

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

OCD-ARTESIA

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

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: ☒ DRILL ☐ REENTER

1b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☐ Single Zone ☐ Multiple Zone

2. Name of Operator

Chi Operating, Inc.

3a. Address

P.O. Box 1799 Midland, TX 79702

3b. Phone No. (include area code)

(432) 685-5001

4. Location of Well (Report location clearly and in accordance with any State requirements. *)

990' FSL & 990' FWL

At proposed prod. zone same

ROSWELL CONTROLLED WATER BASIN

14. Distance in miles and direction from nearest town or post office*

Four 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)

990'

16. No. of Acres in lease

234.73

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.)

3660' GL

22. Approximate date work will start*

3/19/07

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

12/12/06

Title

Agent for Chi Operating, Inc.

Approved by (Signature)

/s/ James Stovall

Name (Printed Typed)

/s/ James Stovall

Date

JAN 23 2007

Title

ACTING 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.

SEE ATTACHED FOR
CONDITIONS OF APPROVAL

MRA
George R. Smith, agent

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED

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

State of New Mexico

DISTRICT I

1625 N. FRENCH DR., ROBBES, NM 86240

Energy, Minerals and Natural Resources Department

Form C-102

DISTRICT II

1301 W. GRAND AVENUE, ALBUQUERQUE, NM 87102

OIL CONSERVATION DIVISION

1220 SOUTH ST. FRANCIS DR.

Santa Fe, New Mexico 87505

Revised October 12, 2005
Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code 70200	Pool Name Anderson Penn
Property Code	Property Name FIR FEDERAL COM	Well Number 2
OGRID No. 4378	Operator Name CHI OPERATING, INC.	Elevation 3660'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
4	7	17-S	30-E		990	SOUTH	990	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.

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

<p>LOT 1</p> <p>37.38 AC</p> <p>LOT 2</p> <p>37.37 AC</p> <p>LOT 3</p> <p>37.37 AC</p> <p>LOT 4</p> <p>37.36 AC</p> <p>NM-7747</p> <p>NM-7752</p> <p>3660.9'</p> <p>3660.4'</p> <p>600'</p> <p>990'</p> <p>3657.5'</p> <p>3658.0'</p> <p>990'</p>	<p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=671048.5 N X=597478.3 E</p> <p>LAT.=32.844395° N LONG.=104.015939° W</p>	<p>OPERATOR CERTIFICATION</p> <p>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.</p> <p><i>George R. Smith</i> 12/12/06 Signature Date</p> <p>George R. Smith, agent Printed Name</p> <p>SURVEYOR CERTIFICATION</p> <p>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.</p> <p>NOVEMBER 4, 2006</p> <p>Date Surveyed JR</p> <p>Signature & Seal of Professional Surveyor</p> <p><i>Gary E. Edson</i> 11/8/06 06.11.1775</p> <p>Certificate No. GARY EDSON 12641</p>
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APPLICATION FOR DRILLING

CHI OPERATING, INC.
Fir Federal Com., Well No. 2
990' FSL & 990' FWL, Sec. 7-T17S-R30E
Eddy County, New Mexico
Lease No.: NM-7747
(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.

5. Proposed Control Equipment:

^{3/8"}
A ~~13~~ 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. 2 before drilling out with 11" and will be tested as required. 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:	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
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 +/-

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

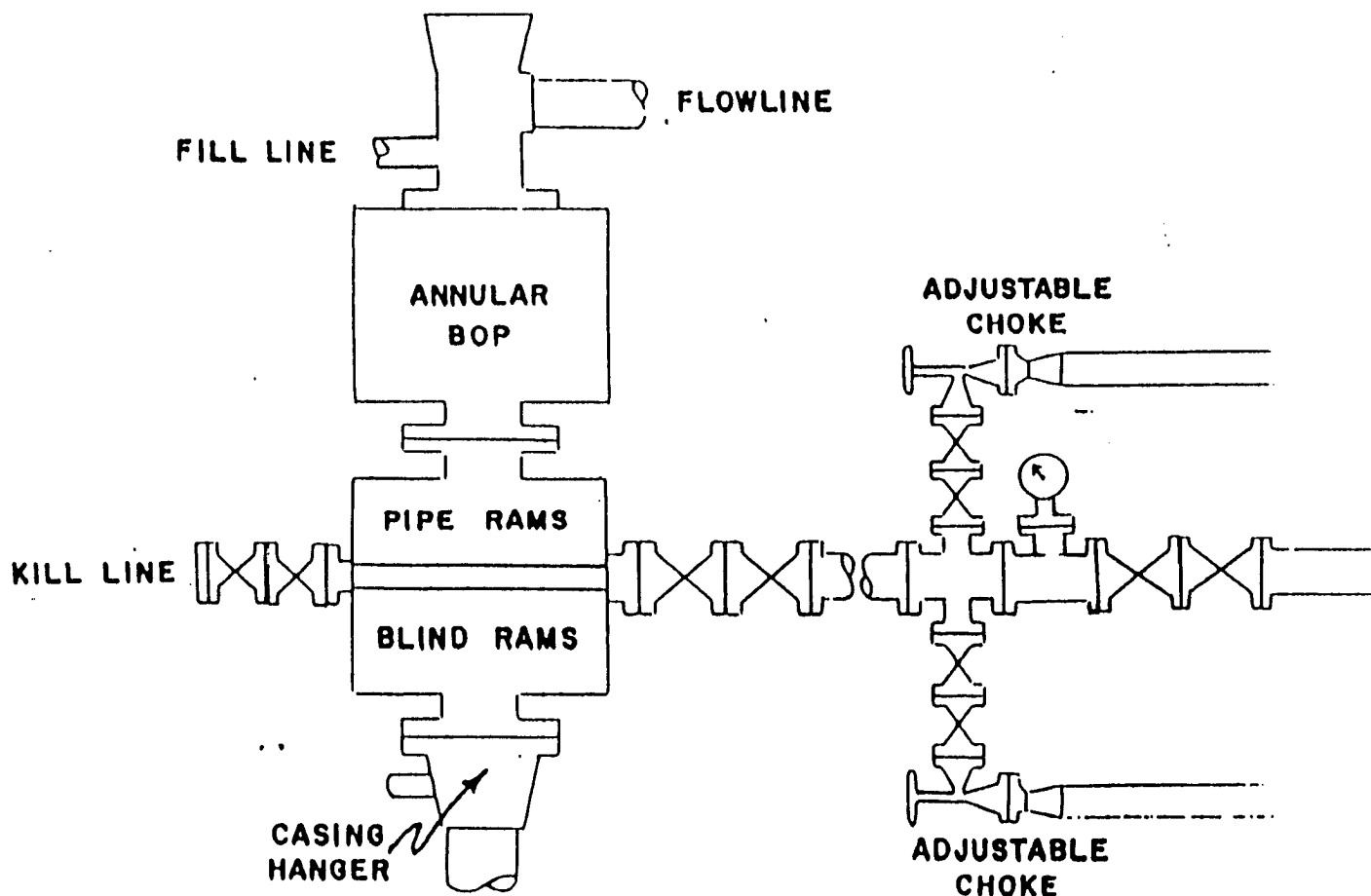


EXHIBIT "E"
CHI OPERATING, INC.
Fir Federal Com., Well No. 2
BOP Specifications