

APPLICATION FOR DRILLING

CHI OPERATING, INC.
Azotea Federal, Well No. 1
330' FSL & 660' FWL, Sec. 3-T22S-R25E
Eddy County, New Mexico
Lease No.: NM-84702
(Exploratory 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:

Capitan Reef	600'
Base Capitan Reef	2032'
Cherry Canyon	2032'
Brushy Canyon	2890'
Bone Springs	4210'
T.D.	4255'
3. The estimated depths at which water, oil or gas formations are anticipated to be encountered:

Water: Surface water between 100' - 350'.

Oil: Possible in the Delaware below 2200'.

Gas: None.
4. Proposed Casing Program: See Form 3160-3.
5. Proposed Control Equipment: See Form 3160-3 and Exhibit "E".
6. Mud Program: See Form 3160-3.
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: None, unless required by wellsite geologist.

Logging: T.D. to intermediate casing: CNL-CDL, DLL/msfl
Intermediate casing to surface: GR/CNL

Coring: None, unless required by wellsite geologist.
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.
10. Anticipated starting date: November 5, 1990.
Anticipated completion of drilling operations: Approximately 3 weeks.