1.34) circulate cement to surface.
- 3. Drill 7 7/8" hole to 7120±'. Run and set 7120' of 5½" 17# J-55 ST&C casing. Cement in two stages with the DV Tool at 4000±'. Cement 1st stage with 210 Sx. of Class "C" cement + additives(Yield 2.47). Tail in with 140 Sx of Class "C" cement + additives, (Yield 1.3). Cement 2nd stage with 200 Sx. of Class "C" cement + additives (Yield 2.47). Tail in with 125 Sx. of Class "C" cement + additives (Yield 1.30). Circulate cement to surface.
- 4. Cement volumes on both strings of pipe may have to be re-calculated after the open hole logs have been run and volumes re-calculated from caliper logs.
- 5. Fresh water mud will be used to drill the surface hole and saturated brine water will, be used to drill the 7 7/8" hole in order to reduce washing out the salt formation.
- 6. The Bureau of Land Management does not have any records of the presence of ${\rm H}_2{\rm S}$ in this area. RKI Exploration & Production, LLC. has drilled wells in this area and have not encountered any ${\rm H}_2{\rm S}$ while drilling their wells.

DISTRICT I 1625 N. French Dr., Hobbs, NM 68240

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102 Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies Fee Lease - 3 Copies

DISTRICT II 1301 W. Grand Avenue, Artesia, NM 88210

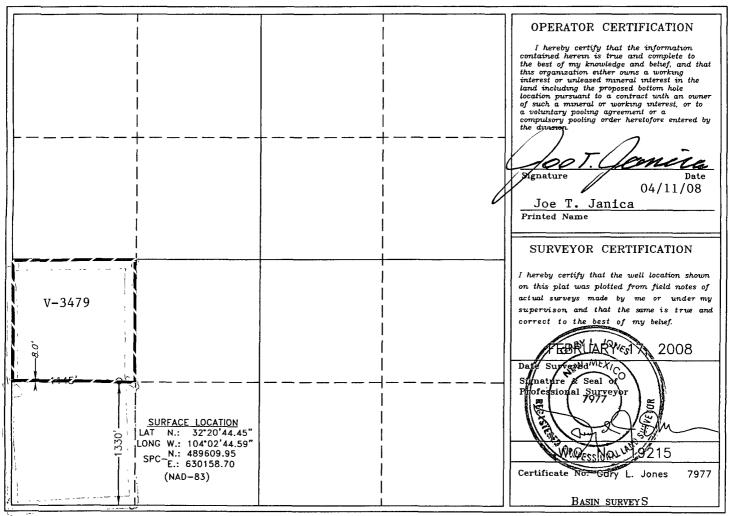
DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV 1220 S. St. Francis Dr., Santa Fe, NM 87505 OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

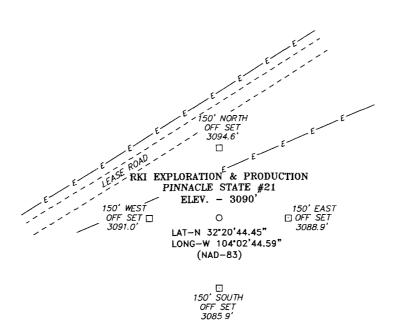
☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API	Number		15	Pool Code	Cul	lebra Blut	Pool Name BONE SPRING	. <i>S</i>	
Property Code			Property Name					Well No	ımber
303271]	21					
OGRID N	о.			Elevat	ion				
246289			R	KI EXPL	3090'				
					Surface Loca	ation			
UL or lot No.	Section	Township	Range	East/West line	County				
L	36	22 S 28 E		1330	SOUTH	1145	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
Dedicated Acre	s Joint o	r Infill Co	nsolidation (Code Or	der No.				
8 0									
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									
1	i				İ		OPERATO	R CERTIFICAT	ION
	ĺ				Ì			rtify that the inform n is true and compl	



SECTION 36, TOWNSHIP 22 SOUTH, RANGE 28 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO.



DIRECTIONS TO LOCATION:

FROM THE JUNCTION OF CO. RD. 605 AND STATE HWY. 31, GO NORTHWEST ON CO. RD. 605 FOR APPROX. 1.9 MILES TO LEASE ROAD, ON LEASE ROAD GO NORTHEAST FOR APPROX. 0.6 MILES TO PROPOSED LOCATION.

BASIN SURVEYS P.O. BOX 1786-HOBBS, NEW MEXICO

W.O. Number: 19215 | Drawn By: J. M. SMALL

Date: 02-19-2008 | Disk: JMS 19215W

200 0 200 400 FEET

SCALE: 1" = 200'

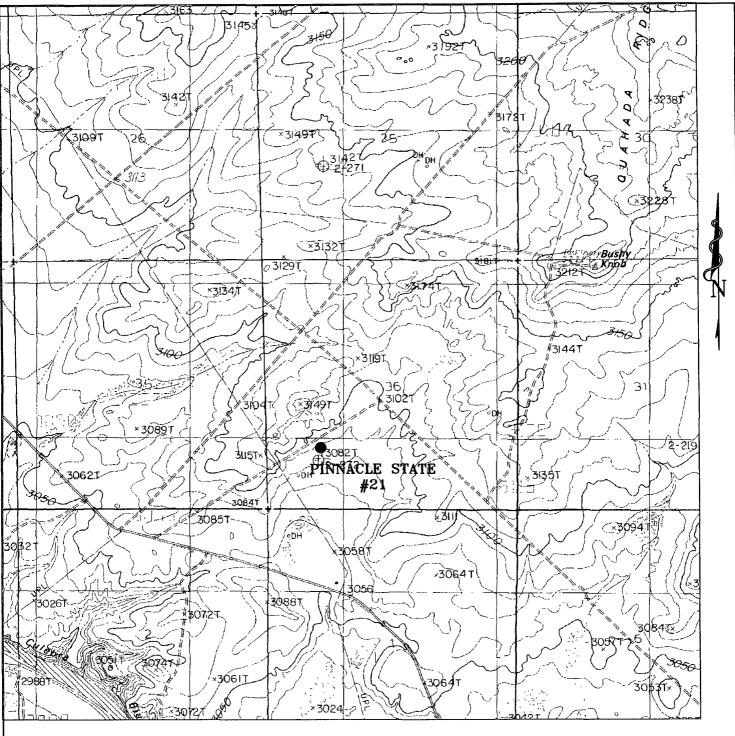
RKI EXPLORATION & PRODUCTION

F: PINNACLE STATE #21/ Well Pad Topo
THE PINNACLE STATE #21 LOCATED 1330' FROM

THE SOUTH LINE AND 1145' FROM THE WEST LINE OF SECTION 36, TOWNSHIP 22 SOUTH, RANGE 28 EAST,

N.M.P.M., EDDY COUNTY, NEW MEXICO.

Survey Date: 02-17-2008 | Sheet 1 of 1 Sheets



PINNACLE STATE #21 Located at 1330' FSL AND 1145' FWL Section 36, Township 22 South, Range 28 East, N.M.P.M., Eddy County, New Mexico.

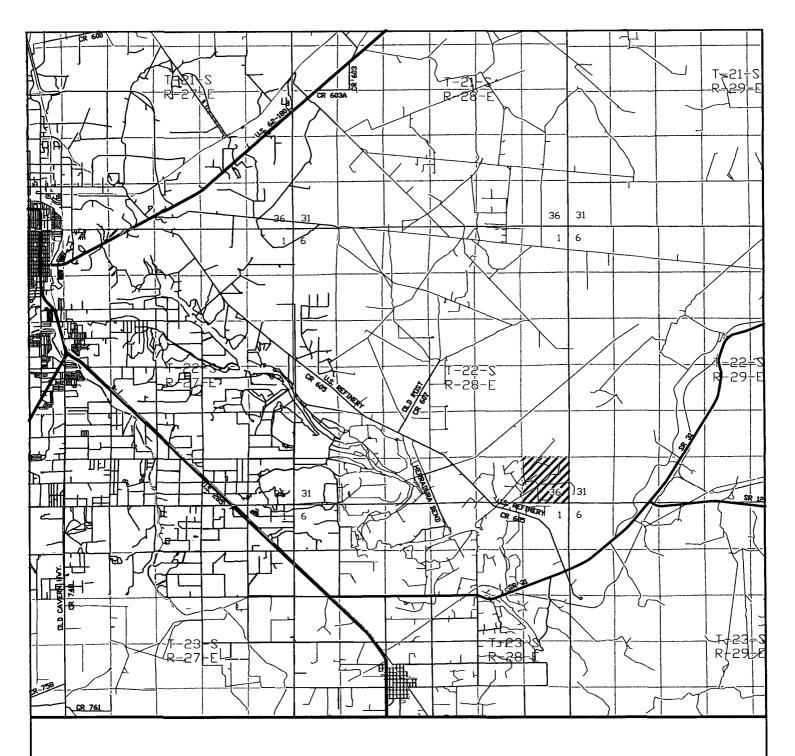


P.O. Box 1786 1120 N. West County Rd. Hobbs, New Mexico 88241 (505) 393-7316 - Office (505) 392-3074 - Fax

basinsurveys.com

W.O. Number: 19215T Survey Date: 02-17-2008 Scale: 1" = 2000'Date: 02-19-2008

RKI **EXPLORATION & PRODUCTION**



PINNACLE STATE #21 Located at 1330' FSL and 1145' FWL Section 36, Township 22 South, Range 28 East, N.M.P.M., Eddy County, New Mexico.

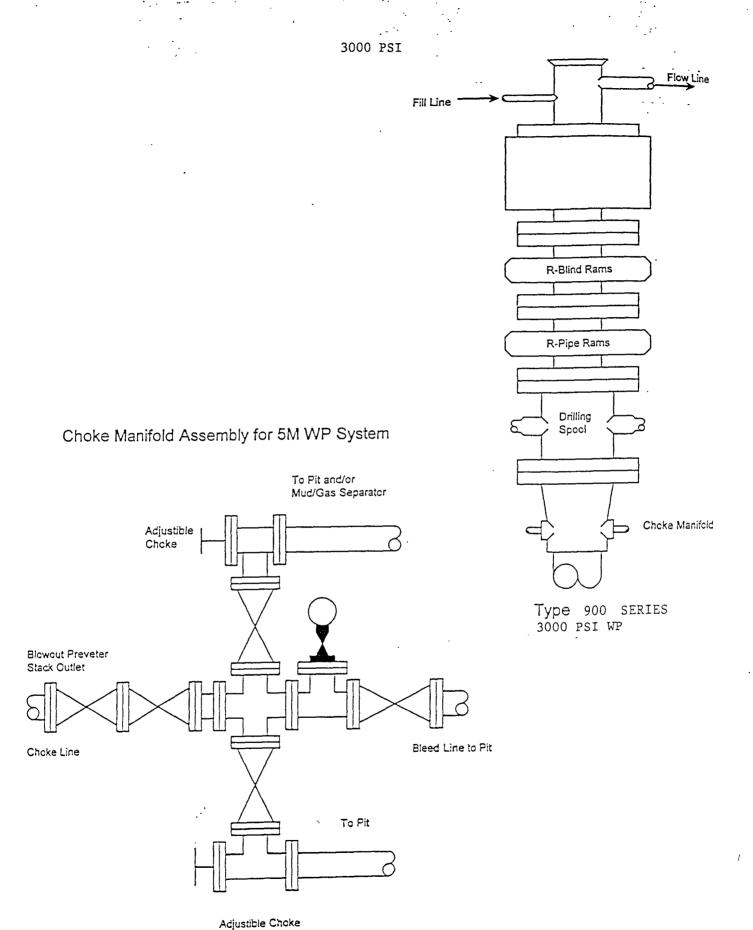


P.O. Box 1786 1120 N. West County Rd. Hobbs, New Mexico 88241 (505) 393-7316 — Office (505) 392-3074 — Fax basinsurveys.com

W.O. 1	Number:	JMS	19215TR	
Surve	y Date:	02-1	7-2008	
Scale:	1" = 2	MILES		
Date:	02-19-	2008		

RKI EXPLORATION & PRODUCTION

BLOWOUT PREVENTER SYSTEM



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

May 1, 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. 21, Unit L, NSL Footage: 1145 feet FWL and 1330 feet FSL of Section 36 T22S, R28E, Eddy County New Mexico

Dedication of 40-acre spacing unit consisting of the

NW/4SW/4 for East Herradura Bend-Delaware Pool (30670)
Dedication of 80-acre spacing unit consisting of the W/2SW/4 for the
South Culebra Bluff-Bone Spring Pool (15011)

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 interior line between the NW/4SW/4 and the SW/4SW/4 of Section 36.

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. 21, Unit L, Footage: 1145 feet FWL and 1330 feet FSL of Section 36 T22S, R28E, Eddy County New Mexico to be dedicated to a 40-acre spacing unit consisting of the NW/4SW/4 for East Herradura Bend-Delaware Pool (30670) and to be dedicated of 80-acre spacing unit consisting of the W/2SW/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. 21 is to be located in Unit L 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 NW/4SW/4 of Section 36 to this well. The well would encroach towards the SW/4SW/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/2SW/4 of Section 36 to this well. The well would encroach towards the SW/4 of Section 36 where RKI and its affiliated entities own ALL four 40-acre tracts.
- 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 concluded that the four existing, the Pinnacle State Wells 1, 3, 11 and 12 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 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 RKI and its affiliated entities owning 100% of the SW/4
- 6 In accordance with Division rules, because of common ownership, no notice is required.

CONCLUSION

7. 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.

I KULL

Respectfully Submitted:

Attorney for RKI Exploration & Production, LLC

DISTRICT I 1825 N. Franch Dr., Hobbs, NM 88240 DISTRICT II 1801 W. Grand Avenue, Artesie, NX 88810

1820 S. St. Francis Dr., Santa Fe, NN 57506

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102 Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies Fee Lease - 3 Copies

OIL CONSERVATION DIVISION DISTRICT III 1000 Rio Brazes Rd., Axteo, NM 87410 DISTRICT IV

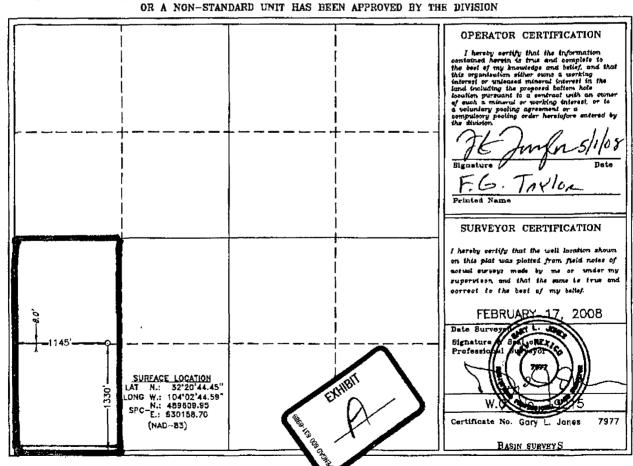
1220 South St. Francis Dr. Santa Fe, New Mexico 87505

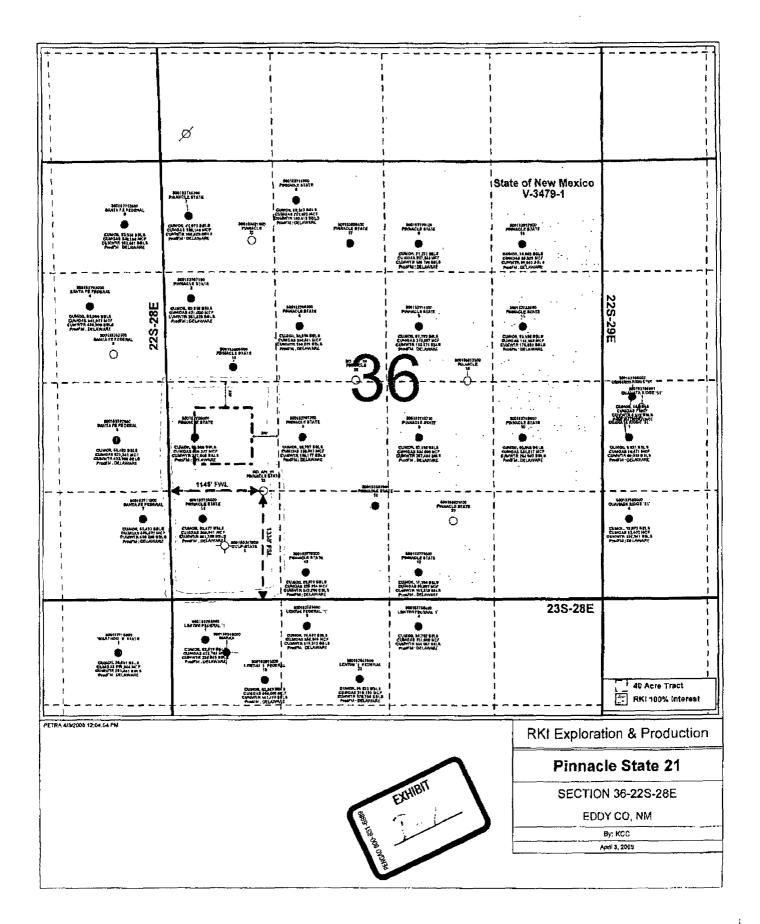
☐ AMENDED REPORT

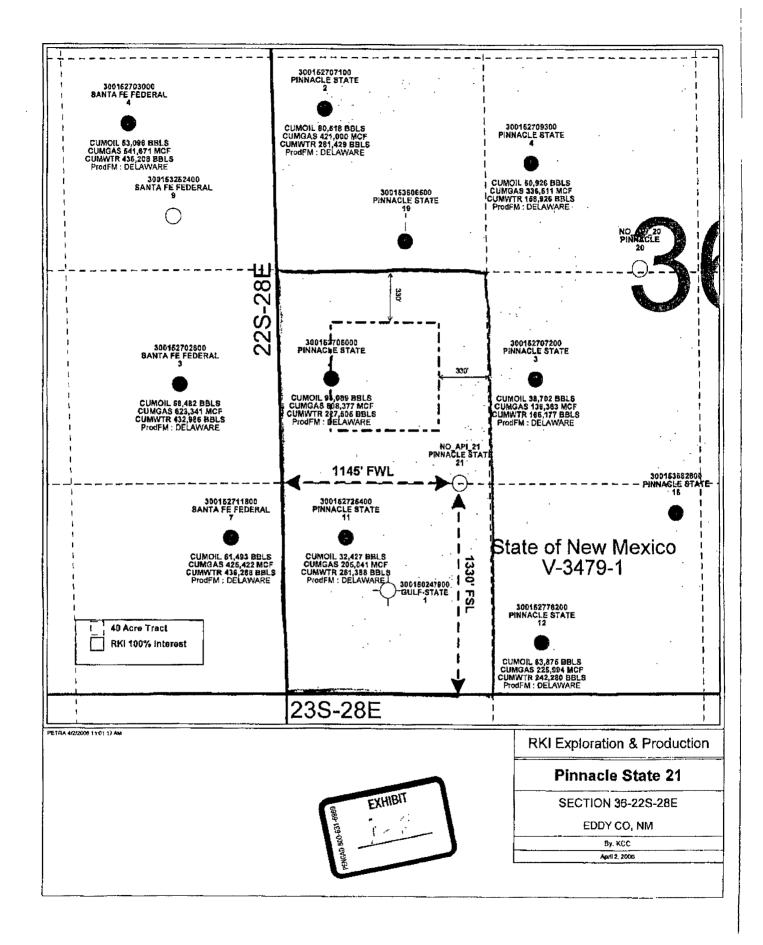
WELL LOCATION AND ACREAGE DEDICATION PLAT

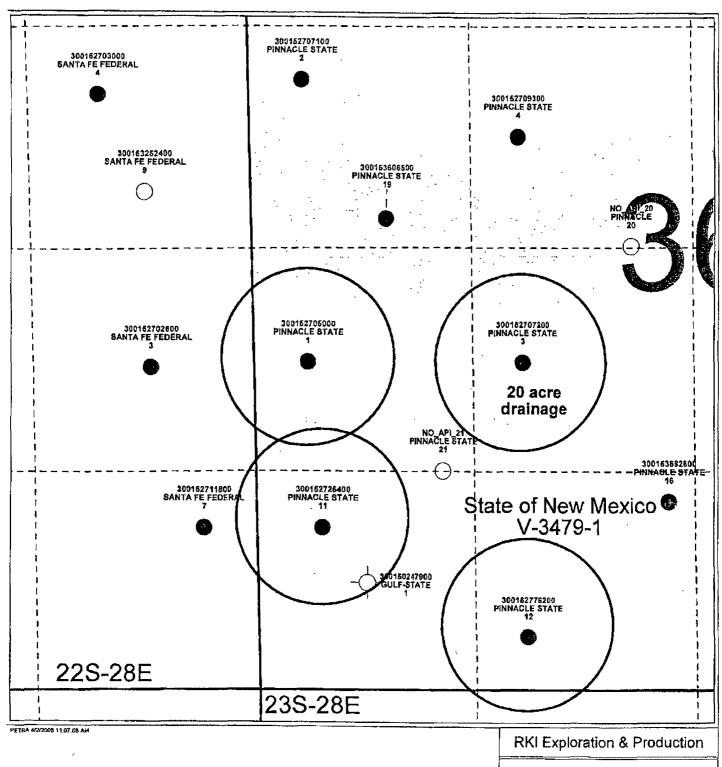
API	Number			Pool Code 1011	So	uth Culebra	Fool Name Bluff - Bon	e Spring	
3036			Well Number 21						
2462		Operator Name RKI EXPLORATION & PRODUCTION					Elevation 3090'		
		-			Surface Loca	ation			
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	36	22 \$	28 E		1330	SOUTH	1145	WEST	EDDY
			Bottom	Hole Lo	cation If Diffe	rent From Sur	face		-
UL or lot No.	Section	Township	Range	Lot ldn	Feet from the	North/South line	Feet from the	Rest/West line	County
Dedicated Acre	Joint a		onsolidation	Code Or	der No.	1			<u> </u>

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED









EXHIBIT

EXHIBIT

EXHIBIT

Pinnacle State 21

SECTION 36-22S-28E

EDDY CO, NM

By, KCC

April 2, 2008

Pinnacle 16

Lease	н (FT)	Parasity	Sw	Drainage (ACRES)	Bo (RB/STB)	R.F. (%)	VOLUMETRIC EUR (MBO)	HIST. CUM. (MBO)	RATE/TIME EUR MBO
Pinnacie 3	117	0.15	0.82	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.



ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -1220 South St. Francis Drive, Santa Fe, NM 87505



		1220 SOUCH SE, FRANCIS DIN	e, sanca (e, Mir. 07303		
		ADMINISTRATIVE	APPLICATION C	HECKLIST	
	HIS CHECKLIST IS MA		APPLICATIONS FOR EXCEPTION BING AT THE DIVISION LEVEL IN		REGULATIONS
	[NSL-Non-Star [DHC-Down [PG-Po	ndard Location] [NSP-Non-Sta nhole Commingling] [CTB-Le	ease Commingling] [PL Lease Storage] [OLM-C [PMX-Pressure Mainten II [III] [Pressure]	C-Pool/Lease Comming Iff-Lease Measurement ance Expansion] The increase in	lling]] } }
[1]		PLICATION - Check Those V Location - Spacing Unit - Sim NSL NSP	Which Apply for [A]	• •	
	Check [B]	One Only for [B] or [C] Commingling - Storage - Mea		s □ olm	ED 20
	[C]	Injection - Disposal - Pressure	Increase - Enhanced Oil SWD IPI EC		
	[D]	Other: Specify			
[2]	NOTIFICATI [A]	ON REQUIRED TO: - Check Working, Royalty or Ove			
	[B]	Offset Operators, Leaseh	olders or Surface Owner		
	[C]	Application is One Which	h Requires Published Leg	al Notice	
	[D]	Notification and/or Conc	urrent Approval by BLM ommissioner of Public Lands, State Land	or SLO	
	[E]	For all of the above, Proc	of of Notification or Public	cation is Attached, and/o	or,
	[F]	☐ Waivers are Attached	Common	oungeship	P
[3]		CURATE AND COMPLETE TION INDICATED ABOVE	INFORMATION REQU		•
	val is <mark>accurat</mark> e ar	TION: I hereby certify that the od complete to the best of my k quired information and notificat	nowledge. I also understa	nd that no action will b	
	Note:	Statement must be completed by an			-11
Print	Type Name	Signature	Kellanin	& Kellahin ys At Law	$\frac{5}{10}$ Date
أراسنه	- xypo craine	oignature		nzales Rd	Date
. (Santa FBA	120105 M	