

30-015-38543

MULTI POINT SURFACE USE AND OPERATIONS PLAN

CHI OPERATING, INC

Wizard Federal Com., Well No. 6

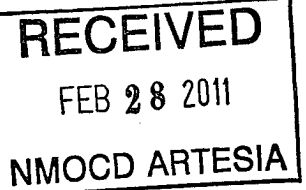
Surface: 10' FNL & 2310' FEL, Sec. 1 -T19S-R30E

Bottom Hole: 330' FSL & 2310' FEL, Sec. 1-T19S-R30E (horizontal)

Eddy County, New Mexico

Lease No.: NMLC-063613

(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 1.2 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 .1 mile to the start of the access road which will run west to the southeast corner of the proposed Wizard Federal Com., Well No. 6 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 376 feet in length. 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: None required.
- E. Cuts and Fills: There will be minor cuts of the hummocky leveling across the surface 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. A State ROW is required for the north half of the drilling pad.

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 utility corridor will be set up from the east side of well pad parallel to the access road east to the oil field road and will be run to the Wizard Federal, #2 to service a 3" SDR 7 surface, poly flow line and an electric power line. The oil storage tanks will be located on the Wizard Federal, Well No. 2 well pad. A frac tank will also be built northwest of the Wizard Federal, Well 2 to service both of the Wizard Federal Com., Wells No. 5 and 6. The flow line will follow the flow line corridors to the wells.

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 an approved pit on the drill site for the Wizard Federal #3 in the NW $\frac{1}{4}$ SE $\frac{1}{4}$, 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. The surface soil will be stored in a berm near the east side of the pad for future rehabilitation.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings and liquids will be stored in steel tanks of the closed loop mud system during the drilling operation. Drill cuttings will be delivered to CRI, Permit No. R-9166, as needed, and at closure. Drilling liquids will be hauled to a separate approved disposal system.
- B. There are no mud pits to be fenced.
- C. 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.
- D. Oil produced during operations will be stored in tanks until sold.
- E. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- F. 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 for the closed loop system, and major rig components. The pad and pit area has been staked and flagged, 600' X 600'.
- B. Mat Size: 310' X 160', plus 120' X 310' closed loop area on the north, which will be on State surface. A State ROW will be required.
- C. Cut & Fill: The location will require cutting 1' on the NW and fill to the south & southeast.
- D. The surface will be topped with compacted caliche.

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. The location will be cleaned of all trash and junk to leave the well site in an aesthetically pleasing a condition as possible. The pad area will be reclaimed to leave an area of 160' X 160' working pad.
- B. All produced mud and fluids of the closed loop mud system will be removed to authorized disposal sites.
- 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.

11. OTHER INFORMATION:

- A. Topography: The proposed location and 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 south from an elevation of 3518' GL.
- B. Soil: The topsoil at the well site is yellowish red colored loamy fine sand slightly or moderately eroded with subsoil of noncalcareous clay loam. The soil is of the Berino complex.
- C. Flora and Fauna: The vegetation cover is a fair to sparse grass cover of grama, threeawn, dropseed, blue stem and plants of mesquite, shinnery oak brush, 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 and a Duke Energy buried low pressure gas pipeline 100' south of the center hole. Duke Energy was contacted and gave permission to build the pad over the line.
- F. Land Use: Cattle grazing.
- G. Surface Ownership: The south half of the proposed well site and access road is on Federal surface and minerals and the north half is on State surface, which will require a State right of way.
- H. There is no evidence of archaeological, historical or cultural sites in the area. Boone Archaeological Services, LLC, 2030 N. Canal, Carlsbad, NM 88220 has conducted an archaeological survey, and their report has been 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
PO Box 1799
Midland, Texas 79702
Office Phone: (432) 685-5001
Cell Phone: (432) 557-8774

Gary Womack
Chi Operating, Inc
PO Box 1799
Midland, Texas 79702
(432) 685-5001
(432) 634-8958

CERTIFICATION:

I hereby certify that I have inspected the proposed drill site and access route proposed herein; that I am familiar with the conditions which currently exist; that I have knowledge of state and Federal laws applicable to this operation; that the statements made in the APD package are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed in conformity with this APD package and the terms and conditions under which it is approved. I also certify that I, or the company I represent, am responsible for the operations conducted under this application. These statements are subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

Executed this 20th day of September, 2010.


George R. Smith

POA agent for Chi Operating, Inc.

P.O. Box 458

Roswell, NM 88202

575-623-4940

Gary Womack, Field Representative

P.O. Box 1799

Midland, TX 79702

432-685-5001

432-634-8958—Cell#

Flowline / Electric line route Add Oct. 27

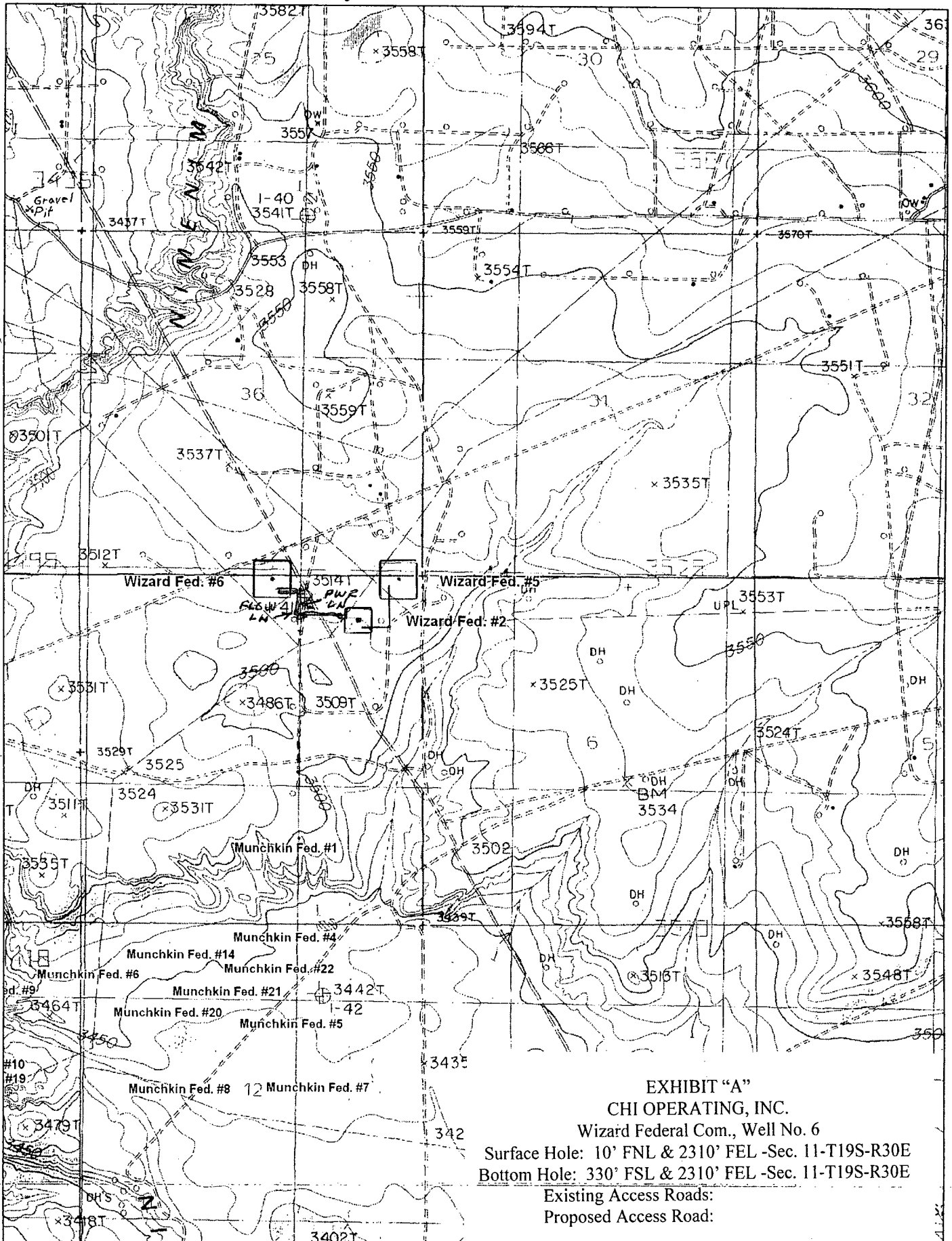


EXHIBIT "A"

CHI OPERATING, INC.

Wizard Federal Com., Well No. 6

Surface Hole: 10' FNL & 2310' FEL -Sec. 11-T19S-R30E

Bottom Hole: 330' FSL & 2310' FEL -Sec. 11-T19S-R30E

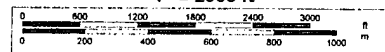
Existing Access Roads:

Proposed Access Road:



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Scale 1 : 24,000
1" = 2000 ft



TN
MN
0.9°E

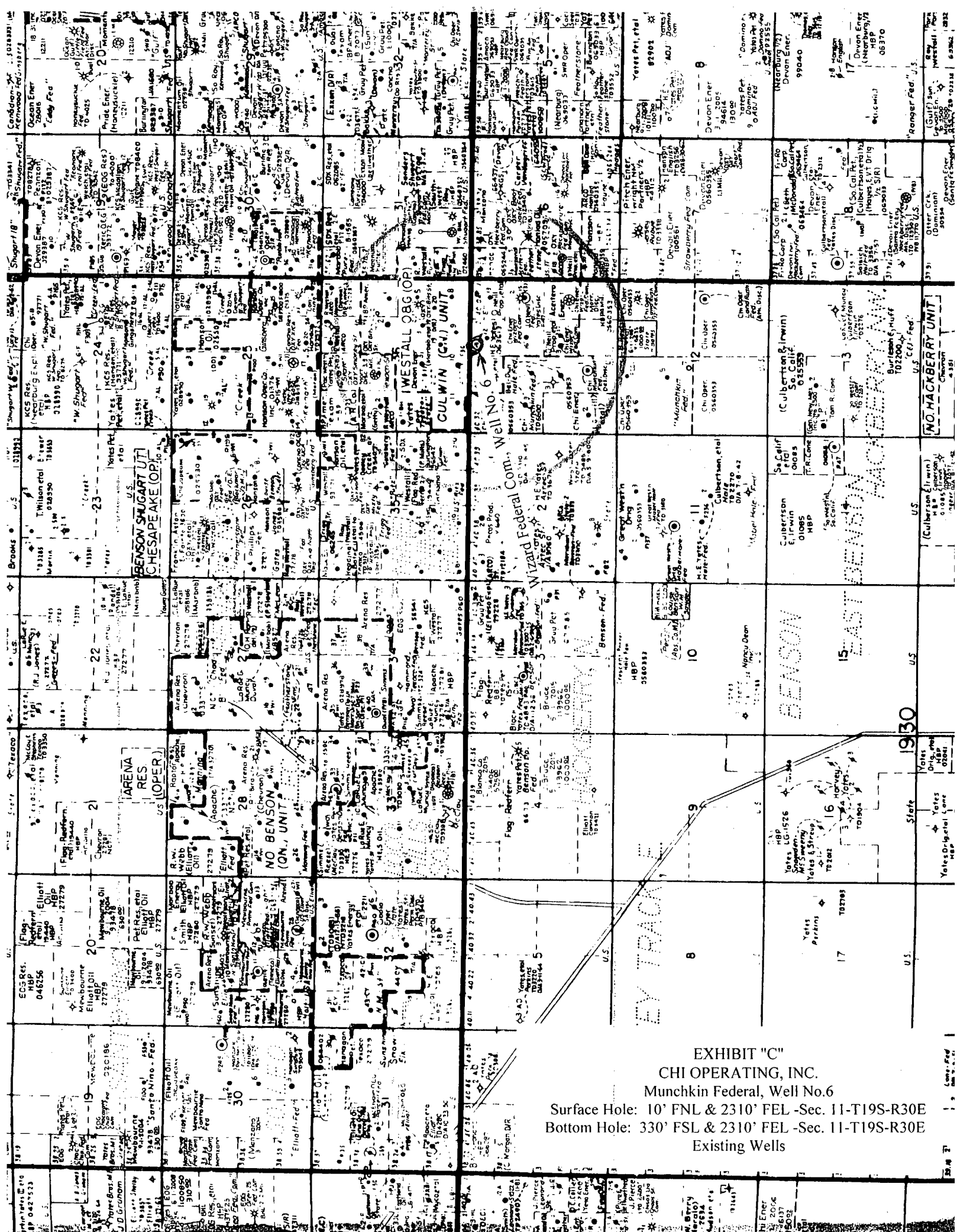


EXHIBIT "C"

CHI OPERATING, INC.

Munchkin Federal, Well No. 6

Surface Hole: 10' FNL & 2310' FEL - Sec. 11-T19S-R30E

Bottom Hole: 330' FSL & 2310' FEL - Sec. 11-T19S-R30E

Existing Wells



DRILLING INC. Oil Well Drilling Contractor

Post Office Box 180 • Artesia, NM 88211-0180 • Office (505) 748-8704 • Fax (505) 748-8719

RIGS 1, 2, 3, & 5

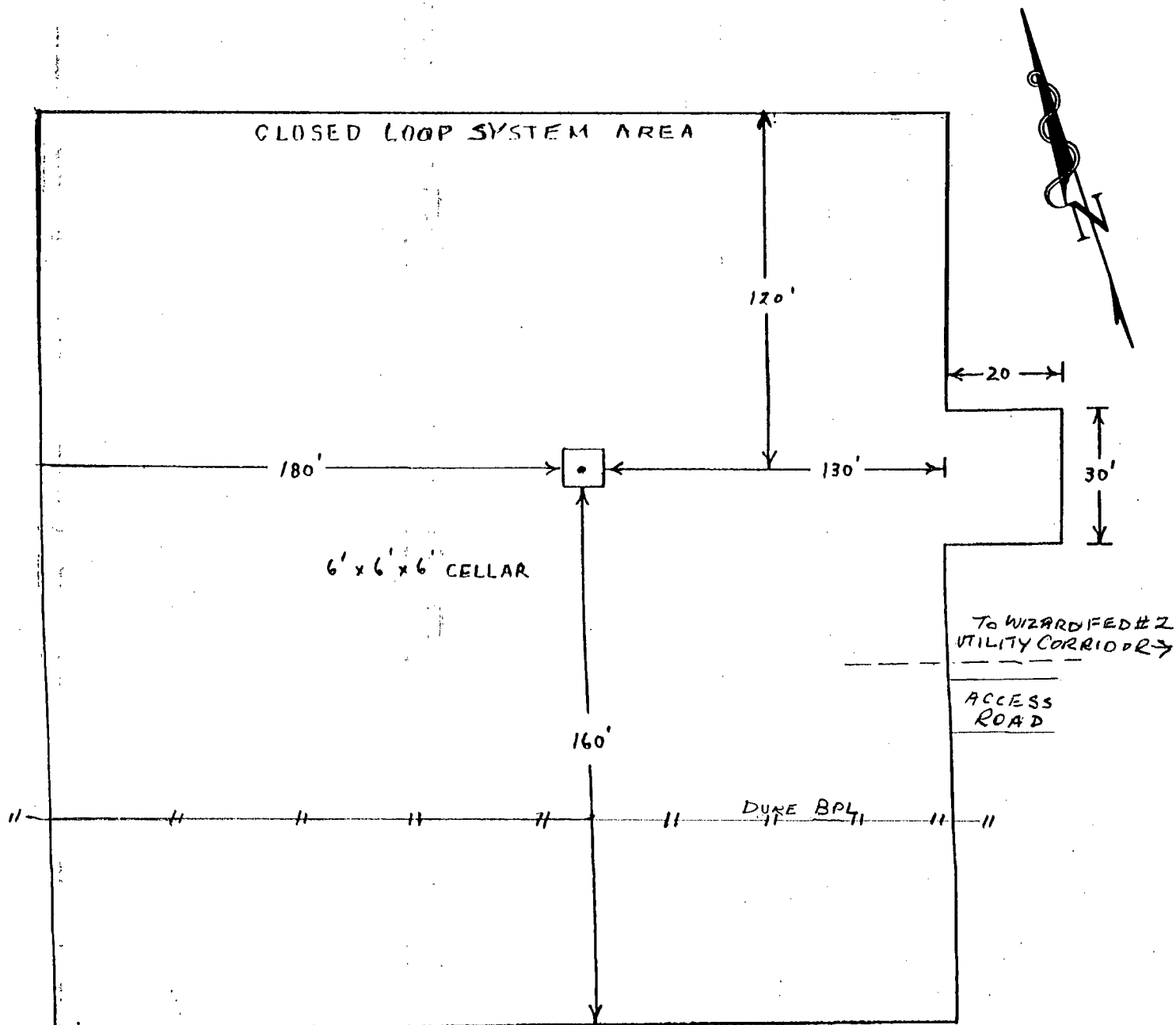


EXHIBIT "D"
CHI OPERATING, INC.
Wizard Federal Com., Well No. 6
Pad & Closed Loop Layout

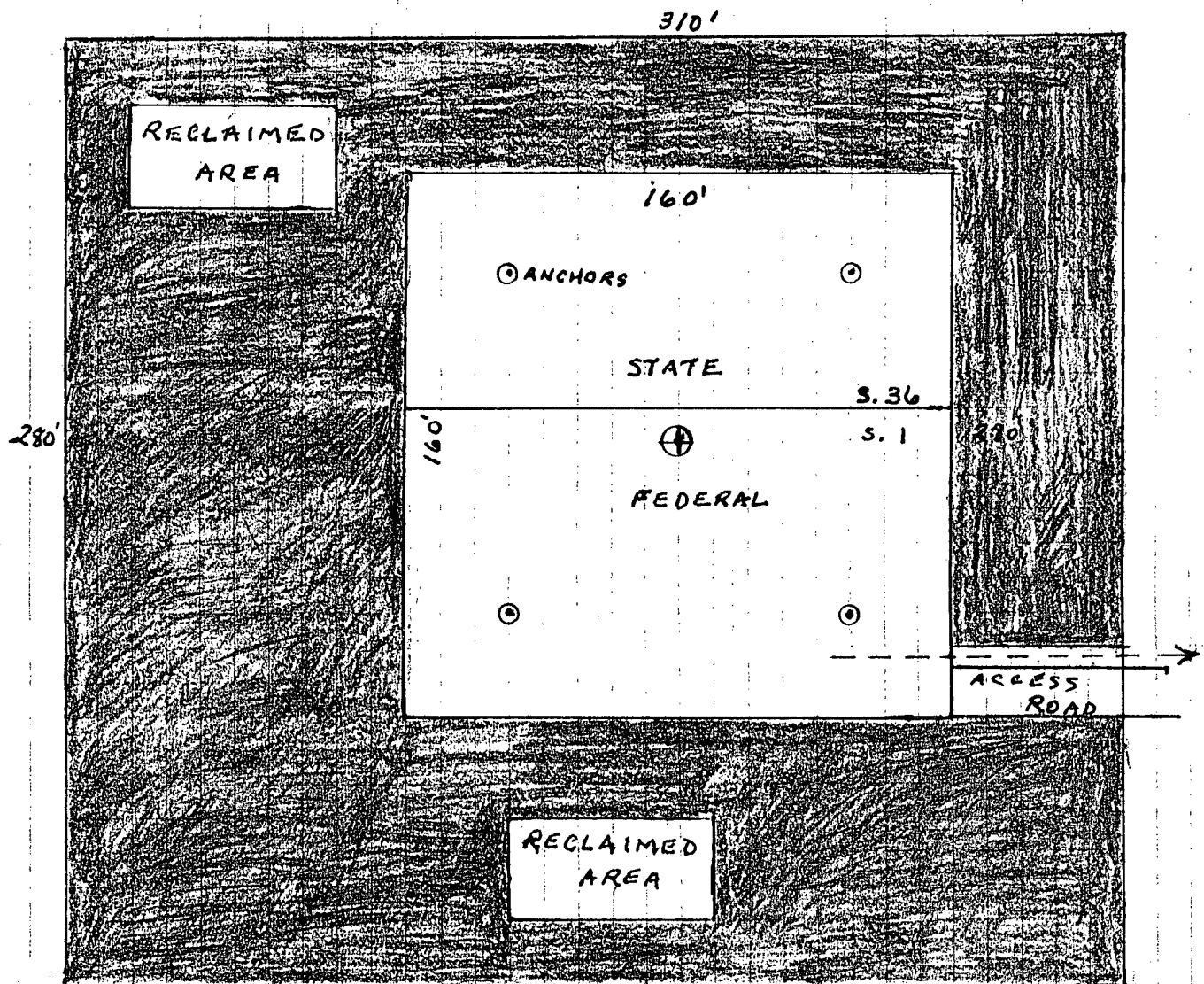


EXHIBIT "F"
 CHI OPERATING, INC.
 Wizard Federal Com., Well No. 6
 Pad after Reclamation

POWER OF ATTORNEY
DESIGNATION OF AGENT

CHI OPERATING, INC., hereby names the following person as its agent:

Name of Agent: George R. Smith d/b/a Energy Administrative Services Company

Agent's Address: P.O. Box 458, Roswell, NM 88202

Agent's Telephone Number: (575) 623-4940

GRANT OF SPECIAL AUTHORITY

CHI OPERATING, INC., grants its agent the authority to act for it with respect to the following only:

1. Executing forms required to be filed with the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department.
2. Executive forms required to be filed with the Bureau of Land Management of the Department of Interior of the United States of America.

EFFECTIVE DATE

This power of attorney is effective immediately.

RELIANCE ON THIS POWER OF ATTORNEY

Any person, including the agent, may rely upon the validity of this power of attorney or a copy of it unless that person knows it has terminated or is invalid.

SIGNATURE AND ACKNOWLEDGMENT

CHI OPERATING, INC.

By: _____

Name: John W. Qualls

Title: Vice President

Date: November 3, 2008

Address: 212 N. Main Street, Suite 200, Midland, Texas 79701

Telephone: (432) 685-5001

STATE OF TEXAS

COUNTY OF MIDLAND

This instrument was acknowledged before me on November 3, 2008 by John W. Qualls, of CHI OPERATING, INC., acting on behalf of said corporation.

Signature of notary: _____

My commission expires: 08/30/2011

