

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

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OGD-AMTSSA

June 28, 2006

To: Interest owners

30-015-33788

"Certified-Return Receipt"

Enclosed is a copy of an application filed by Chi Operating, Inc. with the New Mexico Oil Conservation Division, seeking authorization for Off-Lease Storage and Measurement from the South Carlsbad Delaware Pool originating from wells located on certain Fee leases covering parts of Sections 30 and 31, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico. A Heater Treater and the tanks for the Hagerman #1 will be on the Allen #3 surface facility. Thanks and please call should you have any questions.

Sincerely,

John W. Qualls

JWQ/fh

District I
1625 N. French Drive, Hobbs, NM 88240
District II
1301 W. Grand Ave, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St Francis Dr, Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources Department - 5 2006

Form C-107-B
Revised June 10, 2003

OIL CONSERVATION DIVISION

1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original
application to the Santa Fe
office with one copy to the
appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Chi Operating, Inc.

OPERATOR ADDRESS: P. O. Box 1799 Midland, Texas 79702

APPLICATION TYPE:

☐ Pool Commingling ☐ Lease Commingling ☐ Pool and Lease Commingling ☒ Off-Lease Storage and Measurement (Only if not Surface Commingling)

LEASE TYPE: ☒ Fee ☐ State ☐ Federal

Is this an Amendment to existing Order? ☐ Yes ☐ No If "Yes", please include the appropriate Order No. _____

Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling
☐ Yes ☐ No

(A) POOL COMMINGLING

Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production		Calculated Value of Commingled Production	Volumes

(2) Are any wells producing at top allowables? ☐ Yes ☐ No

(3) Has all interest owners been notified by certified mail of the proposed commingling? ☐ Yes ☐ No.

(4) Measurement type: ☐ Metering ☐ Other (Specify)

(5) Will commingling decrease the value of production? ☐ Yes ☐ No If "yes", describe why commingling should be approved

(B) LEASE COMMINGLING

Please attach sheets with the following information

(1) Pool Name and Code.

(2) Is all production from same source of supply? ☐ Yes ☐ No

(3) Has all interest owners been notified by certified mail of the proposed commingling? ☐ Yes ☐ No

(4) Measurement type: ☐ Metering ☐ Other (Specify)

(C) POOL and LEASE COMMINGLING

Please attach sheets with the following information

(1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT

Please attached sheets with the following information

(1) Is all production from same source of supply? ☒ Yes ☐ No

(2) Include proof of notice to all interest owners. attached

(E) ADDITIONAL INFORMATION (for all application types)

Please attach sheets with the following information

(1) A schematic diagram of facility, including legal location.

(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved.

(3) Lease Names, Lease and Well Numbers, and API Numbers. Allen #3 30-015-33788
Hagerman #1 30-015-29007

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE: _____

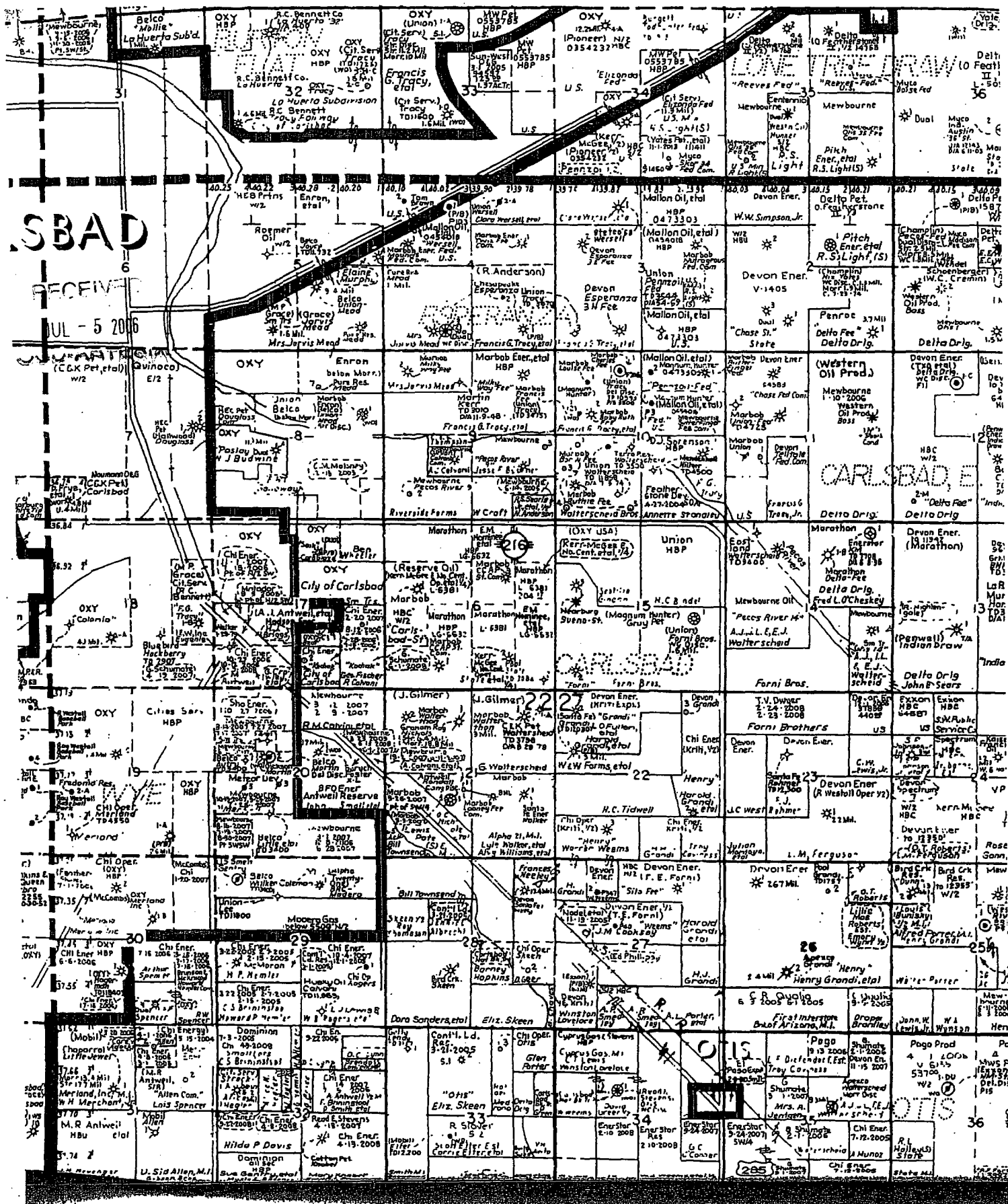
TITLE: Vice-president

DATE: 6-29-06

TYPE OR PRINT NAME John W. Qualls

TELEPHONE NO.: 432-685-5001

E-MAIL ADDRESS: johnq@chienergyinc.com



Hagerman #1 1650' FSL & 2200' FWL Section 30-T-22S-R-27E
Allen #3 660' FNL & 1980' FEL Section 31-T22S-R-27E
Eddy County, New Mexico

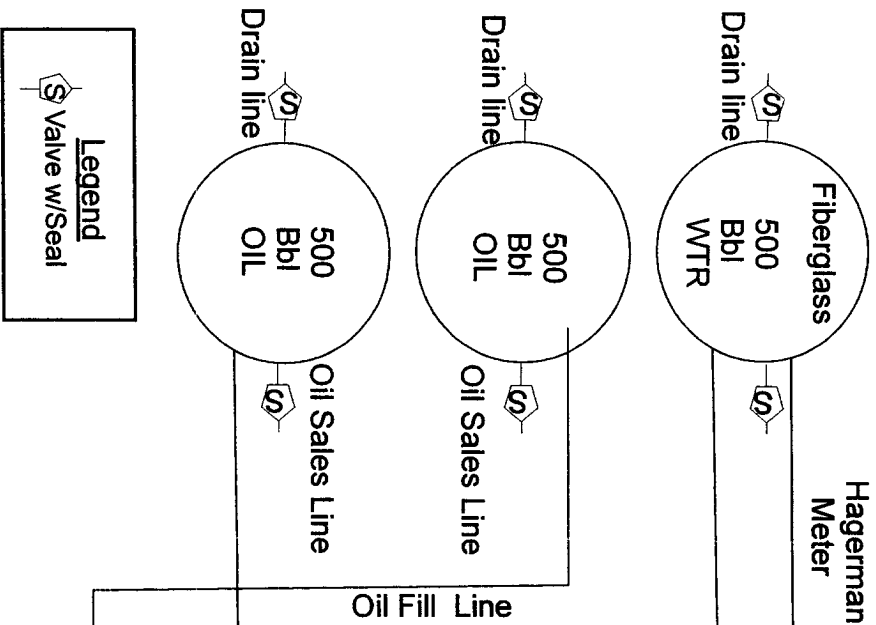
Chi Operating, Inc.

P. O. Box 1799 Midland, TX. 79702
915-685-5001

Site Facility Diagram
Allen Number 3 and Hagerman Number 1
Unit N, Section 31 - 22S - 27E
Eddy County, New Mexico

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CYNARTECIA

Allen Tanks



To Hagerman #1

