

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

1. Operator Name and Address CHI OPERATING INC P. O. BOX 1799 MIDLAND, TX 79702		2. OGRID Number 4378
4. Property Code 30903		3. API Number 30-015-36068
5. Property Name KC STRIP STATE		6. Well No. 002

7. Surface Location

UL - Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
N	32	18S	31E	N	990	S	1980	W	EDDY

8. Pool Information

SHUGART,MORROW (GAS)	85300
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Additional Well Information

9. Work Type New Well	10. Well Type GAS	11. Cable/Rotary	12. Lease Type State	13. Ground Level Elevation 3571
14. Multiple N	15. Proposed Depth 12300	16. Formation Morrow	17. Contractor	18. Spud Date 1/1/2008
Depth to Ground water 400		Distance from nearest fresh water well > 1000		Distance to nearest surface water > 1000
Pit: Liner: Synthetic <input checked="" type="checkbox"/> 12 _____ miles thick Clay <input type="checkbox"/> Pit Volume: 2000 _____ bbls Drilling Method: Closed Loop System <input type="checkbox"/> Fresh Water <input type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input checked="" type="checkbox"/>				

19. Proposed Casing and Cement Program

Type	Hole Size	Casing Type	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	17.5	13.375	48	650	500	0
Int1	12.25	8.625	3	3600	950	0
Prod	7.875	5.5	20	12300	800	6000

Casing/Cement Program: Additional Comments

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Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
DoubleRam	5000	5000	Shaffer

I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines <input checked="" type="checkbox"/> a general permit <input type="checkbox"/> or an (attached) alternative OCD-approved plan <input type="checkbox"/> .	OIL CONSERVATION DIVISION
Printed Name: Electronically filed by John Wolf	Approved By: Bryan Arrant
Title: Engineer	Title: Geologist
Email Address: pamc@chienergyinc.com	Approved Date: 1/30/2008 Expiration Date: 1/30/2010
Date: 1/15/2008 Phone: 432-685-5001	Conditions of Approval Attached

District I
 1625 N. French Dr., Hobbs, NM 88240
 Phone:(505) 393-6161 Fax:(505) 393-0720

District II
 1301 W. Grand Ave., Artesia, NM 88210
 Phone:(505) 748-1283 Fax:(505) 748-9720

District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 Phone:(505) 334-6178 Fax:(505) 334-6170

District IV
 1220 S. St Francis Dr., Santa Fe, NM 87505
 Phone:(505) 476-3470 Fax:(505) 476-3462

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Form C-102
 Permit 65636

WELL LOCATION AND ACREAGE DEDICATION PLAT

1. API Number 30-015-36068	2. Pool Code 85300	3. Pool Name SHUGART,MORROW (GAS)
4. Property Code 30903	5. Property Name KC STRIP STATE	6. Well No. 002
7. OGRID No. 4378	8. Operator Name CHI OPERATING INC	9. Elevation 3571

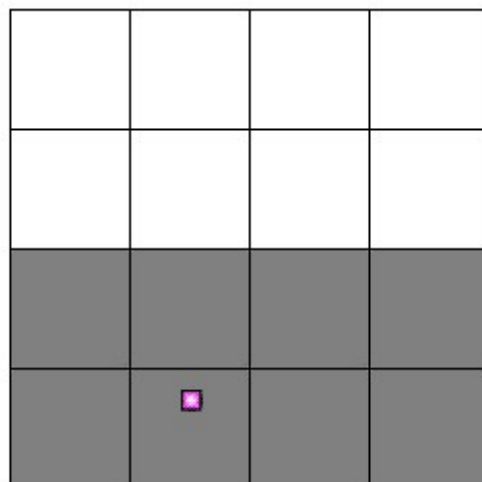
10. Surface Location

UL - Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
N	32	18S	31E		990	S	1980	W	EDDY

11. Bottom Hole Location If Different From Surface

UL - Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
12. Dedicated Acres 320.00		13. Joint or Infill		14. Consolidation Code		15. 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



OPERATOR CERTIFICATION

I hereby certify that the information contained 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(s) or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

E-Signed By: John Wolf
 Title: Engineer
 Date: 1/15/2008

SURVEYOR CERTIFICATION

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.

Surveyed By: Gary G. Eidson
 Date of Survey: 1/5/2008
 Certificate Number: 12641

Permit Conditions of Approval

Operator: CHI OPERATING INC , 4378

Well: KC STRIP STATE #002

API: 30-015-36068

OCD Reviewer	Condition
BArrant	Pit construction and closure must satisfy all requirements of your approved plan, O.C.D. Rule 19.15.2.50, and the Pit and Below-Grade Tank Guidelines
BArrant	As noted, operator to drill surface hole w/fresh water mud.
BArrant	Operator to set surface casing in the anhydrite section of the Rustler.