

NSL 6/30/99

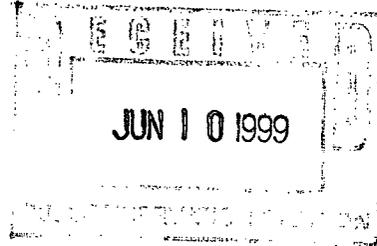
JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

June 9, 1999



Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative application of Chi Energy, Inc. ("Chi")
for an unorthodox oil well location (Delaware and Bone
Spring formations):

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ §1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

Dear Mr. Stogner:

The above application was submitted on May 25, 1999, requesting approval of the location as to the Delaware formation. Because you pointed out to me that the APD lists the Bone Spring formation as the target zone, I confirmed by letter dated June 2, 1999 that the well would be drilled to a depth sufficient to test the deeper horizon. The Bone Spring is a secondary objective.

By letter dated June 7, 1999, you returned the application to me, because Ray Westall had not waived objection as to the Bone Spring. Please be advised that Ray Westall is the offset operator only in the Queen formation (he owns no interest in the Delaware or Bone Spring formations; see copy of the original application attached hereto). Mr. Westall's waiver was included only for completeness' sake, and not because notice to him was required. However, a revised waiver is being obtained from Mr. Westall, and will be forwarded to you shortly.

As noted in the enclosed revised application, Chi is the only offset working interest owner in both the Delaware and Bone Spring formations, and thus notice of the revised application has not been given to anyone.

Please call if you have any questions.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in dark ink and is positioned above the typed name.

James Bruce

Attorney for Chi Energy, Inc.

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

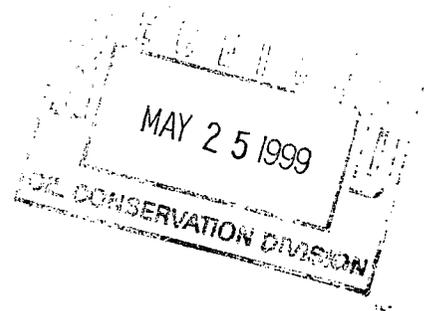
3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

May 25, 1999

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505



Dear Mr. Stogner:

Pursuant to Division Rule 104.F.(2), Chi Energy, Inc. ("Chi") applies for administrative approval of an unorthodox oil well location for the following well:

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ S1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

The well will be drilled to a depth of approximately 6700 feet subsurface, to test the Delaware formation (wildcat Delaware). Well spacing is 40 acres, with wells to be located no closer than 330 feet to a quarter-quarter section line. Attached hereto as Exhibit A is an APD for the well.¹

The location is due to topographic reasons. The well was originally proposed at an orthodox location 660 feet FSL and 2310 feet FWL, but the Bureau of Land Management ("BLM") required that the well be moved to the above-requested location to accommodate surface drainage patterns. Attached as Exhibit B is a topographic map, which shows that the northern portion of the well unit is relatively flat compared with the southern part of the quarter-quarter section, thus alleviating any drainage concerns.

The entire SW $\frac{1}{4}$ of Section 1 is one federal lease, with common royalty and overriding royalty interest ownership in the Delaware formation. Chi is the only working interest owner in the Delaware formation in all offsetting well units. The only shallow rights

¹The operator of the well will be Chi Operating, Inc.

offset operator (in the Queen formation) is Ray Westall. Mr. Westall has waived objection to the location, as shown on Exhibit C. Thus, notice has not been give to any offset operator. As a result, Chi requests that the 20 day notice period be waived.

This application is submitted in duplicate. Please call me if you need anything further on this matter.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

cc: John Qualls

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

- [NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location]
- [DD-Directional Drilling] [SD-Simultaneous Dedication]
- [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
- [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
- [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
- [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
- [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

[A] Location - Spacing Unit - Directional Drilling

NSL NSP DD SD

Check One Only for [B] or [C]

[B] Commingling - Storage - Measurement

DHC CTB PLC PC OLS OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery

WFX PMX SWD IPI EOR PPR

[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply

[A] Working, Royalty or Overriding Royalty Interest Owners

[B] Offset Operators, Leaseholders or Surface Owner

[C] Application is One Which Requires Published Legal Notice

[D] Notification and/or Concurrent Approval by BLM or SLO

U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] Waivers are Attached

*No offset
offset
owner*

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common. I further verify that all applicable API Numbers are included. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

JAMES BRUCE
P.O. BOX 1056
SANTA FE, NM 87504

Note: Statement must be completed by an individual with supervisory capacity.

James Bruce
Signature

Attorney for Applicant
Title

6/19/99
Date

Print or Type Name

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

June 9, 1999

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

Pursuant to Division Rule 104.F.(2), Chi Energy, Inc. ("Chi") applies for administrative approval of an unorthodox oil well location for the following well:

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ §1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

The well will be drilled to a depth of approximately 6700 feet subsurface, to test the Bone Spring formation (Undesignated Benson-Bone Spring Pool). **Chi also requests unorthodox location approval for the Delaware formation (wildcat Delaware), which is the primary zone of interest.** Well spacing in both formations is 40 acres, with wells to be located no closer than 330 feet to a quarter-quarter section line. Attached hereto as Exhibit A is an APD for the well.¹

The location is due to topographic reasons. The well was originally proposed at an orthodox location 660 feet FSL and 2310 feet FWL, but the Bureau of Land Management required the well to be moved to the above-requested location to accommodate surface drainage patterns. Attached as Exhibit B is a topographic map, which shows that the northern portion of the well unit is relatively flat compared with the southern part of the quarter-quarter section, thus alleviating any surface drainage concerns.

¹The operator of the well will be Chi Operating, Inc.

The entire SW $\frac{1}{4}$ of Section 1 is one federal lease, with common working, royalty, and overriding royalty interest ownership in both the Delaware and Bone Spring formations. **Thus, ownership is common in all offsetting well units**, and notice has not been give to any offset interest owner. As a result, Chi requests that the 20 day notice period be waived.

This application is submitted in duplicate. Please call me if you need anything further on this matter.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce".

James Bruce

Attorney for Chi Energy, Inc.

cc: John Qualls

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK
DRILL **DEEPEN**

b. TYPE OF WELL
 OIL WELL GAS WELL OTHER SINGLE ZONE MULTIPLE ZONE

2. NAME OF OPERATOR
 Chi Operating, Inc. 915/685-5001

3. ADDRESS AND TELEPHONE NO.
 P. O. Box 1799 Midland, Texas 79702

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)*
 At surface 1060' FSL & 2210' FWL
 At proposed prod. zone Same

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*
 16 road miles S. Loco Hills, NM

10. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any) 503'

16. NO. OF ACRES IN LEASE 2160.32

17. NO. OF ACRES ASSIGNED TO THIS WELL 40

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 948'

19. PROPOSED DEPTH 6700'

20. ROTARY OR CABLE TOOLS Rotary

21. ELEVATION (Show whether DF, RT, GR, etc.) 3509' GL

22. APPROX. DATE WORK WILL START* June 7, 1999

5. LEASE DESIGNATION AND SERIAL NO. LC-0560353

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARMOR LEASE NAME, WELL NO. Stake Your Claim Federal

9. API WELL NO. 1

10. FIELD AND POOL, OR WILDCAT Benson Bone Spring

11. SEC., T., R., M., OR BLM. AND SUBSY OR AREA Sec 1-T19S-R30E

12. COUNTY OR PARISH Eddy

13. STATE New Mexico

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8" H-40	48.0#STC	450'	Circ. 450 sx "C" + add
* 11"	8 5/8" J-55	32.0#LTC	3,200'	Circ 900 sx "C" + add.
7 7/8"	5 1/2" N-80	15.5#LTC	6,700'	600 sx "C"

Mud Program:	Mud Wt.	Vis.	W/L Control
0' - 450': Fresh water w/Gel spud mud	8.4- ppg	34-36	No W/L control
450' - 3200': Brine mud	10.2 ppg	28-32	No W/L control
3200' - 6700': Controlled brine mud	8.6- 8.7 ppg	28-32	No W/L control

BOP Program:
 A 10" 3000 psi wp Shaffer Type "E" double hydraulic ram BOP will be installed on the 13 3/8" casing. Casing and BOP will be tested before drilling out with 11". BOP will be will be tested daily.

***NOTE:** If severe lost circulation is NOT encountered, the 11" hole will be reduced at 3200' to 7 7/8" and drill ahead WITHOUT setting the 8 5/8" casing. The 5 1/2" casing will be cemented in two stages with 1600 sx of "C" + add. circulated to surface.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. George P. Smith Agent for: Chi Operating, Inc. DATE May 18, 1999

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to a leasehold interest.
 CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY _____ TITLE _____ DATE _____

*See Instructions On Reverse Side

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.



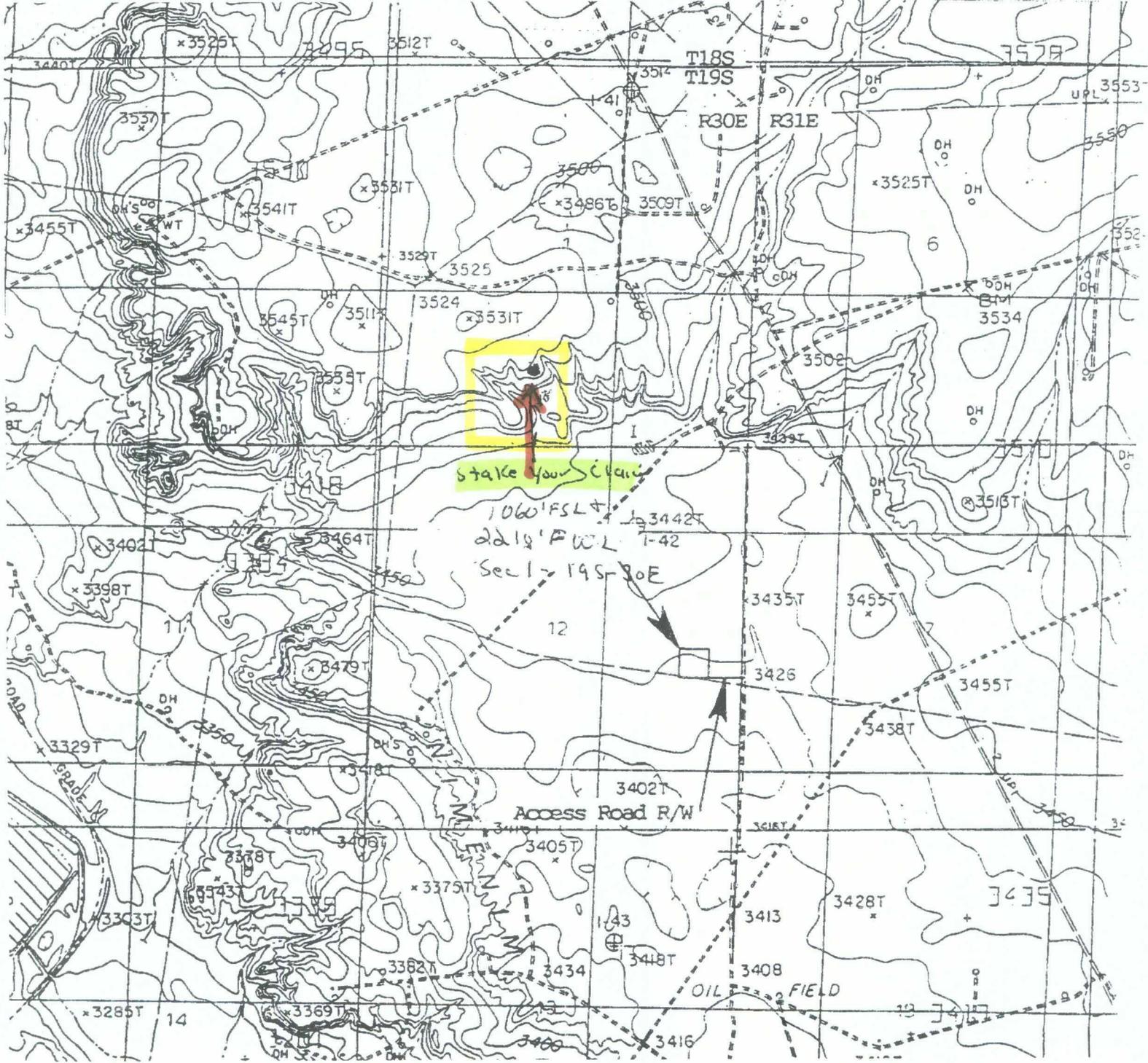


EXHIBIT
B



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

June 7, 1999

Chi Energy, Inc.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Re Administrative application on behalf of Chi Energy, Inc. for an unorthodox oil well location within the shallower wildcat Delaware formation and the deeper Undesignated Benson-Bone Spring Pool for its proposed Stake Your Claim Federal Well No. 1 to be drilled 1060 feet from the South line and 2210 feet from the West line (Unit N) of Section 1, Township 19 South, Range 30 East, NMPM, Eddy County, New Mexico. A standard 40-acre oil spacing and proration unit comprising the SE/4 SW/4 of Section 1 is the proposed acreage to be dedicated to this well for both intervals.

Dear Mr. Bruce:

Your letter dated June 2, 1999 served to clarify my concerns about the discrepancy that existed between your original application filed with the New Mexico Oil Conservation Division's Santa Fe office on May 25, 1999 and the Federal "APD" Form 1004-0136 dated May 18, 1999 that was attached. However, Chi Energy, Inc.'s request to also include the deeper Undesignated Benson-Bone Spring Pool changes this application significantly. Since the notification letter/waiver from Mr. Ray Westall dated May, 17, 1999 specified the shallower Delaware interval, it is inadequate to cover the deeper Bone Spring interval; therefore, Chi Energy, Inc.'s application is hereby withdrawn and is being returned to be resubmitted in its entirety.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad

JAMES BRUCE
Attorney at Law
Post Office Box 1056
Santa Fe, New Mexico 87504
Telephone: (505) 982-2043
Fax: (505) 982-2151

FAX COVER SHEET

DELIVER TO: Michael E. Stogner
COMPANY: Oil Conservation Division
CITY: Santa Fe, New Mexico
FAX NUMBER: 827-8177
NUMBER OF PAGES: 2 (Including Cover Sheet)
DATE SENT: 6/2/99
MEMO:

CONFIDENTIALITY NOTICE

This transmission contains information which may be confidential and/or legally privileged. The information is intended only for the above-named recipient. If you are not the intended recipient, any copying or distribution of the information is prohibited. If you have received this transmission in error, please call us at the above number and return the document by United States mail. Thank you.

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

June 2, 1999

Via Fax and U.S. Mail

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative application of Chi Energy, Inc. ("Chi")
for an unorthodox oil well location:

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ §1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

Dear Mr. Stogner:

In response to your phone call, please be advised that the proposed well will be drilled to a depth sufficient to test the Bone Spring formation (Undesignated Benson-Bone Spring Pool), as indicated on the APD. Thus, Chi requests unorthodox location approval for the Bone Spring as well as for the Delaware. The Bone Spring is strictly a secondary objective.

Ownership of the Bone Spring is the same as the Delaware, and thus notice of this supplemental request has not been given to any additional persons.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

- [NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location]
- [DD-Directional Drilling] [SD-Simultaneous Dedication]
- [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
- [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
- [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
- [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
- [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Directional Drilling
 NSL NSP DD SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR

MAY 25

[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply

- [A] Working, Royalty or Overriding Royalty Interest Owners
- [B] Offset Operators, Leaseholders or Surface Owner
- [C] Application is One Which Requires Published Legal Notice
- [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] Waivers are Attached

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common. I further verify that all applicable API Numbers are included. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

Note: Statement must be completed by an individual with supervisory capacity.

JAMES BRUCE
 P.O. BOX 1056
 SANTA FE, NM 87504

Print or Type Name

James Bruce

 Signature

Attorney for Applicant

 Title

5/25/99

 Date

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

May 25, 1999

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

Pursuant to Division Rule 104.F.(2), Chi Energy, Inc. ("Chi") applies for administrative approval of an unorthodox oil well location for the following well:

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ §1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

The well will be drilled to a depth of approximately 6700 feet subsurface, to test the Delaware formation (wildcat Delaware). Well spacing is 40 acres, with wells to be located no closer than 330 feet to a quarter-quarter section line. Attached hereto as Exhibit A is an APD for the well.¹

The location is due to topographic reasons. The well was originally proposed at an orthodox location 660 feet FSL and 2310 feet FWL, but the Bureau of Land Management ("BLM") required that the well be moved to the above-requested location to accommodate surface drainage patterns. Attached as Exhibit B is a topographic map, which shows that the northern portion of the well unit is relatively flat compared with the southern part of the quarter-quarter section, thus alleviating any drainage concerns.

The entire SW $\frac{1}{4}$ of Section 1 is one federal lease, with common royalty and overriding royalty interest ownership in the Delaware formation. Chi is the only working interest owner in the Delaware formation in all offsetting well units. The only shallow rights

¹The operator of the well will be Chi Operating, Inc.

offset operator (in the Queen formation) is Ray Westall. Mr. Westall has waived objection to the location, as shown on Exhibit C. Thus, notice has not been give to any offset operator. As a result, Chi requests that the 20 day notice period be waived.

This application is submitted in duplicate. Please call me if you need anything further on this matter.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in dark ink and is positioned above the printed name.

James Bruce

Attorney for Chi Energy, Inc.

cc: John Qualls

UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK DRILL [X] DEEPEN []
b. TYPE OF WELL OIL WELL [X] GAS WELL [] OTHER [] SINGLE ZONE [] MULTIPLE ZONE []
2. NAME OF OPERATOR Chi Operating, Inc. 915/685-5001
3. ADDRESS AND TELEPHONE NO. P. O. Box 1799 Midland, Texas 79702
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*) At surface 1060' FSL & 2210' FWL At proposed prod. zone Same
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* 16 road miles S. Loco Hills, NM
10. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drig. unit lbe, if any) 503'
16. NO. OF ACRES IN LEASE 2160.32
17. NO. OF ACRES ASSIGNED TO THIS WELL 40
18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 948'
19. PROPOSED DEPTH 6700'
20. ROTARY OR CABLE TOOLS Rotary
21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3509' GL
22. APPROX. DATE WORK WILL START* June 7, 1999

5. LEASE DESIGNATION AND SERIAL NO. LC-0560353
6. IF INDIAN, ALLOTTEE OR TRIBE NAME
7. UNIT AGREEMENT NAME
8. FARM OR LEASE NAME, WELL NO. Stake Your Claim Federal
9. API WELL NO. 1
10. FIELD AND POOL, OR WILDCAT Benson Bone Spring
11. SEC., T., R., M., OR BLM. AND SURVEY OR AREA Sec 1-T19S-R30E
12. COUNTY OR PARISH Eddy
13. STATE New Mexico

23. PROPOSED CASING AND CEMENTING PROGRAM

Table with 5 columns: SIZE OF HOLE, GRADE SIZE OF CASING, WEIGHT PER FOOT, SETTING DEPTH, QUANTITY OF CEMENT. Rows include 17 1/2", 11", and 7 7/8" hole sizes with corresponding casing and cement details.

Mud Program: 0' - 450': Fresh water w/Gel spud mud; 450' - 3200': Brine mud; 3200' - 6700': Controlled brine mud. Mud Wt., Vis., W/L Control columns.

BOP Program: A 10" 3000 psi wp Shaffer Type "E" double hydraulic ram BOP will be installed on the 13 3/8" casing. Casing and BOP will be tested before drilling out with 11". BOP will be will be tested daily.

*NOTE: If severe lost circulation is NOT encountered, the 11" hole will be reduced at 3200' to 7 7/8" and drill ahead WITHOUT setting the 8 5/8" casing. The 5 1/2" casing will be cemented in two stages with 1600 sx of "C" + add. circulated to surface.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED: [Signature] TITLE: Agent for: Chi Operating, Inc. DATE: May 18, 1999

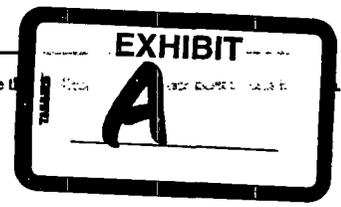
(This space for Federal or State office use)

PERMIT NO. APPROVAL DATE

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to a lease. CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY TITLE DATE

*See Instructions On Reverse Side



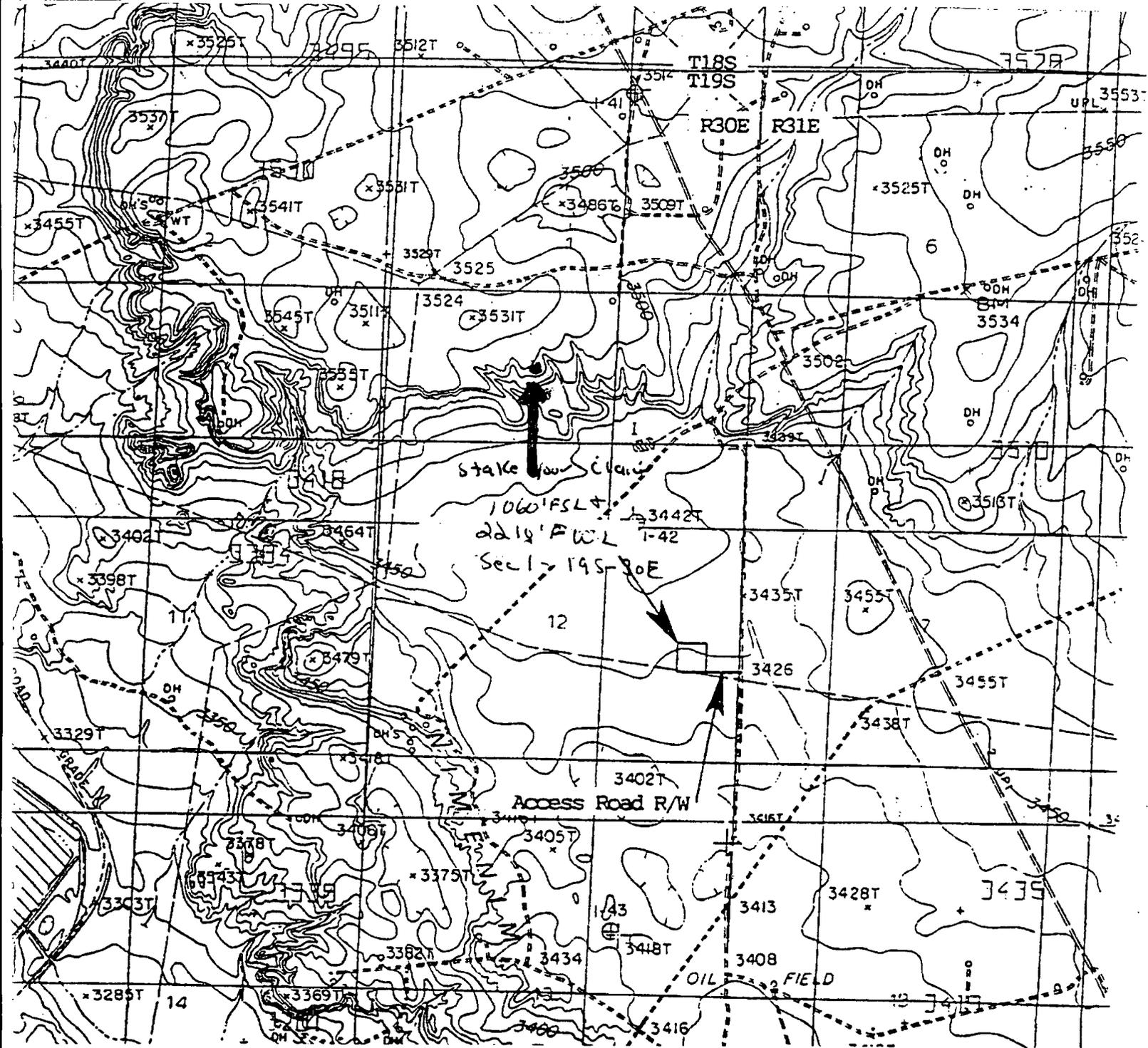


EXHIBIT
B

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

May 14, 1999

Mr. Ray Westall
Box 4
Loco Hills, New Mexico 88550

**Re: Chi Operating – Stake Your Claim Fed No. 1
Located: 2210' FWL & 1060' FSL of
Section 1 – 19S –30E, Eddy County, New Mexico**

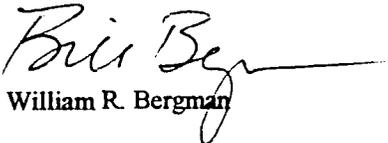
Dear Mr. Westall:

Chi Energy, Inc. has proposed to drill the above referenced Delaware test within the next ninety days. The Bureau of Land Management has requested that Chi's proposed location be moved to the above referenced location to accommodate surface drainage patterns.

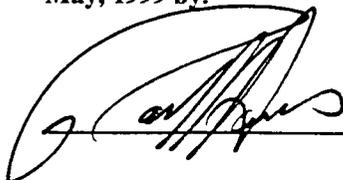
Our records indicate that your company operates the Queen production immediately offsetting this location to the north. The purpose of this letter is to request Ray Westall Operating, Inc.'s permission to drill the above non-standard location.

Should this request be acceptable to you, please indicate by signing below and returning one copy at your earliest convenience. Thank you for your time and attention to this matter.

Sincerely,


William R. Bergman

Agreed to and accepted this 17th day of
May, 1999 by:





JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

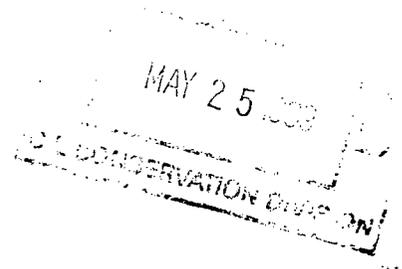
3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

May 25, 1999

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505



Dear Mr. Stogner:

Pursuant to Division Rule 104.F.(2), Chi Energy, Inc. ("Chi") applies for administrative approval of an unorthodox oil well location for the following well:

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ S1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

The well will be drilled to a depth of approximately 6700 feet subsurface, to test the Delaware formation (wildcat Delaware). Well spacing is 40 acres, with wells to be located no closer than 330 feet to a quarter-quarter section line. Attached hereto as Exhibit A is an APD for the well.¹

The location is due to topographic reasons. The well was originally proposed at an orthodox location 660 feet FSL and 2310 feet FWL, but the Bureau of Land Management ("BLM") required that the well be moved to the above-requested location to accommodate surface drainage patterns. Attached as Exhibit B is a topographic map, which shows that the northern portion of the well unit is relatively flat compared with the southern part of the quarter-quarter section, thus alleviating any drainage concerns.

The entire SW $\frac{1}{4}$ of Section 1 is one federal lease, with common royalty and overriding royalty interest ownership in the Delaware formation. Chi is the only working interest owner in the Delaware formation in all offsetting well units. The only shallow rights

¹The operator of the well will be Chi Operating, Inc.

offset operator (in the Queen formation) is Ray Westall. Mr. Westall has waived objection to the location, as shown on Exhibit C. Thus, notice has not been give to any offset operator. As a result, Chi requests that the 20 day notice period be waived.

This application is submitted in duplicate. Please call me if you need anything further on this matter.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in black ink and is positioned above the printed name.

James Bruce

Attorney for Chi Energy, Inc.

cc: John Qualls

UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK DRILL [X] DEEPEN []
b. TYPE OF WELL OIL WELL [X] GAS WELL [] OTHER []
2. NAME OF OPERATOR Chi Operating, Inc. 915/685-5001
3. ADDRESS AND TELEPHONE NO. P. O. Box 1799 Midland, Texas 79702
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*) At surface 1060' FSL & 2210' FWL At proposed prod. zone Same
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* 16 road miles S. Loco Hills, NM
10. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any) 503'
18. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 948'
16. NO. OF ACRES IN LEASE 2160.32
17. NO. OF ACRES ASSIGNED TO THIS WELL 40
19. PROPOSED DEPTH 6700'
20. ROTARY OR CABLE TOOLS Rotary
21. SLEVATIONS (Show whether DF, RT, GR, etc.) 3509' GL
22. APPROX. DATE WORK WILL START* June 7, 1999

5. LEASE DESIGNATION AND SERIAL NO. LC-0560353
6. IF INDIAN, ALLOTTEE OR TRIBE NAME
7. UNIT AGREEMENT NAME
8. FARMOR LEASE NAME, WELL NO. Stake Your Claim Federal
9. AM WELL NO. 1
10. FIELD AND POOL, OR WILDCAT Benson Bone Spring
11. SEC., T., R., M., OR BLK. AND SURVEY OR ABBA Sec 1-T19S-R30E
12. COUNTY OR PARISH Eddy
13. STATE New Mexico

23. PROPOSED CASING AND CEMENTING PROGRAM
Table with columns: SIZE OF HOLE, GRADE SIZE OF CASING, WEIGHT PER FOOT, SETTING DEPTH, QUANTITY OF CEMENT.
Rows: 17 1/2", 11", 7 7/8" hole sizes with corresponding casing and cement details.

Mud Program:
0' - 450': Fresh water w/Gel spud mud Mud Wt. 8.4- ppg Vis. 34-36 W/L Control No W/L control
450' - 3200': Brine mud Mud Wt. 10.2 ppg Vis. 28-32 W/L Control No W/L control
3200' - 6700': Controlled brine mud Mud Wt. 8.6- 8.7 ppg Vis. 28-32 W/L Control No W/L control

BOP Program:
A 10" 3000 psi wp Shaffer Type "E" double hydraulic ram BOP will be installed on the 13 3/8" casing. Casing and BOP will be tested before drilling out with 11". BOP will be will be tested daily.

*NOTE: If severe lost circulation is NOT encountered, the 11" hole will be reduced at 3200' to 7 7/8" and drill ahead WITHOUT setting the 8 5/8" casing. The 5 1/2" casing will be cemented in two stages with 1600 sx of "C" + add. circulated to surface.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED [Signature] TITLE Agent for: Chi Operating, Inc. DATE May 18, 1999

(This space for Federal or State office use)

PERMIT NO. APPROVAL DATE

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to a leasehold interest. CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY TITLE DATE



*See Instructions On Reverse Side

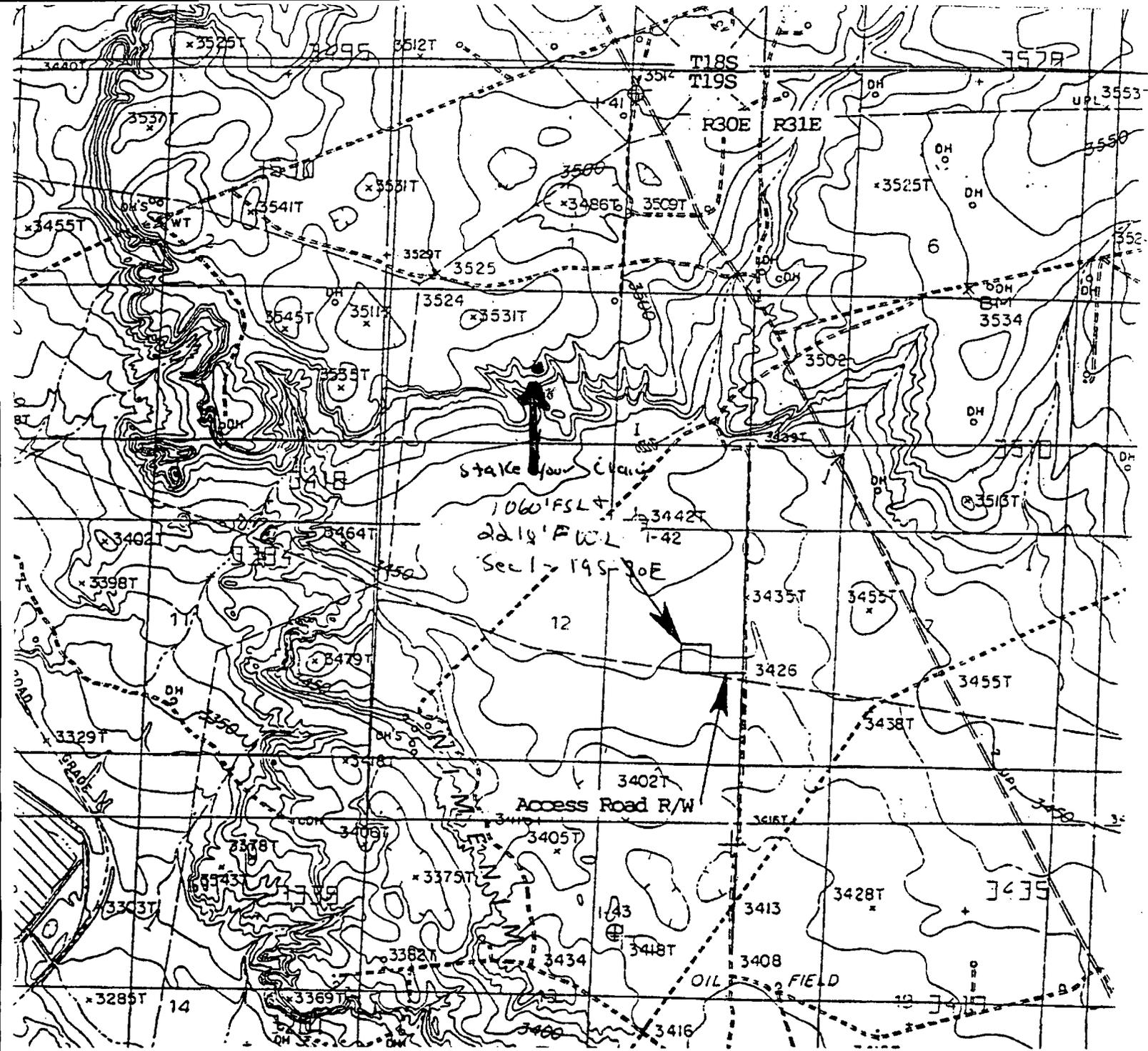


EXHIBIT
B

CHI ENERGY, INC.P.O. BOX 1799
MIDLAND, TEXAS 79702

May 14, 1999

Mr. Ray Westall
Box 4
Loco Hills, New Mexico 88550**Re: Chi Operating – Stake Your Claim Fed No. 1
Located: 2210' FWL & 1060' FSL of
Section 1 – 19S –30E, Eddy County, New Mexico**

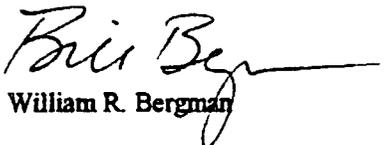
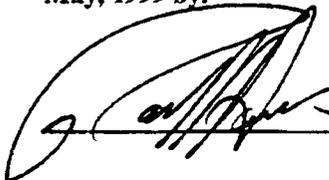
Dear Mr. Westall:

Chi Energy, Inc. has proposed to drill the above referenced Delaware test within the next ninety days. The Bureau of Land Management has requested that Chi's proposed location be moved to the above referenced location to accommodate surface drainage patterns.

Our records indicate that your company operates the Queen production immediately offsetting this location to the north. The purpose of this letter is to request Ray Westall Operating, Inc.'s permission to drill the above non-standard location.

Should this request be acceptable to you, please indicate by signing below and returning one copy at your earliest convenience. Thank you for your time and attention to this matter.

Sincerely,

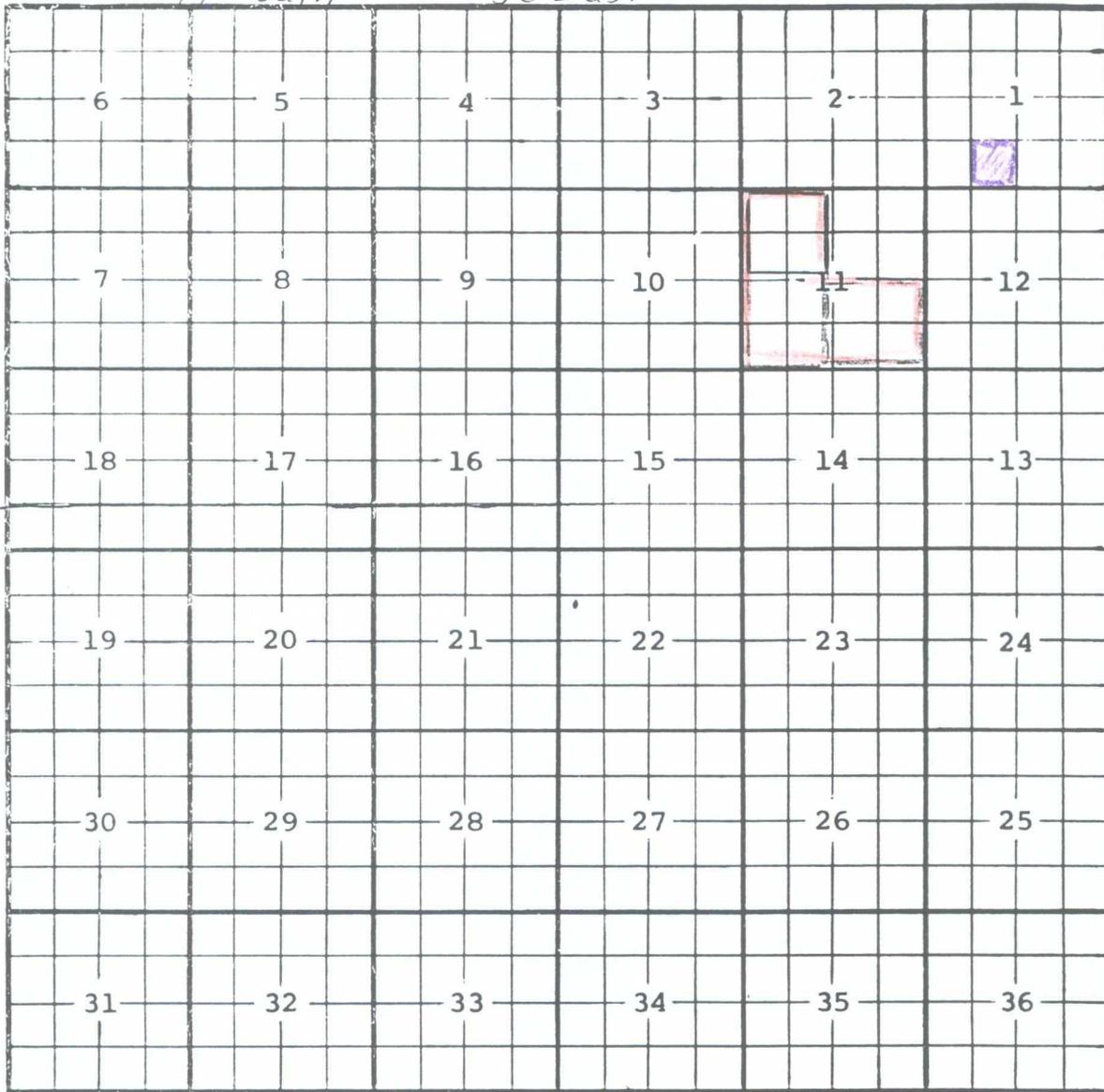

William R. BergmanAgreed to and accepted this 17th day of
May, 1999 by:

EXHIBIT

C

COUNTY Fddy POOL Benson - Bone Spring

TOWNSHIP 19 South RANGE 30 East NMPM



Description: $NW\frac{1}{4}$ sec. 11 (R-7668, 9-21-84) EXT: $SW\frac{1}{4}$ SEC 11 (R-8562 12/4/87)
EXT: $SE\frac{1}{4}$ SEC 11 (R-8665, 6/9/88)

<p>18 SHUGART 18 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>19 PLEMONS-ANGEL WOLSHUGART MON UNIT HBP 105200 So Roy 105200</p>	<p>20 SHUGART 20 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>21 SHUGART 21 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>22 SHUGART 22 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>23 SHUGART 23 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>24 SHUGART 24 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>25 SHUGART 25 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>26 SHUGART 26 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>27 SHUGART 27 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>28 SHUGART 28 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>29 SHUGART 29 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>30 SHUGART 30 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>31 SHUGART 31 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>32 SHUGART 32 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>33 SHUGART 33 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>34 SHUGART 34 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>35 SHUGART 35 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>36 SHUGART 36 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>37 SHUGART 37 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>38 SHUGART 38 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>39 SHUGART 39 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>40 SHUGART 40 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>41 SHUGART 41 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>42 SHUGART 42 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>43 SHUGART 43 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>44 SHUGART 44 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>45 SHUGART 45 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>46 SHUGART 46 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>47 SHUGART 47 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>48 SHUGART 48 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>49 SHUGART 49 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>	<p>50 SHUGART 50 ON UNIT IMACK ENER. (OPER.) HBP 028990 So Roy 028990</p>
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JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

June 9, 1999

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

Pursuant to Division Rule 104.F.(2), Chi Energy, Inc. ("Chi") applies for administrative approval of an unorthodox oil well location for the following well:

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ §1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

The well will be drilled to a depth of approximately 6700 feet subsurface, to test the Bone Spring formation (Undesignated Benson-Bone Spring Pool). **Chi also requests unorthodox location approval for the Delaware formation (wildcat Delaware), which is the primary zone of interest.** Well spacing in both formations is 40 acres, with wells to be located no closer than 330 feet to a quarter-quarter section line. Attached hereto as Exhibit A is an APD for the well.¹

The location is due to topographic reasons. The well was originally proposed at an orthodox location 660 feet FSL and 2310 feet FWL, but the Bureau of Land Management required the well to be moved to the above-requested location to accommodate surface drainage patterns. Attached as Exhibit B is a topographic map, which shows that the northern portion of the well unit is relatively flat compared with the southern part of the quarter-quarter section, thus alleviating any surface drainage concerns.

¹The operator of the well will be Chi Operating, Inc.

The entire SW¼ of Section 1 is one federal lease, with common working, royalty, and overriding royalty interest ownership in both the Delaware and Bone Spring formations. **Thus, ownership is common in all offsetting well units**, and notice has not been give to any offset interest owner. As a result, Chi requests that the 20 day notice period be waived.

This application is submitted in duplicate. Please call me if you need anything further on this matter.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce".

James Bruce

Attorney for Chi Energy, Inc.

cc: John Qualls

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK
 DRILL DEEPEN

b. TYPE OF WELL
 OIL WELL GAS WELL OTHER SINGLE ZONE MULTIPLE ZONE

2. NAME OF OPERATOR
 Chi Operating, Inc. 915/685-5001

3. ADDRESS AND TELEPHONE NO.
 P. O. Box 1799 Midland, Texas 79702

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*)
 At surface 1060' FSL & 2210' FWL
 At proposed prod. zone Same

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*
 16 road miles S. Loco Hills, NM

5. LEASE DESIGNATION AND SERIAL NO.
 LC-0560353

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARMOR LEASE NAME, WELL NO.
 Stake Your Claim Federal

9. API WELL NO.
 1

10. FIELD AND POOL, OR WILDCAT
 Benson Bone Spring

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA
 Sec 1-T19S-R30E

12. COUNTY OR PARISH
 Eddy

13. STATE
 New Mexico

10. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any)
 503'

16. NO. OF ACRES IN LEASE
 2160.32

17. NO. OF ACRES ASSIGNED TO THIS WELL
 40

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.
 948'

19. PROPOSED DEPTH
 6700'

20. ROTARY OR CABLE TOOLS
 Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)
 3509' GL

22. APPROX. DATE WORK WILL START*
 June 7, 1999

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8" H-40	48.0#STC	450'	Circ. 450 sx "C" + add
11"	8 5/8" J-55	32.0#LTC	3,200'	Circ 900 sx "C" + add.
7 7/8"	5 1/2" N-80	15.5#LTC	6,700'	600 sx "C"

Mud Program:	Mud Wt.	Vis.	W/L Control
0' - 450': Fresh water w/Gel spud mud	8.4- ppg	34-36	No W/L control
450' - 3200': Brine mud	10.2 ppg	28-32	No W/L control
3200' - 6700': Controlled brine mud	8.6- 8.7 ppg	28-32	No W/L control

BOP Program:

A 10" 3000 psi wp Shaffer Type "E" double hydraulic ram BOP will be installed on the 13 3/8" casing. Casing and BOP will be tested before drilling out with 11". BOP will be will be tested daily.

*NOTE: If severe lost circulation is NOT encountered, the 11" hole will be reduced at 3200' to 7 7/8" and drill ahead WITHOUT setting the 8 5/8" casing. The 5 1/2" casing will be cemented in two stages with 1600 sx of "C" + add. circulated to surface.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. RIGNED George P. Smith TITLE Agent for: Chi Operating, Inc. DATE May 18, 1999

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle it to the production therefrom.
 CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY _____ TITLE _____ DATE _____



*See Instructions On Reverse Side

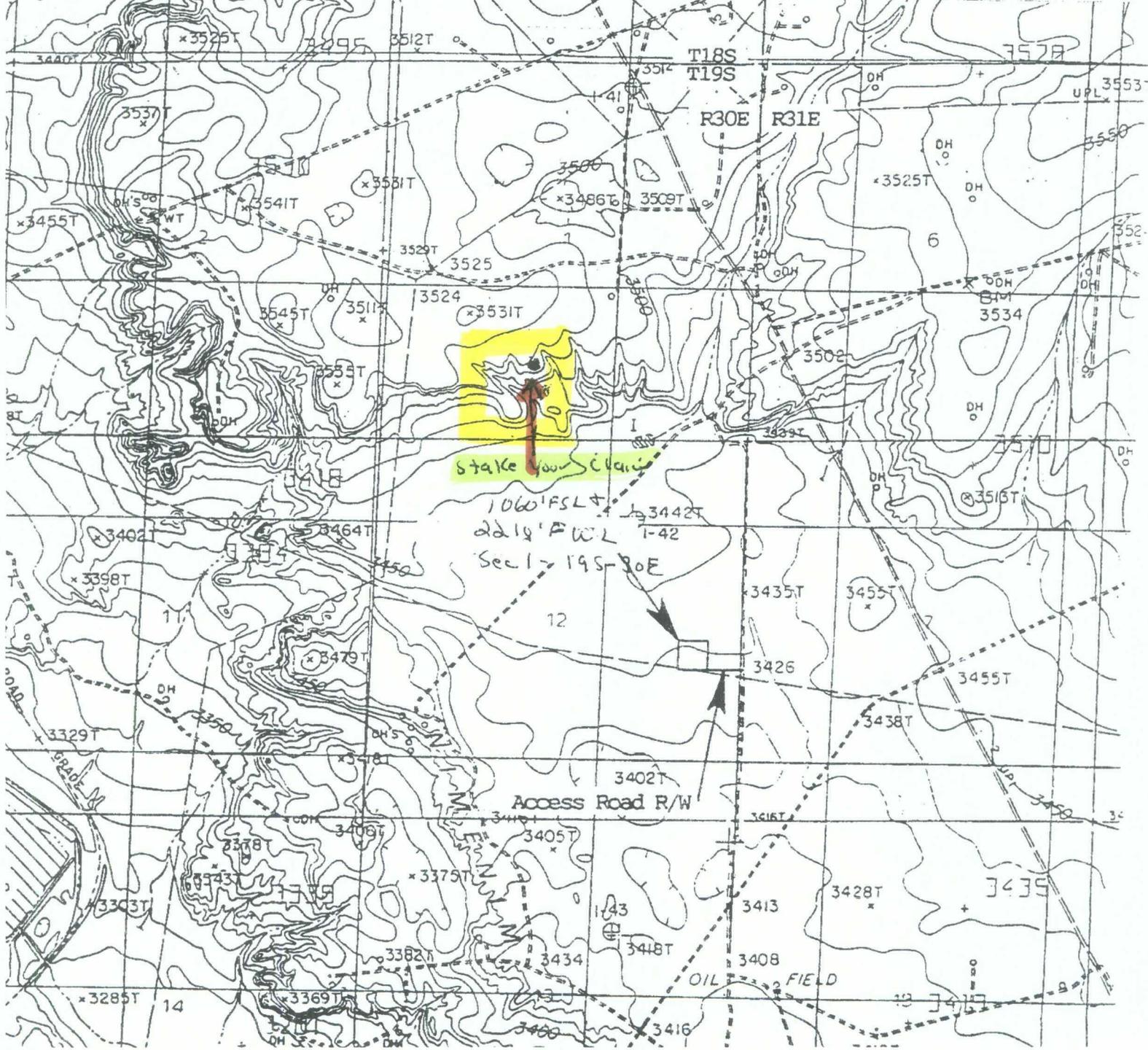


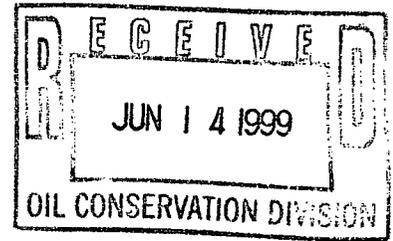
EXHIBIT
B

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)



June 10, 1999

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative application of Chi Energy, Inc. ("Chi")
for an unorthodox oil well location (Delaware and Bone
Spring formations):

Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ §1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

Dear Mr. Stogner:

As promised by my letter of June 9, 1999, enclosed is a waiver
letter from Ray Westall, waiving objection to the Bone Spring test.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce".

James Bruce

Attorney for Chi Energy, Inc.

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79708

June 9, 1999

Mr. Ray Westall
Box 4
Loco Hills, New Mexico 88550

Re: Chi Operating - Stake your Claim Fed No. 1
Located: 2210' FWL & 1060' FSL of
Section 1 - 19S-3ME, Eddy County, New Mexico

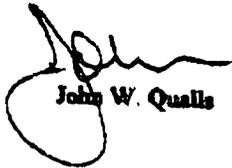
Dear Mr. Westall:

Chi Energy, Inc. has proposed to drill the above referenced Bone Spring test within the next ninety days. The Bureau of Land Management has requested that Chi's proposed location be moved to the above referenced location to accommodate surface drainage patterns.

Our records indicate that your company operates the Queen production immediately offsetting this location to the north. The purpose of this letter is to request Ray Westall Operating, Inc.'s permission to drill the above non-standard location.

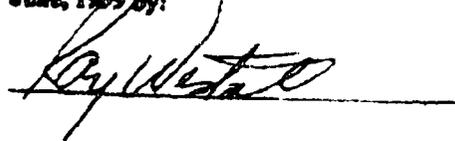
Should this be acceptable to you, please indicate by signing below and returning one copy at your earliest convenience. Thank you for your time and attention to this matter.

Sincerely,


John W. Qualls

JWQ/m

Agreed to and accepted this 10 day of
June, 1999 by:



JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

RECEIVED
JUN - 4 1999

June 2, 1999

Via Fax and U.S. Mail

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative application of Chi Energy, Inc. ("Chi")
for an unorthodox oil well location:

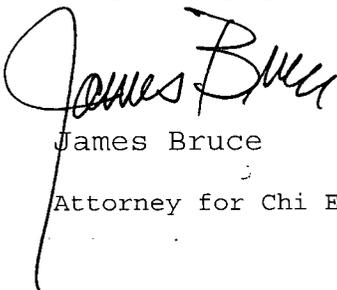
Stake Your Claim Fed. Well No. 1
1060 feet FSL & 2210 feet FWL
SE $\frac{1}{4}$ SW $\frac{1}{4}$ S1, Township 19 South, Range 30 East, NMPM
Eddy County, New Mexico

Dear Mr. Stogner:

In response to your phone call, please be advised that the proposed well will be drilled to a depth sufficient to test the Bone Spring formation (Undesignated Benson-Bone Spring Pool), as indicated on the APD. Thus, Chi requests unorthodox location approval for the Bone Spring as well as for the Delaware. The Bone Spring is strictly a secondary objective.

Ownership of the Bone Spring is the same as the Delaware, and thus notice of this supplemental request has not been given to any additional persons.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.