

APPLICATION FOR DRILLING

CHI OPERATING, INC.
McIver Federal, Well No. 1
1000' FNL & 1720' FEL, Sec. 20-T22S-R25E
Eddy County, New Mexico
Lease No.: NM-98799
(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:

Delaware	2,200'	Strawn	9,570'
Bone Spring	4,450'	Atoka Morrow	9,930'
1 st sand	5,510'	Morrow Clastic	10,560'
2 nd sand	6,200'	Lower Morrow	10,900'
3 rd sand	7,720'	T.D.	11,300'
Wolfcamp	8,050'		
Upper Strawn	9,000'		

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 Delaware and Bone Spring 1st sand

Gas: Possible in the Wolfcamp, Upper Penn and Strawn between 8050' - 9900' and Lower Morrow below 10,900'.

4. Proposed Casing Program:

HOLE SIZE	CASING SIZE	WEIGHT	GRADE	JOINT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8"	48.0#	K-55	ST&C	400'	Circ. 300 sx "C" + add to surface.
11"	8 5/8"	24.0#	J-55	ST&C	2,200'	Circ. 600 sx "C" + add. to surface.
7 7/8"	5 1/2"	17.0#	N-80	LT&C	11,300'	500 sx of "H" to 500' above prod zone.

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' - 400': Fresh water mud:	8.4 - 8.5 ppg	28	No W/L control
400' - 2200': Fresh Water mud:	9.7 - 10.0 ppg	29	No W/L control
2200' - 8000': Fresh water mud:	8.5 - 8.8 ppg	28	No W/L control
8000' - 10,400': Cut Brine mud:	9.2 - 9.5 ppg	32 - 36	W/L control 15cc +/-
10,400' - 11,300': Brine (starch) mud:	9.5 - 10.0 ppg	42 - 48	W/L control 8 cc +/-

7. Auxiliary Equipment: Blowout Preventer, gas detector, Kelly cock, and stabbing valve.

8. Testing, Logging, and Coring Program:

Drill Stem Tests: As deemed necessary.

Logging: T.D to 2200': GR/CAL/CNL/LDT/DLL/MSFL
T.D to surface: GR/CN

Coring: As dictated by logs for the Morrow.