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*(Instructions on reverse)	*(Instructions on reverse)			<u>, </u>			

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

SEE ATTACHED FOR CONDITIONS OF APPROVAL

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

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

State of New Mexico

DISTRICT I 1625 N. FRENCH DR., HOBBS, NM 86240

Energy, Minerals and Natural Resources Department

DISTRICT II 1301 W. GRAND AVENUE, ARTESIA, NW 88210

OIL CONSERVATION DIVISION Submit to Appropriate District Office 1220 SOUTH ST. FRANCIS DR. Santa Fe, New Mexico 87505

Revised October 12, 2005 State Lease - 4 Copies

Fee Lease - 3 Copies

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

MELL LUCATION AND	ACREAGE DEDICATION FLAT	☐ AMENDED REPORT				
Pool Code	Pool Name					
70200	Anderson Penn					
Proj	Property Name					
FIR	FEDERAL	1				
Oper	rator Name	Elevation				
CHI OPE	RATING, INC.	3659'				
	Pool Code 70200 Proj FIR Ope:	Pool Code Pool Name 70200 Anderson Penn				

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
1	7	17-S	30-E		900	NORTH	660	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot ldn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres	Joint or	Infill Co	nsolidation (Code Ore	der No.				
160			Com.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OD A NON-CTANDADD HAIT HAC DEEN ADDDOVED BY THE DIVISION

OCTOBER 12, 2006 Date Surveyed JR Signature & Seal of Professional Surveyor 106.11.1632		OR A NON-STANDARD UNIT HAS BEEN APPROVE	D BY THE DIVISION
3667.3' 3667.3	************	XXXXXXXXXXXXXX	
Signature Date Y=674428.3 N X=597135.7 E LAT.=32.853688' N LONG.=104.017022' W 37.37 AC XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	3667.0' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3' 3667.3'	GEODETIC COORDINATES	I hereby certify that the information 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 mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.
OCTOBER 12, 2006 Date Surveyed JR Signature & Seal of Professional Surveyor 06.11.1632 (5) Certificate No. GARY EIDSON 12841	37.37 AC ************************************	Y=674428.3 N X=597135.7 E LAT.=32.853688* N LONG.=104.017022* W	Signature Date George R. Smith, agent Printed Name 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
37.36 AC	LOT 4		OCTOBER 12, 2006 Date Surveyed JR Signature & Seal of Professional Surveyor 06.11.1632 Certificate No. GARY EIDSON 12641

APPLICATION FOR DRILLING

CHI OPERATING, INC.

Fir Federal Com., Well No. 1 900' FNL & 660' FWL, Sec. 7-T17S-R30E Eddy County, New Mexico Lease No.: NM-7752 (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:

Yates	1,200'	Strawn Ls.	10,170'
Queen	1,970'	Atoka	10,380'
San Andres	2,830'	Morrow Clastic	10,790'
Glorieta	4,120'	Morrow Lower.	10,870'
Abo	6,220'	Mississippian	10,980'
Wolfcamp	7,570'	T.D	11,300'

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 San Andres/Grayburg below 2700', Upper Penn or Cisco below 8,750'.

Gas: Possible in the Atoka below 10,380' and the Morrow below 10,790'.

4. Proposed Casing Program:

HOLE SIZE	CASING SIZE	WEIGHT	GRADE	JOINT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8"	48.0#	H-40	ST&C	450'	Circ. 450 sx "C" + add.
11"	8 5/8"	32.0#	J-55	ST&C	2,900'	Circ.850 sx "C" cement.
7 7/8"	5 1/2"	17.0#	N-80	LT&C	11,300'	675 sx of Super "C" + add. SEE COA
						11/455 H

5. Proposed Control Equipment:

A 12" 5000 psi wp Shaffer Type LWS Double Gate BOP will be installed on the 13 3/8" casing. Casing and BOP will be tested as described in Onshore Oil & Gas Order No. 1 before drilling out with 11" and will be tested weekly. Request waiver to test to a maximum of 3000 psi wp, which is in excess of maximum expected surface pressure. See Exhibit "E".

6.	MUD PROGRA	M:	MUD WEIGHT	VIS.	W/L CONTROL
	0' - 450':	Fresh water mud:	8.4 - 8.7 ppg	32 - 36	No W/L control
:	450' - 2900':	Brine mud:	10.0 - 10.2 ppg	29 - 30	No W/L control
1	2900' - 7500':	Fresh water mud:	8.4 - 8.7 ppg	28 - 29	No W/L control
	7500' - 8700':	Cut Brine mud:	9.0 - 9.2 ppg	28 - 29	No W/L control
1	8700' - 10,600':	Brine (starch) mud:	10.0 - 10.1 ppg	30 - 32	W/L control 15 cc +/-
	10,600' - 11,300':	Controlled Brine	9.5 - 9.7 ppg	38 - 42	W/L control 8 cc +/-

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. to 2900': (GR/CAL-CNL-LDT/DLL/MSFL

2900' To surface: GR/Neutron

Coring: As dictated by logs.



RIG #2

BLOWOUT PREVENTOR ARRANGEMENT

13 5/8 SHAFFER TYPE SL, 5000 psi WP
13 5/8 Hydril SPHERICAL, 5000 psi WP
80 GALLON, 6 STATION KOOMEY ACCUMULATOR
5000 psi WP CHOKE MANIFOLD

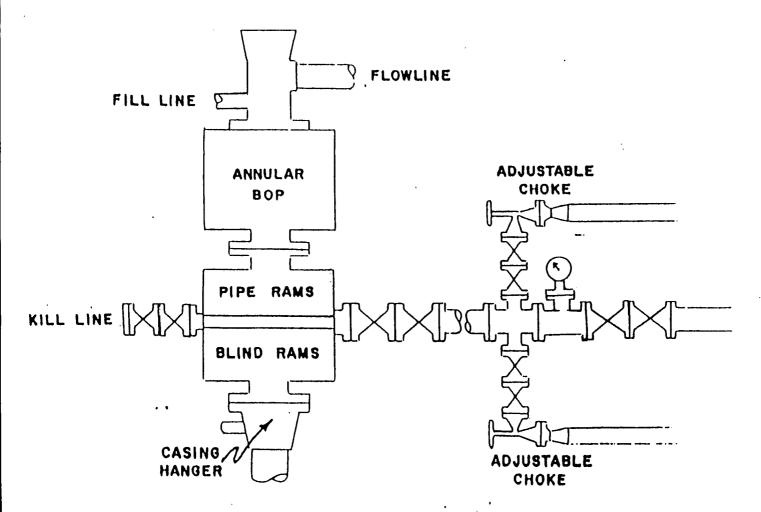


EXHIBIT "E"
CHI OPERATING, INC.
Fir Federal Com., Well No. 1
BOP Specifications

Chi Operating, Inc. FIR Federal Com., Well No. 1 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 = 4972 and 2486 psi surface pressure with a temperature of 173°.
- 10. H_2S : None expected. The Mud Log Unit will be cautioned to use a gas trap to detect H_2S and if any is detected the mud weight will be increased along with H_2S inhibitors sufficient to control the gas.
- 11. Anticipated starting date: February 10, 2007.
 Anticipated completion of drilling operations: Approximately 30 40 days.