

If earthen pits are used in association with the drilling of this well, an OCD pit permit must be obtained prior to pit construction.

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

1-Disposal
venue
1210

FORM APPROVED
OMB No. 1004-0136
Expires November 30, 2000

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM-0560353	
1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name	
2. Name of Operator Chi Operating, Inc. 4378		7. If Unit or CA Agreement, Name and No.	
3a. Address P.O. Box 1799 Midland, TX 79702		8. Lease Name and Well No. Munchkin Federal No. 8	
3b. Phone No. (include area code) (432) 685-5001 97083		9. API Well No. 30-015-34816	
4. Location of Well (Report location clearly and in accordance with any State requirements. *) 2500' FNL & 660' FWL At proposed prod. zone 1980' FNL & 660' FWL		10. Field and Pool, or Exploratory Benson Delaware	
14. Distance in miles and direction from nearest town or post office* 16 road miles south of Loco Hills, NM		11. Sec., T., R., M., or Blk. and Survey or Area Sec. 12-T19S-R30E	
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'	16. No. of Acres in lease 2160.32	17. Spacing Unit dedicated to this well 40	12. County or Parish Eddy
18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft. 1328'	19. Proposed Depth 5,500'	20. BLM/BIA Bond No. on file NM-1616	13. State NM
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3423' GL	22. Approximate date work will start* June 30, 2005	23. Estimated duration 4-6 weeks	OCT 24 2005 OCD-ARTSOM
24. Attachments			

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall 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 shall be filed with the appropriate Forest Service Office). | 6. Such other site specific information and/or plans as may be required by the authorized officer. |

25. Signature <i>George R. Smith</i>	Name (Printed Typed) George R. Smith	Date 5/18/05
-----------------------------------------	-----------------------------------------	-----------------

Title Agent for Chi Operating, Inc.	
Approved by (Signature) <i>131 DENNIS R. STENGER</i>	Name (Printed Typed) 131 DENNIS R. STENGER
Title <i>Acting</i> STATE DIRECTOR	Office NM STATE 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 1 YEAR

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.

*(Instructions on reverse)

Lease Responsibility Statement: Chi Operating, Inc. accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land or portion thereof.

GRS
George R. Smith, agent

Carbon Controlled Water Basin

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

WITNESS: 9 5/8" and 7" (IF RUN) CEMENT JOBS

District I
1625 N. French Dr. Hobbs, NM 88240

District II
811 South First, Artesia, NM 88210

District III
1000 Rio Brazos Rd., Aztec NM 87410

District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources

OIL CONSERVATION DIVISION

2040 South Pacheco
Santa Fe, N M 87505

Form C-102
Revised March 17, 1999
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number		Pool Code 97083	Pool Name Benson Delaware	
Property Code	Property Name MUNCHKIN FEDERAL			Well Number 8
OGRID No. 4378	Operation Name CHI OPERATING, INC.			Elevation 3423

Surface Location

UL or Lot No.	Section	Township	Range	Lot Idn.	Feet from the	North/South line	Feet from the	East/West line	County
E	12	19-S	30-E		2500	NORTH	660	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
E	12	19-S	30-E		1980	NORTH	660	WEST	EDDY

Dedicated Acres 40	Joint or Infill	Consolidation Code	Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTEREST HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p>BOTTOM HOLE LOCATION 660'</p> <p>SURFACE LOCATION LAT N 32°40'31.0" LON W 103°55'55.0"</p>	OPERATOR CERTIFICATION I HEREBY CERTIFY THAT THE INFORMATION HEREIN IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.	
	Signature <i>George R. Smith</i> Signature George R. Smith	
	Printed Name agent	
	Title 5/18/05	
	Date	
SURVEYOR 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 KNOWLEDGE AND BELIEF.		
Date of Survey APRIL 7, 2005		
Signature and Seal of Professional Surveyor 		
Certificate Number		

APPLICATION FOR DRILLING

CHI OPERATING, INC.

Munchkin Federal, Well No. 8

Surface: 2500' FNL & 660' FWL, Sec. 12-T19S-R30E

Bottom Hole: 1980' FNL & 660' FWL, Sec. 12-T19S-R30E

Eddy County, New Mexico

Lease No.: NM-0560353

(Development Well)

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Chi Operating, Inc. submits the following items of pertinent information in accordance with BLM requirements:

1. The geologic surface formation is recent Permian with quaternary alluvium and other surficial deposits.
2. The estimated tops of geologic markers are as follows:

Anhydrite	400'	Queen	3050'
Yates	2240'	Delaware	4170'
Seven Rivers	2430'	T.D.	5500'

3. The estimated depths at which water, oil or gas formations are anticipated to be encountered:

Water: Surface water between 100' - 300'.

Oil: Possible in the Queen, Delaware.

Gas: Possible in the Delaware

4. Proposed Casing Program:

HOLE SIZE	CASING SIZE	WEIGHT	GRADE	JOINT	SETTING DEPTH	QUANTITY OF CEMENT
12 1/4"	9 5/8"	36.0#	J-55	ST&C	500'	Circ. 400 sx "C" + add.
8 3/4"	7"	23.0#	J-55	ST&C	3,200'	Circ 450 sx "C" to surface
Note: If 8 3/4" hole has no problems will reduce hole to 7 7/8" and set following:						
7 7/8"	5 1/2"	17.0#	J-55	LT&C	5,500'	Circ. in 2 stages: 1200 sx of "C"
Note: If 7" casing is set will use following:						
6 1/4"	4 1/2"	11.6#	N-80	LT&C	5,500'	Circ. in 2 stages: 1200 sx of "C"

5. Proposed Control Equipment: A 10" 3000 psi wp Shaffer Type "E" double hydraulic ram BOP will be installed on the 9 5/8" casing and will be used as a 2,000 psi system. Casing and BOP will be tested before drilling out with 7 7/8" and will be tested weekly. See Exhibit "E".

6. MUD PROGRAM:	MUD WEIGHT	VIS.	W/L CONTROL
With intermediate casing:			
0' - 500': Fresh water mud:	8.4 - 8.7 ppg	32 - 34	No W/L control
500' - 3200': Brine mud	10.0 ppg	29 - 30	No W/L control
3200' - 5500': Brine mud	10.0 ppg	29 - 32	W/L cont. < 15 cc @ TD
Without intermediate casing:			
0' - 500': Fresh water/Spud	8.4 - 8.7 ppg	32 - 34	No W/L control
500' - 5500': Brine/starch	10.0 ppg	29 - 30	W/L cont. <15 cc @ TD

7. Auxiliary Equipment: Blowout Preventer, gas detector, Kelly cock, pit level monitor, flow sensors and stabbing valve.

8. Testing, Logging, and Coring Program:

Drill Stem Tests: As deemed necessary.

Logging: T.D thru pay: GR-CAL-CNL-LDT-DLL-MICRO

T.D. to Surface: GR-Neutron

Coring: Rotary Sidewall: as dictated by logs.

CONDITIONS OF APPROVAL - DRILLING

Well Name & No. 8 - MUNCHKIN FEDERAL
Operator's Name: CHI OPERATING, INC
Location: 2500' FNL & 660' FWL - SEC 12 - T19S - R30E - EDDY COUNTY - (SHL)
1980' FNL & 660' FWL - SEC 12 - T19S - R30E - EDDY COUNTY - (BHL)
Lease: NM-0560353

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 for wells in Chaves and Roosevelt Counties; the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 234-5909 or (505) 361-2822 (After hours) - for wells in Eddy County; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 9-5/8 inch 7 inch 4-1/2* or 5-1/2 inch

*If 7" casing is set will reduce hole to 6-1/4" and set 4-1/2" casing - If there are no hole problems 7" casing will not be set and hole will be reduced to 7-7/8" and set 5-1/2" casing

C. BOP tests

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

4. The API No. assigned to the well by NMOCDC shall be included on the subsequent report of setting the first casing string.

5. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. The 9-5/8 inch surface casing shall be set at 500 feet, below usable water and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 7 inch salt protection casing is circulate cement to the surface. Note: If 7" casing is run due to hole problems it should be set between 1800 feet and 2300 feet in accordance with R-111-P order and comparison with offset well 2- Land Rush Federal - 660' FNL & 660' FEL - SEC 12 - T19S - R30E - Top of Salt @ 560' - Bottom of Salt @ 1700'.

3. The minimum required fill of cement behind the 4-1/2 or 5-1/2 inch production casing is circulate cement to the surface.

4. Whenever a casing string is cemented in the R-111-P Potash Area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.

* Contradicts itself w/ R-111-P.
WILL NOT BE USED

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 9-5/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) is 2000 psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- - The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

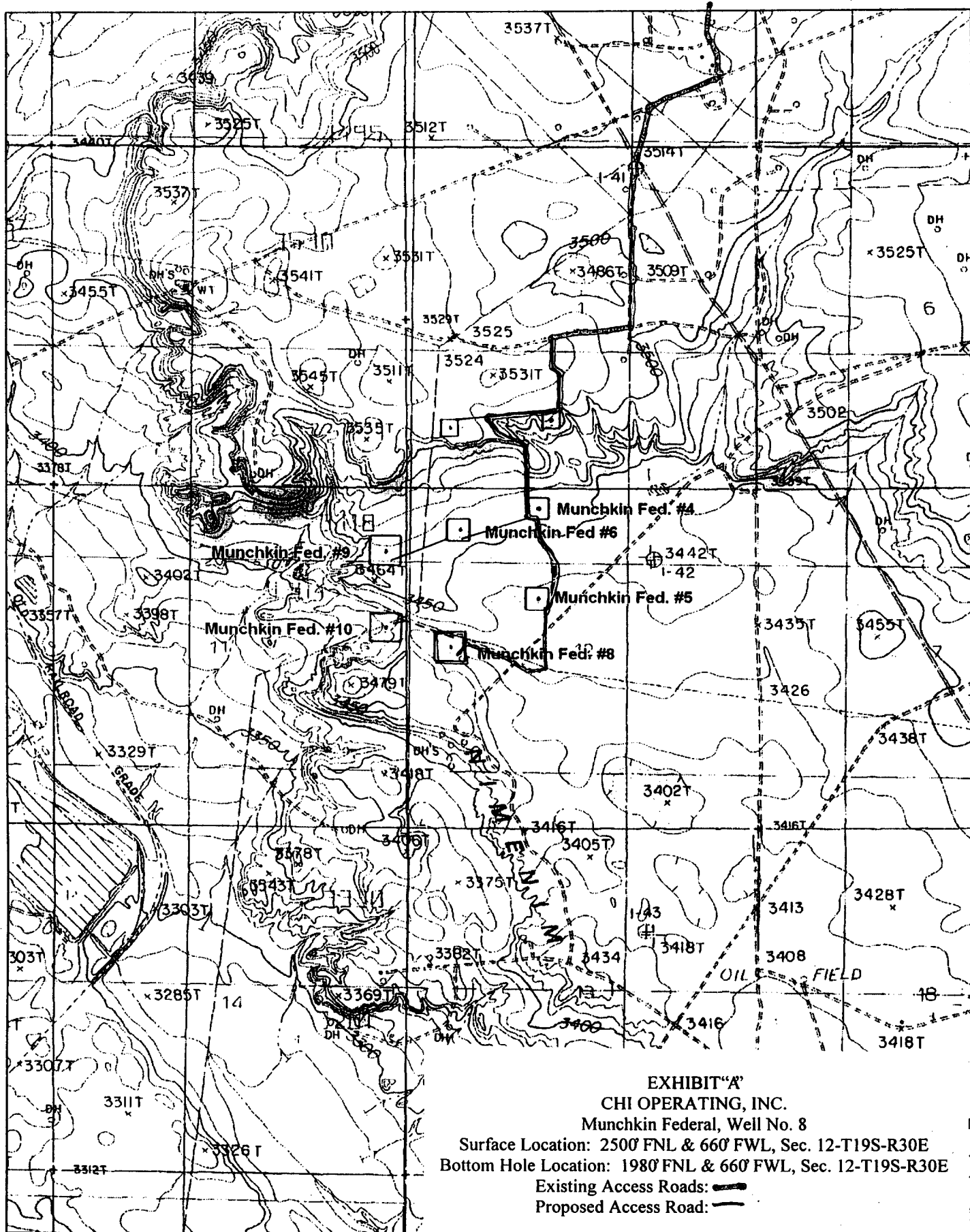
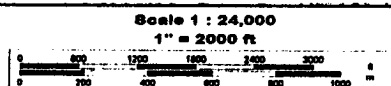


EXHIBIT "A"
 CHI OPERATING, INC.
 Munchkin Federal, Well No. 8
 Surface Location: 2500' FNL & 660' FWL, Sec. 12-T19S-R30E
 Bottom Hole Location: 1980' FNL & 660' FWL, Sec. 12-T19S-R30E
 Existing Access Roads: —
 Proposed Access Road: - - -

DELOME

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 www.delorme.com



TM
 0.0°E

CHI ENERGY
Munchkin Fed #8

slot #1
UNKNOWN
Eddy County New Mexico

P R O P O S A L L I S T I N G

by
Baker Hughes INTEQ

Your ref : Plan 1
Our ref : prop4570
License :

Date printed : 10-May-2005
Date created : 10-May-2005
Last revised : 10-May-2005

Field is centred on n32 30 0.000,w104 15 0
Structure is centred on 526351.731,543122.802,999.00000,N

Slot location is n32 29 35.255,w104 14 52.317
Slot Grid coordinates are N 543122.802, E 526351.731
Slot local coordinates are 0.00 N 0.00 E

Projection type: mercator - New Mexico East (3001), Spheroid: Clarke - 1866

Reference North is Grid North

CHI ENERGY
Munchkin Fed #8, slot #1
UNKNOWN, Eddy County New Mexico

PROPOSAL LISTING Page 1
Your ref : Plan 1
Last revised : 10-May-2005

Measured Depth	Inclin Degrees	Azimuth Degrees	True Vert Depth	R E C T A N G U L A R C O O R D I N A T E S		Dogleg Deg/100ft	Vert Sect	G R I D C O O R D S Easting Northing	
0.00	0.00	0.00	0.00	0.00N	0.00E	0.00	0.00	526351.73	543122.80
500.00	0.00	0.00	500.00	0.00N	0.00E	0.00	0.00	526351.73	543122.80
1000.00	0.00	0.00	1000.00	0.00N	0.00E	0.00	0.00	526351.73	543122.80
1500.00	0.00	0.00	1500.00	0.00N	0.00E	0.00	0.00	526351.73	543122.80
2000.00	0.00	0.00	2000.00	0.00N	0.00E	0.00	0.00	526351.73	543122.80
2500.00	0.00	0.00	2500.00	0.00N	0.00E	0.00	0.00	526351.73	543122.80
2815.00	0.00	0.00	2815.00	0.00N	0.00E	0.00	0.00	526351.73	543122.80
2915.00	2.50	0.00	2914.97	2.18N	0.00E	2.50	2.18	526351.73	543124.98
3015.00	5.00	0.00	3014.75	8.72N	0.00E	2.50	8.72	526351.73	543131.52
3115.00	7.50	0.00	3114.14	19.61N	0.00E	2.50	19.61	526351.73	543142.41
3215.00	10.00	0.00	3212.97	34.82N	0.00E	2.50	34.82	526351.73	543157.62
3295.00	12.00	0.00	3291.50	50.08N	0.00E	2.50	50.08	526351.73	543172.88
3500.00	12.00	0.00	3492.02	92.70N	0.00E	0.00	92.70	526351.73	543215.51
4000.00	12.00	0.00	3981.09	196.66N	0.00E	0.00	196.66	526351.73	543319.46
4500.00	12.00	0.00	4470.17	300.62N	0.00E	0.00	300.62	526351.73	543423.42
5000.00	12.00	0.00	4959.24	404.57N	0.00E	0.00	404.57	526351.73	543527.37
5500.00	12.00	0.00	5448.31	508.53N	0.00E	0.00	508.53	526351.73	543631.33
5552.84	12.00	0.00	5500.00	519.51N	0.00E	0.00	519.51	526351.73	543642.32

All data in feet unless otherwise stated. Calculation uses minimum curvature method.

Coordinates from structure and TVD from rotary table.

Bottom hole distance is 519.51 on azimuth 0.00 degrees from wellhead.

Vertical section is from N 0.00 E 0.00 on azimuth 0.00 degrees.

Grid is mercator - New Mexico East (3001).

Grid coordinates in FEET and computed using the Clarke - 1866 spheroid

Presented by Baker Hughes INTEQ

CHI ENERGY
Munchkin Fed #8, slot #1
UNKNOWN, Eddy County New Mexico

PROPOSAL LISTING Page 2
Your ref : Plan 1
Last revised : 10-May-2005

Targets associated with this wellpath

Target name	Geographic Location	T.V.D.	Rectangular Coordinates	Revised
PBHL		5500.00	520.00N 0.00W	10-May-2005



INTEQ

CHI ENERGY

Structure : Munchkin Fed #8

Slot : slot #1

Field : UNKNOWN

Location : Eddy County New Mexico

Created by adavann

Date plotted : 10-May-2005

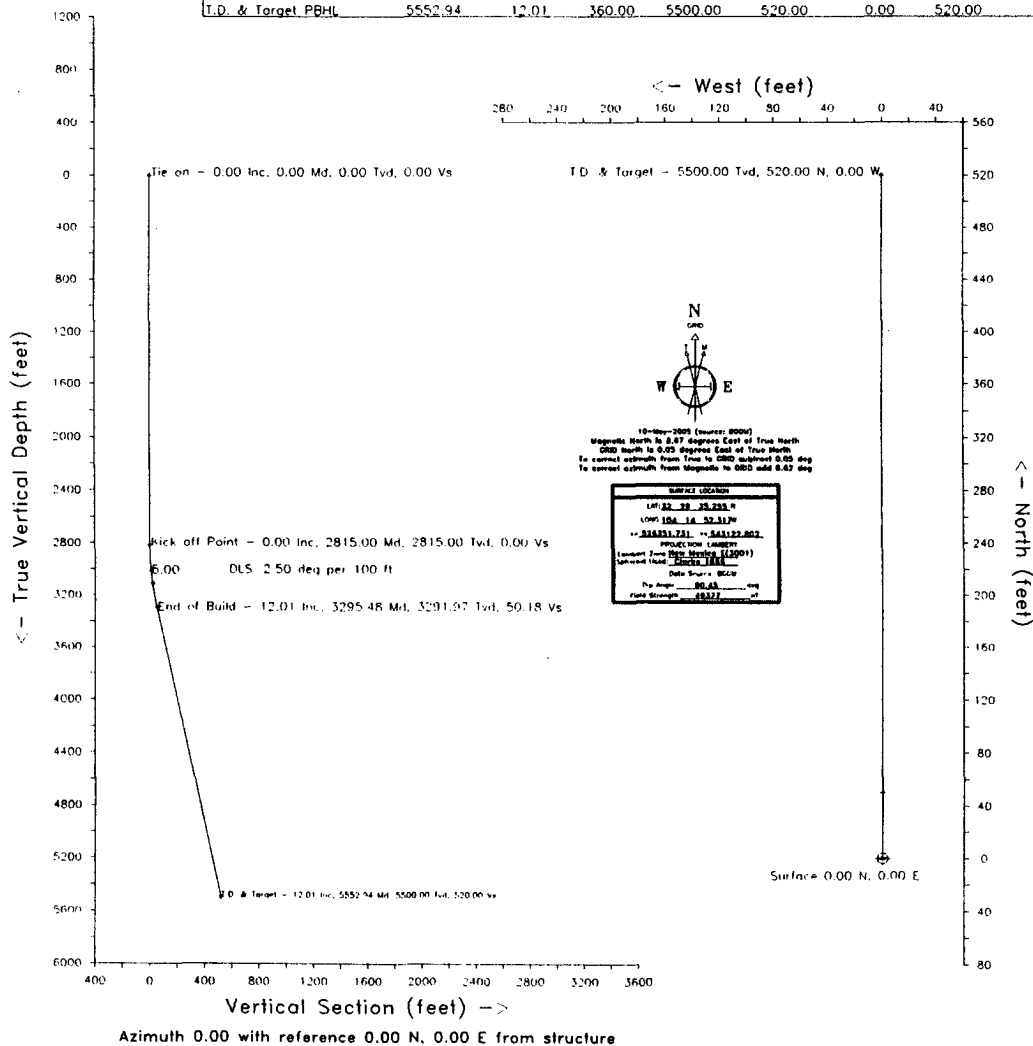
Plot Reference is Plan 1

Coordinates are in feet reference structure
True Vertical Depths are reference structure

--- Baker Hughes INTEQ ---

WELL PROFILE DATA

Point	MD	Inc	Dir	TVD	North	East	V Sect	Deg/100
Tie on	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
KOP	2815.00	0.00	360.00	2815.00	0.00	0.00	0.00	0.00
End of Build	3295.48	12.01	360.00	3291.97	50.18	0.00	50.18	2.50
T.D. & Target PBHL	5552.94	12.01	360.00	5500.00	520.00	0.00	520.00	0.00



Chi Operating, Inc.
Munchkin Federal, Well No. 8
Page 2

9. No abnormal pressures or temperatures are anticipated. In the event abnormal pressures are encountered the proposed mud program will be modified to increase the mud weight. Estimated evacuated BHP = 2420 psi with a temperature of 115°.
10. H₂S: None expected.
11. Anticipated starting date: June 30, 2005
Anticipated completion of drilling operations: Approximately 30 days.

MULTI POINT SURFACE USE AND OPERATIONS PLAN

CHI OPERATING, INC

Munchkin Federal, Well No. 8

Surface Location: 2500' FNL & 660' FWL, Sec. 12 -T19S-R30E

Bottom Hole Location: 1980' FNL & 660' FWL, Sec. 12 -T19S-R30E

Eddy County, New Mexico

Lease No.: NM-0560353

(Development Well)

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan, to be followed in rehabilitating the surface environmental effects associated with the operations.

1. EXISTING ROADS:

- A. Exhibit "A" is a portion of a BLM Hackberry Lake Topo map showing the location of the proposed well as staked. The well site location is approximately 36 road miles southeast of Artesia, NM. Traveling east of Artesia on U.S. Highway 82, NM Hwy 360 and county roads No. 250 and 251, there will be 33 miles of paved highway, plus 3 miles of existing gravel oilfield roads.
- B. Directions: Travel east from U. S. Highway #285 in Artesia, NM on U. S. Highway 82 for approximately 14 miles, turn southeast on NM Hwy 360 for approximately 13 miles to paved County Rd #251. Turn north on #251 for 1.8 mile to County Rd. # 250, then turn right on #250 for 3.8 miles to top of Nimenim Ridge. Turn south onto a gravel oilfield road just west of a cattle guard with a pipeline buried near the road. Continue south for .8 mile to a large tank battery and water injection pump house; turn right (west) for .25 mile to a pump jack, then south (left) for .63 mile to a P/A well site with a gas line tap. Turn right (west) for .3 mile, then south .25 mile to the Munchkin Fed. #1 well site. Turn west, north of the #1, for .2 mile to the access road on the left (south) side. Follow this road southeast then south to the southwest corner of the Munchkin Fed. #4 well pad. The access road starts at the middle of the pad on the south side and runs southeast for 1000 feet to the southeast corner of the Munchkin Fed. #5 well pad. The proposed access road will start on the southeast corner of this well pad and run south for 900' to the pipeline; then 1,100' west, south of the pipeline, to the southeast corner of the proposed well pad.

2. PLANNED ACCESS ROAD:

- A. Length and Width: The proposed access road will be constructed to a width of 12 feet (24' Max.) and approximately 2,000 feet in length. Part of the proposed access road will parallel the Conoco-Phillips pipeline on the south side. The proposed and existing roads are color coded on Exhibit "A".
- B. Construction: The new access road will be constructed by grading and topping with compacted caliche.
- C. Turnouts: None required.
- D. Culverts: At least two turnouts will be built increasing the width to 20 feet for passing.
- E. Cuts and Fills: There will be minor cuts and leveling across small dune areas.
- F. Gates, Cattle guards: None required.
- G. Off Lease ROW: An off lease ROW No. NM-102279 was issued with a previous APD covering the existing access road in the E2 of Sec. 1-T19S-R30E.

3. LOCATION OF EXISTING WELLS:

- A. Existing wells within a two-mile radius are shown on Exhibit "C".

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES;

- A. Chi Operating, Inc. has production facilities on the lease at this time.
- B. If the well proves to be commercial, the necessary production facilities and gas production-process equipment will be installed on the drilling pad. A 3" poly gas flow line will run north, parallel to the proposed access road, to a gas line hook-up at the Munchkin Fed. #4 well pad. Another 3" poly line, carrying liquids, will run parallel to the access road to the #5 tank battery

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with fresh water that will be obtained from private or commercial sources and will be transported over the existing and proposed access roads

6. SOURCE OF CONSTRUCTION MATERIALS:

- A. Caliche for surfacing the proposed access road and well site pad will be obtained from a pit on the location, if available, or from an approved pit on the drill site for the Wizard Federal #3 in the NW¼SE¼, Sec. 1-T19S-R30E. The archaeologist has cleared this pit. No surface materials will be disturbed except those necessary for actual grading and leveling of the drill site and access roads.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. All pits will be fenced with normal fencing materials to prevent livestock from entering the area.
- D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or a separate disposal application will be submitted to the BLM for approval.
- E. Oil produced during operations will be stored in tanks until sold.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- G. Trash, waste paper, garbage and junk will be contained in trash bins to prevent scattering by the wind and will be removed for deposit in an approved sanitary landfill within 30 days after finishing drilling and/or completion operations.

8. ANCILLARY FACILITIES:

- A. None required.

9. WELL SITE LAYOUT:

- A. Exhibit "D" shows the relative location and dimensions of the well pad, reserve pits, and major rig components. The pad and pit area has been staked and flagged, 500' X 500'.
- B. Mat Size: 225' X 165', plus 100' X 100' reserve pits on the north.
- C. Cut & Fill: The location will require a 1.5 foot cut on the north/northwest and fill to the south/southeast. There are undulating sand dunes 2 – 3 feet high that will need to be leveled.
- D. The surface will be topped with compacted caliche and the reserve pits will be plastic lined.

10. PLANS FOR RESTORATION OF THE SURFACE:

- A. After completion of drilling and/or completion operations, all equipment and other material not required for operations will be removed. Pits will be filled and the location cleaned of all trash and junk to leave the well site in an aesthetically pleasing condition as possible.
- B. Any unguarded pits containing fluids will be fenced until they are filled.
- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled and leveled as soon as they are dry enough to be worked.

11. OTHER INFORMATION:

- A. Topography: The proposed access road is located in an area on top of and east of the Niminem Ridge. The location has an overall 1% slope to the southeast from an elevation of 3423' GL.
- B. Soil: The topsoil at the well site is a brownish red colored sandy loam with some caliche scatter on the surface. The soil is of the Berino loamy fine sands series.
- C. Flora and Fauna: The vegetation cover is a fair to poor grass cover of threeawn, dropseed, fluff grass and bush muhly along with plants of mesquite, creosote bush, broomweed, yucca, cacti and miscellaneous weeds and wildflowers. The wildlife consists of rabbits, coyotes, antelope, rattlesnakes, lizards, dove, quail and other wildlife typical of the semi-arid desert land.
- D. Ponds and Streams: None in the area.
- E. Residences and Other Structures: None in the area except oil field equipment and tank batteries.
- F. Land Use: Cattle grazing.
- G. Surface Ownership: The proposed well site and access road is on Federal surface and minerals.
- H. There is some evidence of archaeological, historical or cultural sites in the area. Archaeological Survey Consultants, P. O. Box D, Roswell, NM 88202 are conducting an archaeological survey, and their report will be submitted to the appropriate government agencies.

12. OPERATOR'S REPRESENTATIVE:

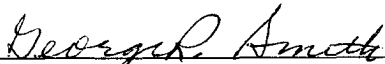
- A. The field representative for assuring compliance with the approved use and operations plan is as follows:

John Qualls
Chi Operating, Inc.
P. O. Box 1799
Midland, Texas 79701
Office Phone: (915) 685-5001
Home Phone: (915) 684-6847

13. CERTIFICATION:

I hereby certify that I have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in the plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by Chi Operating, Inc. and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

May 18, 2005



George R. Smith
Agent for: Chi Operating, Inc.

RIG #

BLOWOUT PREVENTOR ARRANGEMENT

2M SYSTEM

10" SHAFFER TYPE "E", 3000 psi WP

80 GALLON, 4 STATION KOOMEY ACCUMULATOR

3000 psi WP CHOKE MANIFOLD

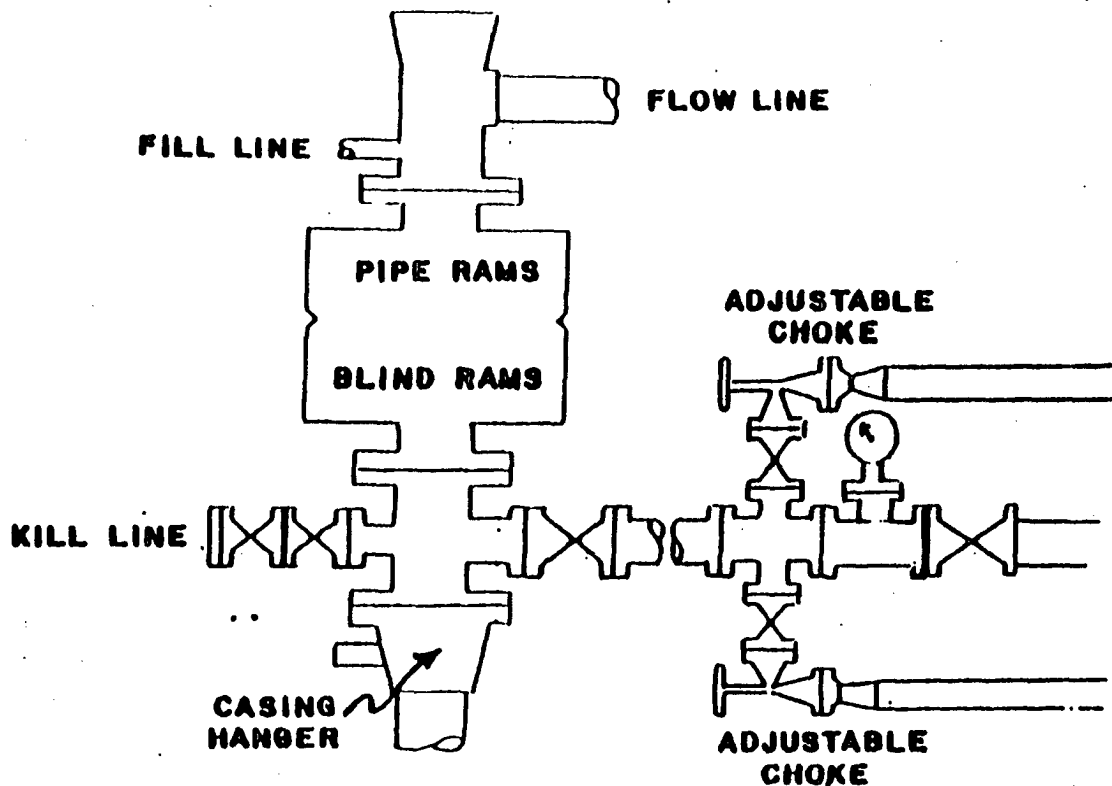


EXHIBIT "E"
CHI OPERATING, INC.
Munchkin Federal, Well No. 8
BOP Specifications



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

November 4, 2005

Chi Operating, Inc.

P.O. Box 1799

Midland, TX 79702

Attn: Mr. John Wolf or To whom It May Concern

RE: Chi Operating, Inc.: Application to drill for the Munchkin Federal Well # 8, located in Section 12, Township 19 South Range 30 East (legal surface location being: 2500' FNL & 660' FWL) Eddy County, New Mexico, NMPM

Dear Mr. Wolf or To Whom It May Concern,

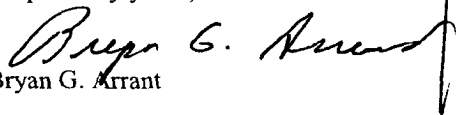
In regards to the above captioned well, the New Mexico Oil Conservation Division (NMOCD) **objects to the drilling** of said well in that it is the NMOCDs' opinion that this well is in non-compliance with the rules and regulations of R-111-P. This well location does not comply with a number issues such as cementing and casing requirements as required in R-111-P and **possibly** in respect to the distance to the Life-of-Mine Reserves (LMR).

Other reasons are that this location is classified as a "deep well" per the definition of R-111-P.

I have also learned that said well is less than 1618' to an open mine works.

If you have nay questions regarding this matter, please feel free to call me.

Respectfully yours,


Bryan G. Arant


E-Mail:

JW@ChiEnergyInc.Com


John_Simitz@nm.blm.gov

Tim.Gum@state.nm.us

TomMcGuire@Intrepidpotash.com

 Attachments can contain viruses that may harm your computer. Attachments may not display correctly.

Arrant, Bryan, EMNRD

From: Arrant, Bryan, EMNRD
To: Jmr@sls.state.nm.us; Craig_Cranston@nm.blm.gov
Cc:
Subject: FW: Chi Operating, Inc: Munchkin Fed. # 8/R-111-P
Attachments:  Letterhead Document II.doc(43KB)

Sent: Fri 11/4/2005 3:03 PM

FYI-Bryan

From: Arrant, Bryan, EMNRD

Sent: Fri 11/4/2005 2:54 PM

To: JW@ChiEnergyInc.Com; John_Simitz@nm.blm.gov; Gum, Tim, EMNRD; TomMcGuire@Intrepidpotash.com

Subject: Chi Operating, Inc: Munchkin Fed. # 8/R-111-P

Dear John,

Attached for your review is the New Mexico Oil Conservation Division's letter of objection for the application to drill (APD) for the Munchkin Federal # 8 well.

Please call if you have any ?s.

Yours truly,

Bryan G.Arrant

PES

505-748-1283 ext. 103

OCD-ARTESIA

10/9/05

LINDA -

New Steps - OCD CHANGED well
to DEEP WHICH REQUIRES 3
STRINGS ALL CEMENTED TO SURFACE.

THANK
LES B.

CONDITIONS OF APPROVAL - DRILLING

Well Name & No. 8 – MUNCHKIN FEDERAL
Operator's Name: CHI OPERATING, INC
Location: 2500' FNL & 660' FWL – SEC 12 – T19S – R30E – EDDY COUNTY – (SHL)
1980' FNL & 660' FWL – SEC 12 – T19S – R30E – EDDY COUNTY – (BHL)
Lease: NM-0560353

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 for wells in Chaves and Roosevelt Counties; the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 234-5909 or (505) 361-2822 (After hours) - for wells in Eddy County; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 9-5/8 inch 7 inch 4-1/2 inch

C. BOP tests

2 Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

5. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. The 9-5/8 inch surface casing shall be set at 500 feet, below usable water and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 7 inch salt protection casing is circulate cement to the surface. Note: 7" casing shall be set between 1800 feet and 2300 feet in accordance with R-111-P order and comparison with offset well 2- Land Rush Federal – 660' FNL & 660' FEL – SEC 12 – T19S – R30E – Top of Salt @ 560' – Bottom of Salt @ 1700'.

3. The minimum required fill of cement behind the 4-1/2 inch production casing is circulate cement to the surface.

4. Whenever a casing string is cemented in the R-111-P Potash Area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.

CHIO, SGD, LES BABYAN

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 9-5/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) is 2000 psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- - The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

No Warranty
is Made By The
Bureau of Land
Management For
The Use of the
Data For
Purposes Not
Intended by BLM

Scale
2 Inches = 1 Mile

North

Legend

- Measured Ore
- Inferred Ore
- Indicated Ore
- Barren or Minor Ore
- APD Approved
- APD Pending Approval
- APD Denied
- APD Pending Denial
- Alternate Location Vertical
- Alternate Location Directional
- Abandoned Location
- Oil Well
- Abandoned Oil Well
- Gas Well
- Abandoned Gas Well
- Oil & Gas Well
- Abandoned Oil & Gas Well
- Water Injection Well
- Salt Water Injection Well

Munchkin "12" Federal Well No. 8



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

Lori Wrotenberg
Director
Oil Conservation Division

November 4, 2005
Bureau of Land Management
620 East Greene St.
Carlsbad, NM 88220
Attn: Craig Cranston or To Whom It May Concern

RECEIVED
NOV 14 2005
OCD-ARTESIA

RE: APPLICATION FOR PERMIT TO DRILL IN POTASH AREA

OPERATOR: Chi Operating, Inc.
LEASE NAME: Munchkin Federal # 8
LOCATION: SEC. 12, TOWNSHIP 19 SOUTH, RANGE 30 EAST,
(Legal Surface Location: 2500' FNL & 660' FWL)
(Projected Bottom Hole Location: 1980' FNL & 660' FWL)
EDDY COUNTY, NM, NMPM

PROPOSED DEPTH: 5500'-True vertical depth, 5553'-Measured depth
Dear Craig or To Whom It May Concern,

The application for permit to drill identified above has been filed with this office of the New Mexico Oil Conservation Division. Pursuit to the provisions of Oil Conservation Division Order R-111-P, please advise this office whether or not this application is within an established Life-of-Mine Reserve area filed with and approved by your office. If not, please advise whether it is within the buffer zone established by this order.
Thank you for your assistance.

Sincerely,

Bryan G. Arrant
PES, District II Artesia NMOCD

In LMR	Yes _____	No <u><i>X</i></u>
In Buffer Zone	Yes _____	No <u><i>X</i></u>

Comments:

Signature: *Craig Cranston*

Date: 11-9-05



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

November 4, 2005
New Mexico State Land Office
310 Old Santa Fe Trail
Santa Fe, NM 87504-1148
Attn: Joe Mraz or To Whom It May Concern

RE: APPLICATION FOR PERMIT TO DRILL IN POTASH AREA

OPERATOR: Chi Operating, Inc.
LEASE NAME: Munchkin Federal # 8
LOCATION: SEC. 12, TOWNSHIP 19 SOUTH, RANGE 30 EAST,
(Legal Surface Location: 2500' FNL & 660' FWL)
(Projected Bottom Hole Location: 1980' FNL & 660' FWL)
EDDY COUNTY, NM, NMPM

PROPOSED DEPTH: 5500'-True vertical depth, 5553'-Measured depth
Dear Joe or To Whom It May Concern,

The application for permit to drill identified above has been filed with this office of the New Mexico Oil Conservation Division. Pursuit to the provisions of Oil Conservation Division Order R-111-P, please advise this office whether or not this application is within an established Life-of-Mine Reserve area filed with and approved by your office. If not, please advise whether it is within the buffer zone established by this order.
Thank you for your assistance.

Sincerely,

Bryan G. Arrant
PES, District II Artesia NMOCD

In LMR	Yes _____	No _____
In Buffer Zone	Yes _____	No _____

Comments:

Signature: _____ **Date:** _____