

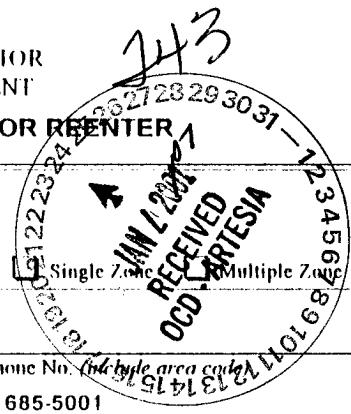
OCD-ARTESIA

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

ATS-06-76



5. Lease Serial No.
NM-7752

6. If Indian, Allottee or Tribe Name

7. If Unit or CA Agreement, Name and No.
36273

8. Lease Name and Well No.
Fir Federal Com., Well No. 1

9. API Well No.
30-cv-35404

10. Field and Pool, or Exploratory
Anderson Penn

11. Sec., T., R., M., or Blk. and Survey or Area
Sec. 7-T17S-R30E

12. County or Parish
Eddy

13. State
NM

1a. Type of Work: DRILL REENTER

1b. Type of Well: Oil Well Gas Well Other

2. Name of Operator
Chi Operating, Inc. 4378

3a. Address
P.O. Box 1799 Midland, TX 79702

3b. Phone No. (432) 685-5001

4. Location of Well (Report location clearly and in accordance with any State requirements. *)
900' FNL & 660' FWL
At proposed prod. zone same

14. Distance in miles and direction from nearest public office
CARLSBAD CONTROLLED WATER BASIN
Five road miles NW of Loco Hills, NM

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
1154.53

17. Spacing Unit dedicated to this well
160

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.
N/A

19. Proposed Depth
11,300'

20. BLM/BIA Bond No. on file
NM-1616

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
3659' GL

22. Approximate date work will start*
2/10/07

23. Estimated duration
4-6 weeks

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.
- 2. A Drilling Plan.
- 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).
- 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- 5. Operator certification.
- 6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature: George R. Smith Name (Printed Typed): George R. Smith Date: 12/1/06

Title: Agent for Chi Operating, Inc.

Approved by (Signature): /s/ James Stovall Name (Printed Typed): /s/ James Stovall Date: JAN 23 2007

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 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.

George R. Smith
George R. Smith, agent

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

Energy, Minerals and Natural Resources Department

DISTRICT I
1625 N. FRENCH DR., HOBBS, NM 88240

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

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code 70200	Pool Name Anderson Penn
Property Code	Property Name FIR FEDERAL	Well Number 1
OGRID No. 4378	Operator Name CHI OPERATING, INC.	Elevation 3659'

Surface Location

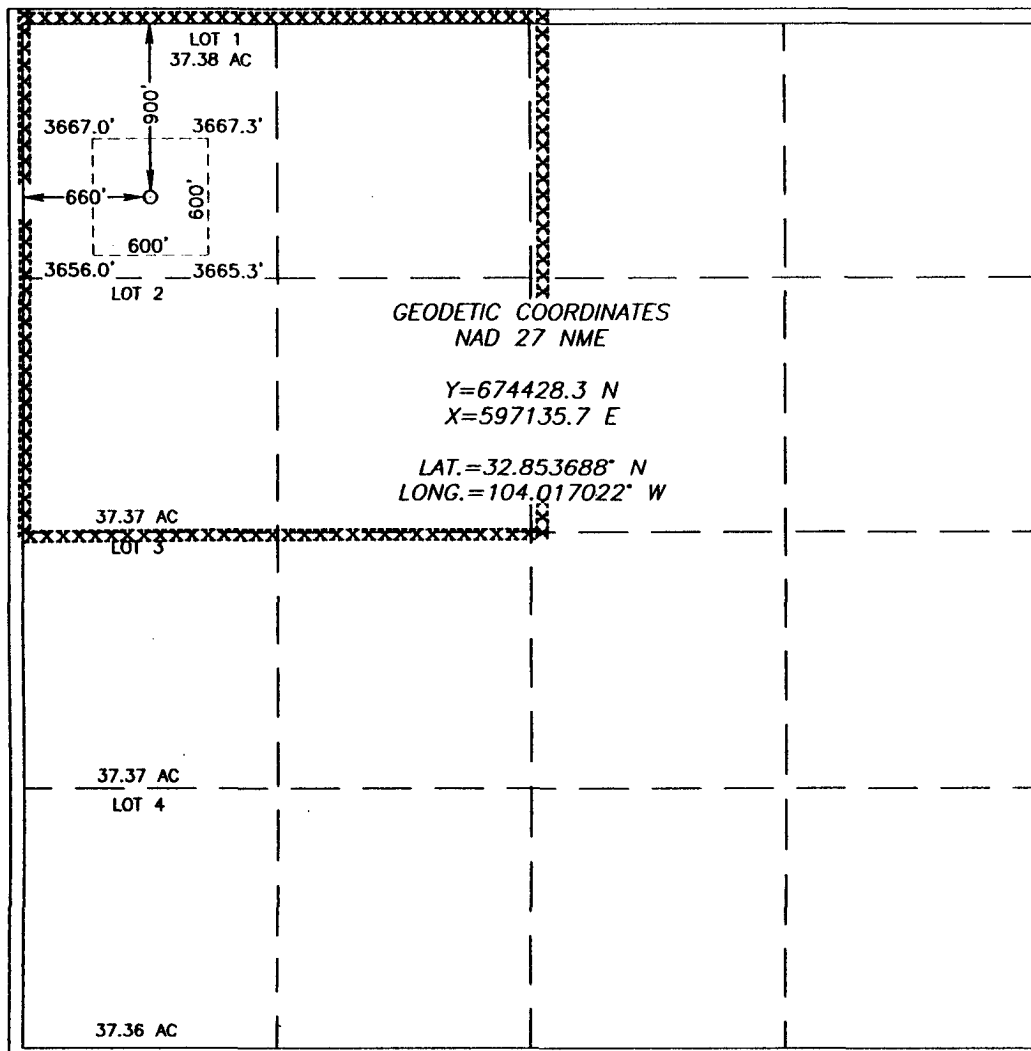
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
1	7	17-S	30-E		900	NORTH	660	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
160		Com.	

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



OPERATOR CERTIFICATION

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.

George R. Smith Dec. 4, 06
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 true and correct to the best of my belief.

OCTOBER 12, 2006

Date Surveyed JR

Signature & Seal of Professional Surveyor

Gary R. Edson 10/26/06
06.11.1632

Certificate No. GARY EIDSON 12841
RONALD EIDSON 3239

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:

- The geologic surface formation is recent Permian with quaternary alluvium and other surficial deposits.
- 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'

- 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:

<u>HOLE SIZE</u>	<u>CASING SIZE</u>	<u>WEIGHT</u>	<u>GRADE</u>	<u>JOINT</u>	<u>SETTING DEPTH</u>	<u>QUANTITY OF CEMENT</u>
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. <i>SEE COA</i>

CLASS 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 PROGRAM:

<u>MUD PROGRAM:</u>	<u>MUD WEIGHT</u>	<u>VIS.</u>	<u>W/L CONTROL</u>
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
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
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 +/-

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

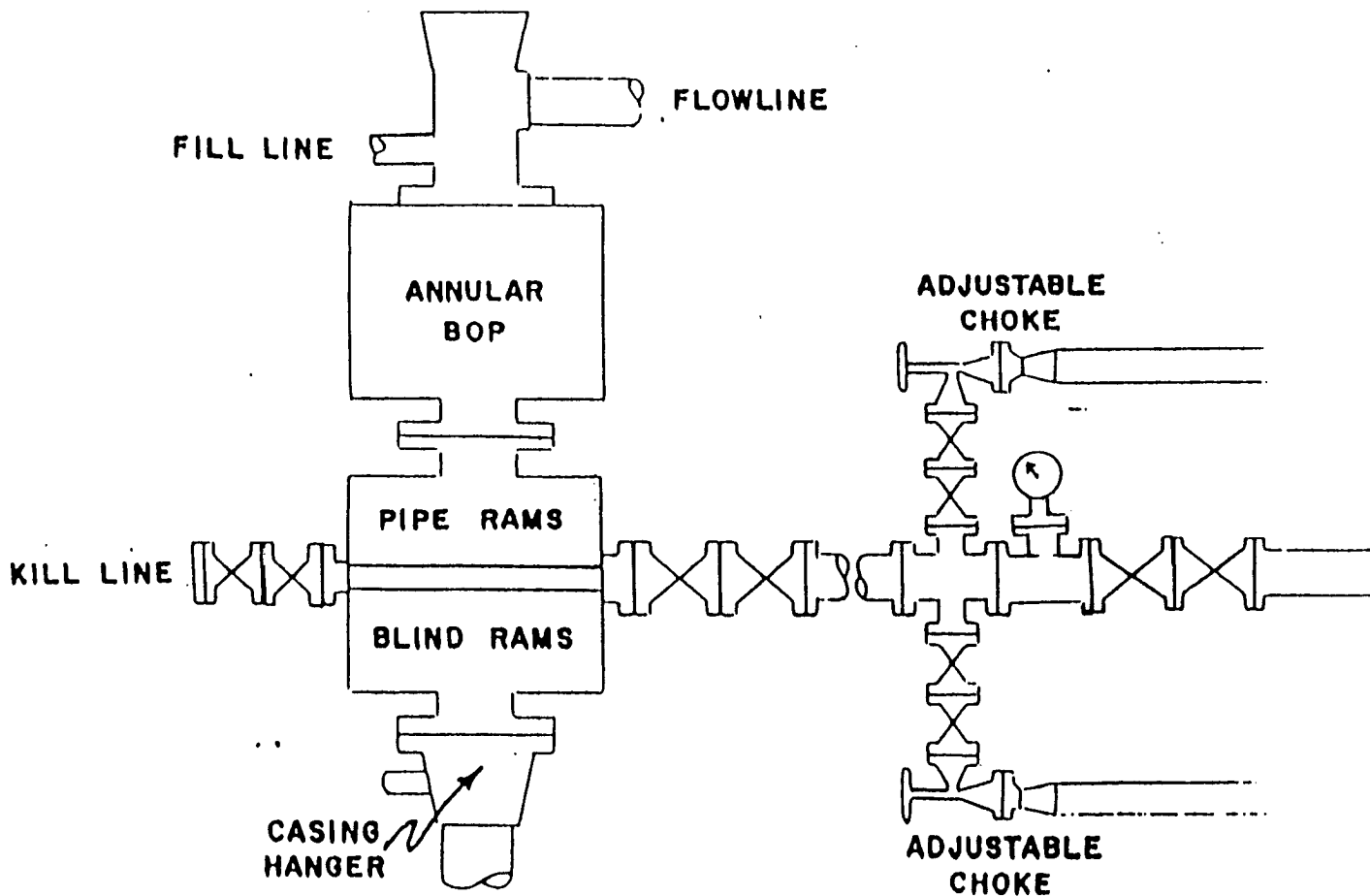
8. Testing, Logging, and Coring Program:

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 5L, 5000 psi WP
- 13 5/8" Hydril SPHERICAL, 5000 psi WP
- 80 GALLON, 6 STATION KOOMEY ACCUMULATOR
- 5000 psi WP CHOKE MANIFOLD



Chi Operating, Inc.

FIR Federal Com., Well No. 1

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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. H₂S: None expected. The Mud Log Unit will be cautioned to use a gas trap to detect H₂S and if any is detected the mud weight will be increased along with H₂S inhibitors sufficient to control the gas.

11. Anticipated starting date: February 10, 2007.

Anticipated completion of drilling operations: Approximately 30 - 40 days.