

APPLICATION FOR DRILLING

CHI OPERATING, INC.
Wizard Federal Com., Well No. 2
1725' FNL & 660' FEL, Sec. 1-T19S-R30E
Eddy County, New Mexico
Lease No.: NM-063613
(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	2,200'	Strawn	10,800'
Queen	3,100'	Atoka	11,000'
Delaware	4,050'	Morrow Clastic	11,600'
Bone Spring	6,210'	Lower Morrow	12,000'
Avalon SD	6,400'	T.D.	12,400'
Wolfcamp	9,900'		

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 and Bone Spring

Gas: Possible in the Atoka below 11,000' and the Morrow below 11,600'.

4. Proposed Casing Program:

HOLE SIZE	CASING SIZE	WEIGHT	GRADE	JOINT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8"	48.0#	J-55	ST&C	450'	Circ. 450 sx "C" + add.
11"	8 5/8"	32.0#	J-55	ST&C	3,200'	Circ. 1300 sx "C" cement.
7 7/8"	5 1/2"	17.0#	N-80	LT&C	12,400'	1500 sx of "H" + add.

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 before drilling out with 11" and will be tested daily. See Exhibit "E".

6. MUD PROGRAM:	MUD WEIGHT	VIS.	W/L CONTROL
0' - 450': Fresh water mud:	8.4 - 8.5 ppg	32 - 38	No W/L control
450' - 3200': Brine mud:	10.0 - 10.1 ppg	32 - 38	No W/L control
3200' - 9700': Fresh water mud:	8.4 - 8.5 ppg	32 - 38	No W/L control
9700' - 10,600': Cut Brine mud:	9.2 - 9.5 ppg	32 - 38	No W/L control
10,600' - 11,500': Brine (starch) mud:	9.5 - 9.7 ppg	35 - 38	W/L control 12 cc +/-
11,500' - 12,400': 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: Run #1: Pending shows: 2000' - 3000': GR/CAL/CNL/LDT/DLL/MSFL

Run #2: Pending shows: 3200' - 6450': GR/CAL/CNL/LDT/DLL/MSFL

Run #3: T.D. - 6450': GR/CAL/CNL/LDT/DLL/MSFL

T.D. - 6450: GR/CNL if runs 1 and/or 2 not performed.

Coring: As dictated by logs.