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UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

SEP 13 2007

APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

5 Lease Serial No.
~~NM-0560363~~ **NM0560353** *etc*

8/17/07

6 If Indian, Allottee or Tribe Name

1a. Type of work DRILL REENTER

7 If Unit or CA Agreement, Name and No.

1b. Type of Well: Oil Well Gas Well Other Single Zone Multiple Zone

8. Lease Name and Well No.
Munchkin Federal, Well No. 12

2 Name of Operator
Chi Operating, Inc.

9 API Well No.
30-015-35791

3a. Address **P.O. Box 1799
Midland, TX 79702**

3b Phone No. (include area code)
432-685-5001

10 Field and Pool, or Exploratory
Benson Delaware

4 Location of Well (Report location clearly and in accordance with any State requirements *)
At surface **2547' FNL & 519' FWL**
At proposed prod. zone **2310' FSL & 800' FWL**

11 Sec., T. R. M. or Blk and Survey or Area
Sec. 12-T19S-R30E

14 Distance in miles and direction from nearest town or post office*
16 miles south of Loco Hills, NM

12 County or Parish **Eddy** 13 State **NM**

15 Distance from proposed* location to nearest property or lease line, ft (Also to nearest dirg. unit line, if any) **800'**
330'

16 No. of acres in lease
2160.32

17 Spacing Unit dedicated to this well
40 acres

18 Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft **1150'**

19 Proposed Depth
5500'

20 BLM/BIA Bond No. on file
NM-1616

21 Elevations (Show whether DF, KDB, RT, GL, etc)
3424' GL.

22 Approximate date work will start*
09/26/2007

23. Estimated duration
4-6 weeks

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, shall be attached to this form:

- 1. Well plat certified by a registered surveyor.
- 2. A Drilling Plan.
- 3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office)
- 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- 5. Operator certification
- 6. Such other site specific information and/or plans as may be required by the authorized officer.

25 Signature *George R. Smith*

Name (Printed/Typed) **George R. Smith**

Date **08/03/2007**

Title **Agent for Chi Operating, Inc.**

Approved by (Signature) *Jesse J Iuen*

Name (Printed/Typed)

Date **8-31-07**

Title **STATE DIRECTOR**

Office **NM STATE OFFICE**

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 conduct operations thereon
Conditions of approval, if any, are attached. **APPROVAL FOR TWO YEARS**

Title 18 USC Section 1001 and Title 43 USC Section 1212, make 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.

*(Instructions on page 2) **Capitan Controlled Water Basin**

Lease Responsibility Statement: Chi Operating, Inc. accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land and property thereon.

**SEE ATTACHED FOR
CONDITIONS OF APPROVAL**

**APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED**

G.R.S.

George R. Smith, agent

**NSL Required to
Produce**

District I
1626 N. French Dr., Hobbs, NM 88240

District II
1301 W. Grand Avenue, Artesia, NM 88210

District III
1000 Rto Brazos Rd., Asteo, NM 87410

District IV
1220 S. St. Francis Dr., Santa Fe, NM 87606

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 APJ Number	2 Pool Code 97083	3 Pool Name Benson Delaware
4 Property Code 36731	5 Property Name MUNCHKIN FEDERAL	
6 Well Number 12	8 Operator Name CHI OPERATING, INC.	
7 OGRID No. 4378	9 Elevation 3424	

10 Surface Location

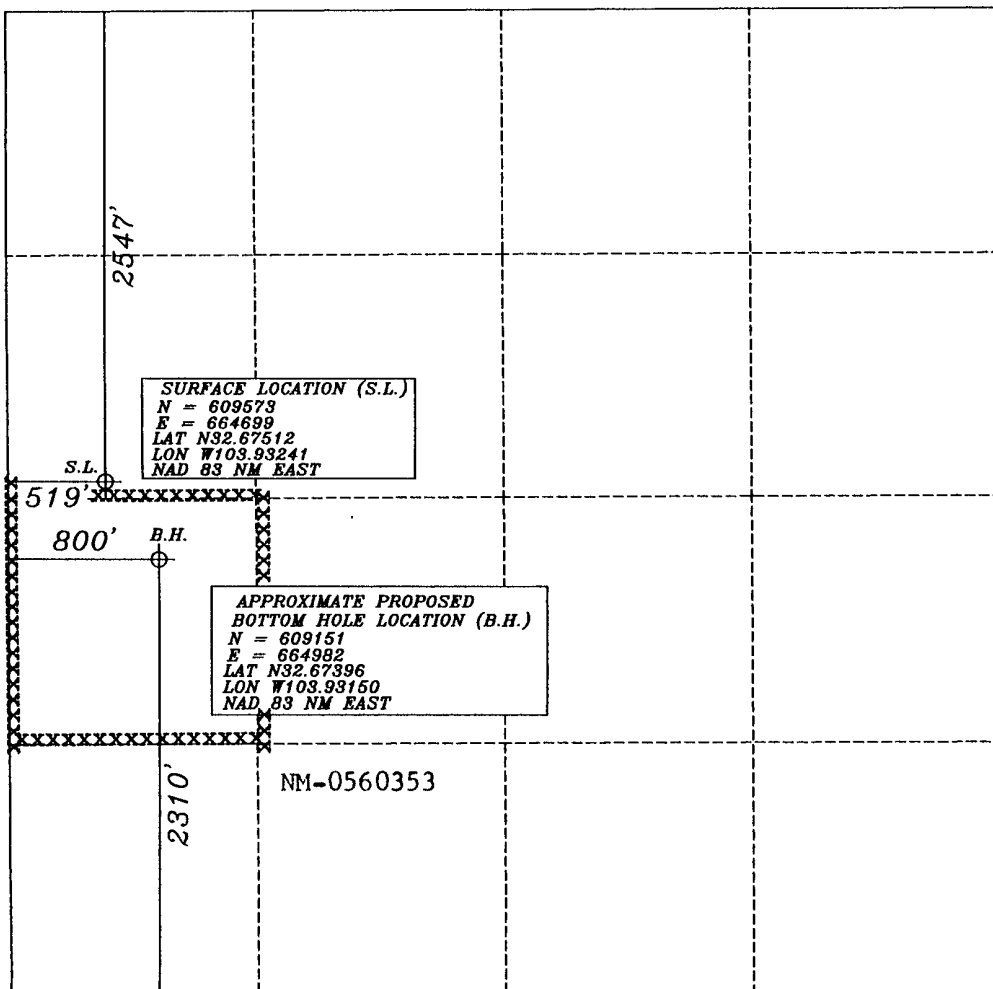
UL or lot no.	Section	Township	Range	Lot Idn.	Feet from the	North/South Line	Feet from the	East/West Line	County
E	12	19-S	30-E		2547	NORTH	519	WEST	EDDY

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn.	Feet from the	North/South Line	Feet from the	East/West Line	County
L	12	19-S	30-E		2310	SOUTH	800	WEST	EDDY

12 Dedicated Acres 40	13 Joint or Infill	14 Consolidation Code	15 Order No.
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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.



17 OPERATORS 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 undivided mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

George R. Smith 8/3/07
Signature Date

George R. Smith, agent

Printed Name

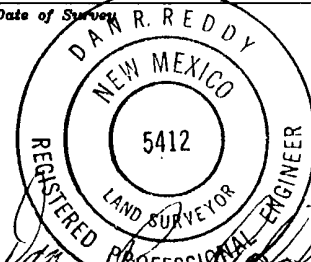
18 SURVEYOR CERTIFICATION SURFACE LOCATION ONLY

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.

Signature and Seal of Professional Surveyor:

JULY 13, 2007

Date of Survey



Certificate Number: DAN R. REDDY NM, PE&PS #5412

APPLICATION FOR DRILLING

CHI OPERATING, INC.

Munchkin Federal, Well No. 11

Surface Location: 2418' FNL & 541' FWL, Sec. 12-T19S-R30E

Bottom Hole: 2100' FSL & 330' FEL, Sec. 11-T19S-R30E

Eddy County, New Mexico

Lease No.: NM-0560353

(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:

Anhydrite	400'	Queen	3050'
Yates	2240'	Delaware	4170'
Seven Rivers	2430'	T.D.	5500'

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 Queen, Delaware.
 Gas: Possible in the Delaware.

4. Proposed Casing Program: (New Casing)

<u>HOLE SIZE</u>	<u>CASING SIZE</u>	<u>WEIGHT</u>	<u>GRADE</u>	<u>COLLAR</u>	<u>SETTING DEPTH</u>	<u>COLLAPSE DESIGN FACTOR</u>	<u>BURST DESIGN FACTOR</u>	<u>TENSION DESIGN FACTOR</u>
17 1/2"	13 3/8"	48.0#	J-55	ST&C	500'	2.850	1.51	15.04J
11"	8 5/8"	32.0#	J-55	LT&C	2,050'	2.376	3.38	7.47J
7 7/8"	5 1/2"	17.0#	J-55	LT&C	5,500'	1.488	1.77	2.97J

Note: Deviation Requirements: Commencing at 2100": Kick off and build angle at 2.5 degrees per 100 feet. Drill and build curve section to 21.25 degrees to T.D. See Exhibit "F".

5. Cement Program:

- a. 13 3/8" casing: 500' Circ. to surface: 500sx "C" + additives, Yield 1.34
- b. 8 5/8" casing: 2050' Circ. to surface: Lead: 375 sx "C" Lite, Tail: 150 Sx "C" + additives, Yield 1.34
- c. 5 1/2" casing Stage 1: 5,500" Circ. to surface: Lead: 376 sx "C" + additives Yield 1.55
 5 1/2" casing Stage 2: 5,500" Circ. Tail: 675 sx (35:65) Poz: Premium Plus "C" + add. Yield: 2.1 & 1.34

Note: If DV Tool is required, will start at +/- 3700'

6. Proposed Control Equipment: A 10" 3000 psi wp double hydraulic ram BOP will be installed on the 13 3/8" casing and will be used as a 2,000 psi system. Casing and BOP will be tested to 1000 psi before drilling out with 11". The BOP and casing will be tested according to Onshore Oil & Gas Order #2 before drilling out with 7 7/8". The pipe rams will be operated and checked daily plus each time drill pipe is out of hole. This will be documented on driller's log. See Exhibit "E".

7. **MUD PROGRAM:**

		<u>MUD WEIGHT</u>	<u>VIS.</u>	<u>W/L CONTROL</u>
0' - 500':	Fresh water/Spud:	8.4 - 8.7 ppg	32 - 34	No W/L control
500' - 2050':	Brine mud:	10.0 ppg	29 - 30	No W/L control
2050' - 5500':	Brine mud:	9.2 ppg	29 - 32	No W/L control
5500'		9.2 ppg		W/L cont. <15 cc @ TD

8. **Auxiliary Equipment:** Blowout Preventer, Kelly cock.

9. **Testing, Logging, and Coring Program:**

Mud Logging: 10' samples-2050' to TD (2 sets of samples)

Drill Stem Tests: As deemed necessary.

Logging: T.D thru pay: GR-CAL-CNL-LDT, GR-CAL DLL-MICRO and CMR
T.D. to Surface: GR-Neutron

Coring: Rotary Sidewall: as dictated by logs.

10. 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. Estimated evacuated BHP = 2420 psi with a temperature of 115°.

11. **H₂S:** None expected. None in previous drilling of wells, but the Mud Log Unit will be cautioned to use a gas trap to detect H₂S and if any is detected the mud weight will be increased along with H₂S inhibitors sufficient to control the gas.

12. Anticipated starting date: August 23, 2007

Anticipated completion of drilling operations: Approximately 30 days.

RIG #

BLOWOUT PREVENTOR ARRANGEMENT

10" SHAFFER TYPE "E", 3000 psi WP
80 GALLON, 4 STATION KOOMEY ACCUMULATOR
3000 psi WP CHOKE MANIFOLD

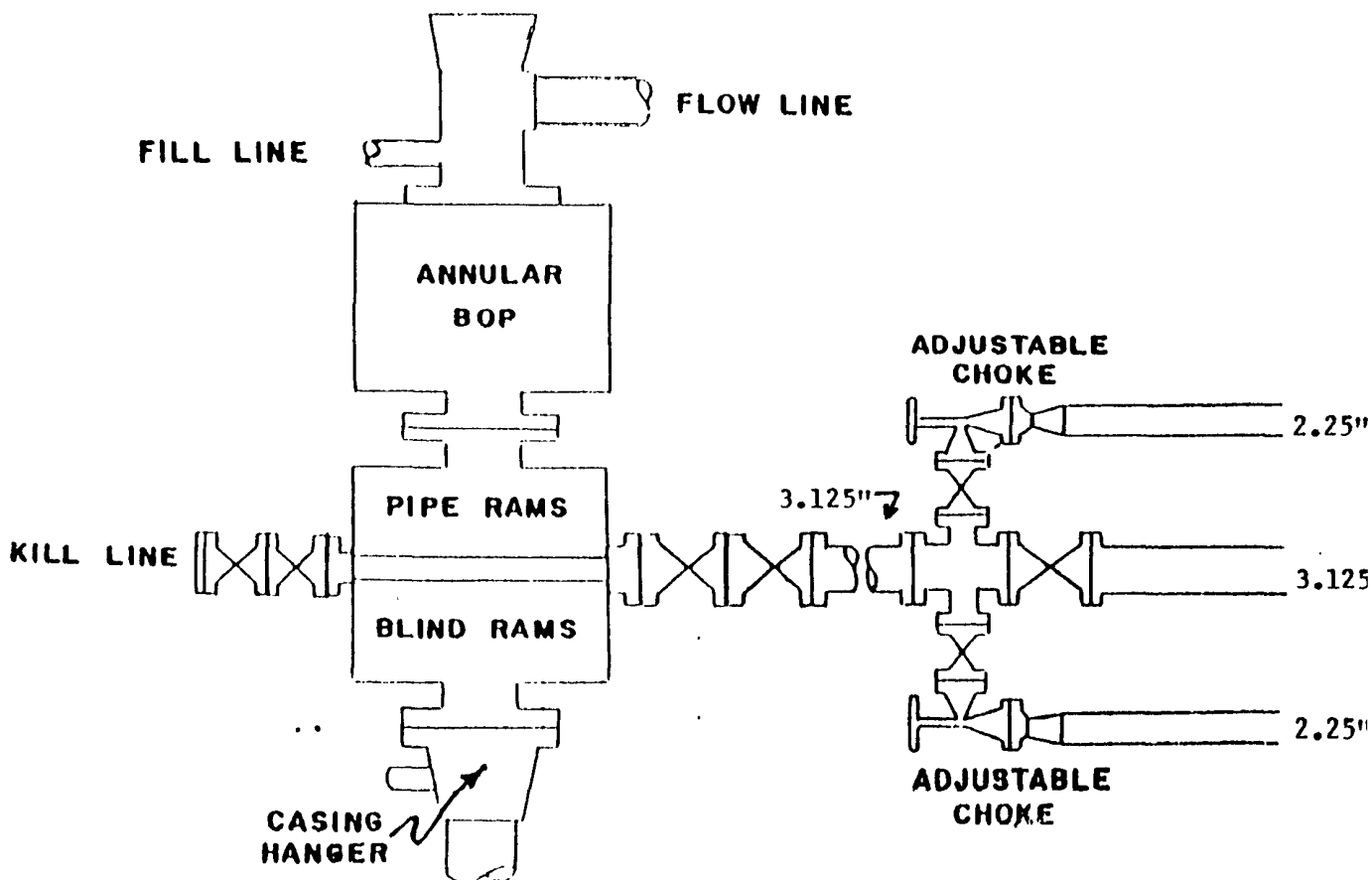


EXHIBIT "E"
CHI OPERATING, INC.
Munchkin Federal, Well No. 12
BOP Specifications

3000 psi System

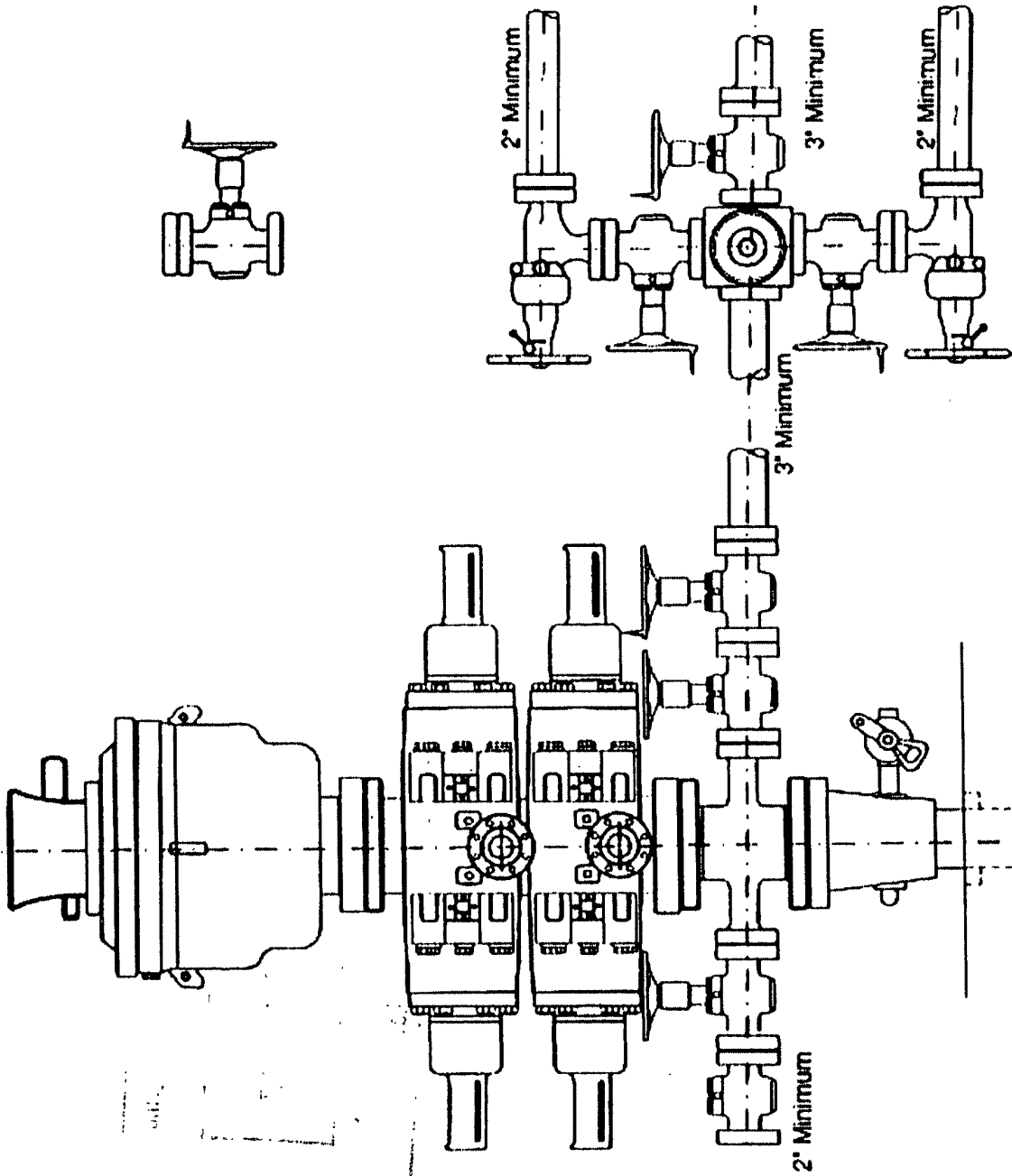


Figure 3-2

EXHIBIT "E"
CHI OPERATING, INC.
Munchkin Federal, Well No. 12
BOP Specifications

Appendix G

Planned Wellpath Report

Plan #1
Page 1 of 3



INTEQ

REFERENCE WELLPATH IDENTIFICATION			
Operator	Chi Operating, Inc.	Slot	#12_SHL
Area	Eddy County, NM	Well	#12
Field	(Munchkin) Section 12 T19S R30E	Wellbore	#12_PWB
Facility	Munchkin Federal #12		

REPORT SETUP INFORMATION				
Projection System	NAD83 / TM New Mexico State Planes, Eastern Zone (3001), US feet		Software System	WellArchitect™ 1.2
North Reference	Grid		User	Jonebea
Scale	0.999927		Report Generated	08/02/07 at 10:58:55
Wellbore last revised	07/27/07		Database/Source file	WA_Midland/#12_PWB

WELLPATH LOCATION						
	Local coordinates		Grid coordinates		Geographic coordinates	
	North [feet]	East [feet]	Easting [US feet]	Northing [US feet]	Latitude [°]	Longitude [°]
Slot Location	0.00	0.00	664699.00	609573.00	32 40 30.434N	103 55 56.689W
Facility Reference Pt			664699.00	609573.00	32 40 30.434N	103 55 56.689W
Field Reference Pt			664720.00	609701.00	32 40 31.700N	103 55 56.438W

WELLPATH DATUM			
Calculation method	Minimum curvature	Rig on #12_SHL (RT) to Facility Vertical Datum	0.00 feet
Horizontal Reference Pt	Slot	Rig on #12_SHL (RT) to GRN. ELEV.	3424.00 feet
Vertical Reference Pt	Rig on #12_SHL (RT)	Facility Vertical Datum to Mud Line (Facility)	0.00 feet
MD Reference Pt	Rig on #12_SHL (RT)	Section Origin	N 0.00, E 0.00 ft
Field Vertical Reference	GRN. ELEV.	Section Azimuth	146.15°

EXHIBIT "F"
Chi Operating, Inc.
Munchkin Federal, Well No. 12
Directional Drilling Program
Surface Location: 2547' FNL & 519' FWL, Sec. 12-T19S-R30E
Bottom Hole Location: 2310' FSL & 800' FWL, Sec. 12-T19S-R30E

Planned Wellpath Report

Plan #1
Page 2 of 3



INTEQ

REFERENCE WELLPATH IDENTIFICATION			
Operator	Chi Operating, Inc.	Slot	#12_SHL
Area	Eddy County, NM	Well	#12
Field	(Munchkin) Section 12 T19S R30E	Wellbore	#12 PWB
Facility	Munchkin Federal #12		

WELLPATH DATA (58 stations) † = interpolated/extrapolated station

MD [feet]	Inclination [°]	Azimuth [°]	TVD [feet]	Vert Sect [feet]	North [feet]	East [feet]	DLS [°/100ft]
0.00	0.000	146.154	0.00	0.00	0.00	0.00	0.00
100.00†	0.000	0.000	100.00	0.00	0.00	0.00	0.00
200.00†	0.000	0.000	200.00	0.00	0.00	0.00	0.00
300.00†	0.000	0.000	300.00	0.00	0.00	0.00	0.00
400.00†	0.000	0.000	400.00	0.00	0.00	0.00	0.00
500.00†	0.000	0.000	500.00	0.00	0.00	0.00	0.00
600.00†	0.000	0.000	600.00	0.00	0.00	0.00	0.00
700.00†	0.000	0.000	700.00	0.00	0.00	0.00	0.00
800.00†	0.000	0.000	800.00	0.00	0.00	0.00	0.00
900.00†	0.000	0.000	900.00	0.00	0.00	0.00	0.00
1000.00†	0.000	0.000	1000.00	0.00	0.00	0.00	0.00
1100.00†	0.000	0.000	1100.00	0.00	0.00	0.00	0.00
1200.00†	0.000	0.000	1200.00	0.00	0.00	0.00	0.00
1300.00†	0.000	0.000	1300.00	0.00	0.00	0.00	0.00
1400.00†	0.000	0.000	1400.00	0.00	0.00	0.00	0.00
1500.00†	0.000	0.000	1500.00	0.00	0.00	0.00	0.00
1600.00†	0.000	0.000	1600.00	0.00	0.00	0.00	0.00
1700.00†	0.000	0.000	1700.00	0.00	0.00	0.00	0.00
1800.00†	0.000	0.000	1800.00	0.00	0.00	0.00	0.00
1900.00†	0.000	0.000	1900.00	0.00	0.00	0.00	0.00
2000.00†	0.000	0.000	2000.00	0.00	0.00	0.00	0.00
2100.00†	0.000	0.000	2100.00	0.00	0.00	0.00	0.00
2200.00†	0.000	0.000	2200.00	0.00	0.00	0.00	0.00
2300.00†	0.000	0.000	2300.00	0.00	0.00	0.00	0.00
2400.00†	0.000	0.000	2400.00	0.00	0.00	0.00	0.00
2500.00†	0.000	0.000	2500.00	0.00	0.00	0.00	0.00
2600.00†	0.000	0.000	2600.00	0.00	0.00	0.00	0.00
2700.00†	0.000	0.000	2700.00	0.00	0.00	0.00	0.00
2800.00†	0.000	0.000	2800.00	0.00	0.00	0.00	0.00
2900.00†	0.000	0.000	2900.00	0.00	0.00	0.00	0.00
3000.00†	0.000	0.000	3000.00	0.00	0.00	0.00	0.00
3100.00†	0.000	0.000	3100.00	0.00	0.00	0.00	0.00
3200.00	0.000	146.154	3200.00	0.00	0.00	0.00	0.00
3300.00†	2.500	146.154	3299.97	2.18	-1.81	1.21	2.50
3400.00†	5.000	146.154	3399.75	8.72	-7.24	4.86	2.50
3500.00†	7.500	146.154	3499.14	19.61	-16.28	10.92	2.50
3600.00†	10.000	146.154	3597.97	34.82	-28.92	19.39	2.50
3700.00†	12.500	146.154	3696.04	54.33	-45.12	30.26	2.50
3766.00	14.150	146.154	3760.27	69.54	-57.75	38.73	2.50
3800.00†	14.150	146.154	3793.23	77.85	-64.66	43.36	0.00

Planned Wellpath Report

Plan #1
Page 3 of 3



INTEQ

REFERENCE WELLPATH IDENTIFICATION

Operator	Chi Operating, Inc.	Slot	#12_SHL
Area	Eddy County, NM	Well	#12
Field	(Munchkin) Section 12 T19S R30E	Wellbore	#12_PWB
Facility	Munchkin Federal #12		

WELLPATH DATA (58 stations) † = interpolated/extrapolated station

MD [feet]	Inclination [°]	Azimuth [°]	TVD [feet]	Vert Sect [feet]	North [feet]	East [feet]	DLS [°/100ft]
3900.00†	14.150	146.154	3890.20	102.29	-84.96	56.97	0.00
4000.00†	14.150	146.154	3987.16	126.74	-105.26	70.59	0.00
4100.00†	14.150	146.154	4084.13	151.19	-125.57	84.21	0.00
4200.00†	14.150	146.154	4181.10	175.63	-145.87	97.82	0.00
4300.00†	14.150	146.154	4278.06	200.08	-166.17	111.44	0.00
4400.00†	14.150	146.154	4375.03	224.53	-186.48	125.05	0.00
4500.00†	14.150	146.154	4471.99	248.97	-206.78	138.67	0.00
4600.00†	14.150	146.154	4568.96	273.42	-227.08	152.29	0.00
4700.00†	14.150	146.154	4665.93	297.86	-247.39	165.90	0.00
4800.00†	14.150	146.154	4762.89	322.31	-267.69	179.52	0.00
4900.00†	14.150	146.154	4859.86	346.76	-287.99	193.13	0.00
5000.00†	14.150	146.154	4956.82	371.20	-308.30	206.75	0.00
5100.00†	14.150	146.154	5053.79	395.65	-328.60	220.36	0.00
5200.00†	14.150	146.154	5150.75	420.10	-348.90	233.98	0.00
5300.00†	14.150	146.154	5247.72	444.54	-369.21	247.60	0.00
5400.00†	14.150	146.154	5344.69	468.99	-389.51	261.21	0.00
5500.00†	14.150	146.154	5441.65	493.44	-409.81	274.83	0.00
5560.17	14.150	146.154	5500.00 ¹	508.15	-422.03	283.02	0.00

HOLE & CASING SECTIONS Ref Wellbore: #12_PWB Ref Wellpath: Plan #1

String/Diameter	Start MD [feet]	End MD [feet]	Interval [feet]	Start TVD [feet]	End TVD [feet]	Start N/S [feet]	Start E/W [feet]	End N/S [feet]	End E/W [feet]
7.875in Open Hole	3200.00	5560.17	2360.17	3200.00	5500.00	0.00	0.00	-422.03	283.02

2050

TARGETS

Name	MD [feet]	TVD [feet]	North [feet]	East [feet]	Grid East [us survey feet]	Grid North [us survey feet]	Latitude [°]	Longitude [°]	Shape
1) #12_BHL	5560.17	5500.00	-422.03	283.02	664982.00	609151.00	32 40 26.248N	103 55 53.397W	point
	2310' FSL & 800' FWL								

SURVEY PROGRAM Ref Wellbore: #12_PWB Ref Wellpath: Plan #1

Start MD [feet]	End MD [feet]	Positional Uncertainty Model	Log Name/Comment	Wellbore
0.00	5560.17	NaviTrak (Standard)		#12_PWB

MULTI POINT SURFACE USE AND OPERATIONS PLAN

2547/N CHI OPERATING, INC *519/W*
Munchkin Federal, Well No.12
Surface Location: ~~2600'~~ FNL & ~~520'~~ FWL, Sec. 12 -T19S-R30E
Bottom Hole: 2310' FSL & 800' FWL, Sec. 12 -T19S-R30E
Eddy County, New Mexico
Lease No.: NM-0560353
(Development Well)

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan, to be followed in rehabilitating the surface environmental effects associated with the operations.

1. EXISTING ROADS:

- A. Exhibit "A" is a portion of a BLM Hackberry Lake Topo map showing the location of the proposed well as staked. The well site location is approximately 36 road miles southeast of Artesia, NM. Traveling east of Artesia on U.S. Highway 82, NM Hwy 360 and county roads No. 250 and 251, there will be 33 miles of paved highway, plus 3 miles of existing gravel oilfield roads.
- B. Directions: Travel east from U. S. Highway #285 in Artesia, NM on U. S. Highway 82 for approximately 14 miles, turn southeast on NM Hwy 360 for approximately 13 miles to paved County Rd #251. Turn north on #251 for 1.8 mile to County Rd. # 250, then turn right on #250 for 3.8 miles to top of Nimenim Ridge. Turn south onto a gravel oilfield road just west of a cattle guard with a pipeline buried near the road. Continue south for .8 mile to a large tank battery and water injection pump house; turn right (west) for .25 mile to a pump jack, then south (left) for .63 mile to a P/A well site with a gas line tap. Turn right (west) for .3 mile, then south .25 mile to the Munchkin Fed. #1 well site. Turn west, north of the #1, for .2 mile to the access road on the left (south) side. Follow this road southeast then south to the southwest corner of the Munchkin Fed. #4 well pad. The access road continues at the southwest corner of the pad and runs southeast for 1000 feet to the southeast corner of the Munchkin Fed. #5 well pad. Continue south on the access road from the southeast corner of this well pad for 900' to the pipeline; then 1,100' west, south of the pipeline, to the northeast corner of the Munchkin Federal #8 well pad. The proposed well is on the SW corner the No. 8 well pad.

2. PLANNED ACCESS ROAD:

- A. Length and Width: There will be no new proposed access road. The existing roads are color coded on Exhibit "A".
- B. Construction: The existing access roads will be repaired, as needed, by grading and topping with compacted caliche and will be properly drained.
- C. Turnouts: None required.
- D. Culverts: None required
- E. Cuts and Fills: None required.
- F. Gates, Cattle guards: None required.
- G. Off Lease ROW: An off lease ROW No. NM-102279 was issued with a previous APD covering the existing access road in the E2 of Sec. 1-T19S-R30E.

3. LOCATION OF EXISTING WELLS:

- A. Existing wells within a one-mile radius are shown on Exhibit "C".

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. Chi Operating, Inc. has production facilities on the lease at this time.
- B. If the well proves to be commercial, the necessary production facilities and gas production-process equipment will be installed on the drilling pad of the Munchkin Fed. #8 well, which also has storage facilities and pipelines available on the well pad. Additional storage may be added if required.

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with fresh water that will be obtained from private or commercial sources and will be transported over the existing and proposed access roads

6. SOURCE OF CONSTRUCTION MATERIALS:

- A. Caliche for surfacing and maintenance of the existing access road and construction of the well site pad will be obtained from a pit on the location, if available, or from a BLM approved pit on the drill site for the Wizard Federal #3 in the NW $\frac{1}{4}$ SE $\frac{1}{4}$, Sec. 1-T19S-R30E. The archaeologist has cleared this pit. No surface materials will be disturbed except those necessary for actual grading and leveling of the drill site and access roads.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. All pits will be fenced with normal fencing materials to prevent livestock from entering the area.
- D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or a separate disposal application will be submitted to the BLM for approval.
- E. Oil produced during operations will be stored in tanks until sold.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- G. Trash, waste paper, garbage and junk will be contained in trash bins to prevent scattering by the wind and will be removed for deposit in an approved sanitary landfill within 30 days after finishing drilling and/or completion operations.

8. ANCILLARY FACILITIES:

- A. None required.

9. WELL SITE LAYOUT:

- A. Exhibit "D" shows the relative location and dimensions of the well pad, reserve pits, and major rig components. The pad and pit area was originally staked and flagged, 600' X 600'.
- B. Mat Size: 245' X 165', plus 100' X 100' reserve pits on the west.
- C. Cut & Fill: The location will require a 2 - 3 foot cut on the west, undisturbed area, for the pits with fill to the east. There are undulating sand dunes 2 - 3 feet high that will need to be leveled.
- D. The surface will be topped with compacted caliche and the reserve pits will be plastic lined.

10. PLANS FOR RESTORATION OF THE SURFACE:

- A. After completion of drilling and/or completion operations, all equipment and other material not required for operations will be removed. Pits will be filled and the location cleaned of all trash and junk to leave the well site in an aesthetically pleasing a condition as possible.
- B. Any unguarded pits containing fluids will be fenced until they are filled.
- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled and leveled as soon as they are dry enough to be worked.

11. OTHER INFORMATION:

- A. Topography: The proposed location and access road are located in an area on top of and east of the Niminem Ridge. The location has an overall 2% slope to the east/northeast from an elevation of 3424' GL.
- B. Soil: The topsoil at the well site is a deep yellowish red colored noncalcareous sandy loam with some caliche scatter on the surface. The soil is of the Berino loamy fine sands series.
- C. Flora and Fauna: The vegetation cover is a fair to good grass cover of threeawn, grama, dropseed, fluff grass and bush muhly along with plants of mesquite, broomweed, yucca, cacti and miscellaneous weeds and wildflowers. The wildlife consists of rabbits, coyotes, antelope, rattlesnakes, lizards, dove, quail and other wildlife typical of the semi-arid desert land.
- D. Ponds and Streams: None in the area.
- E. Residences and Other Structures: None in the area except oil field equipment and tank batteries.
- F. Land Use: Cattle grazing.
- G. Surface Ownership: The proposed well site and access road is on Federal surface and minerals.
- H. There is some evidence of archaeological, historical or cultural sites in the area. Archaeological Survey Consultants, P. O. Box D, Roswell, NM 88202 have conducted an archaeological survey and submitted their report No. ASC 05-013 on September 6, 2005 to the appropriate government agencies. Another report will be furnished after an additional 100' X 600' area is to be cleared on the west side, which will take care of the re-route of the bike trail and give a 120' buffer west of the mud pits.

12. OPERATOR'S REPRESENTATIVE:

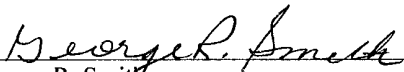
- A. The field representative for assuring compliance with the approved use and operations plan is as follows:

John Qualls
Chi Operating, Inc.
P. O. Box 1799
Midland, Texas 79701
Office Phone: (432) 685-5001
Cell Phone: (432) 557-8774

13. CERTIFICATION:

I hereby certify that I have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in the plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by Chi Operating, Inc. and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

August 3, 2007



George R. Smith
Agent for: Chi Operating, Inc.

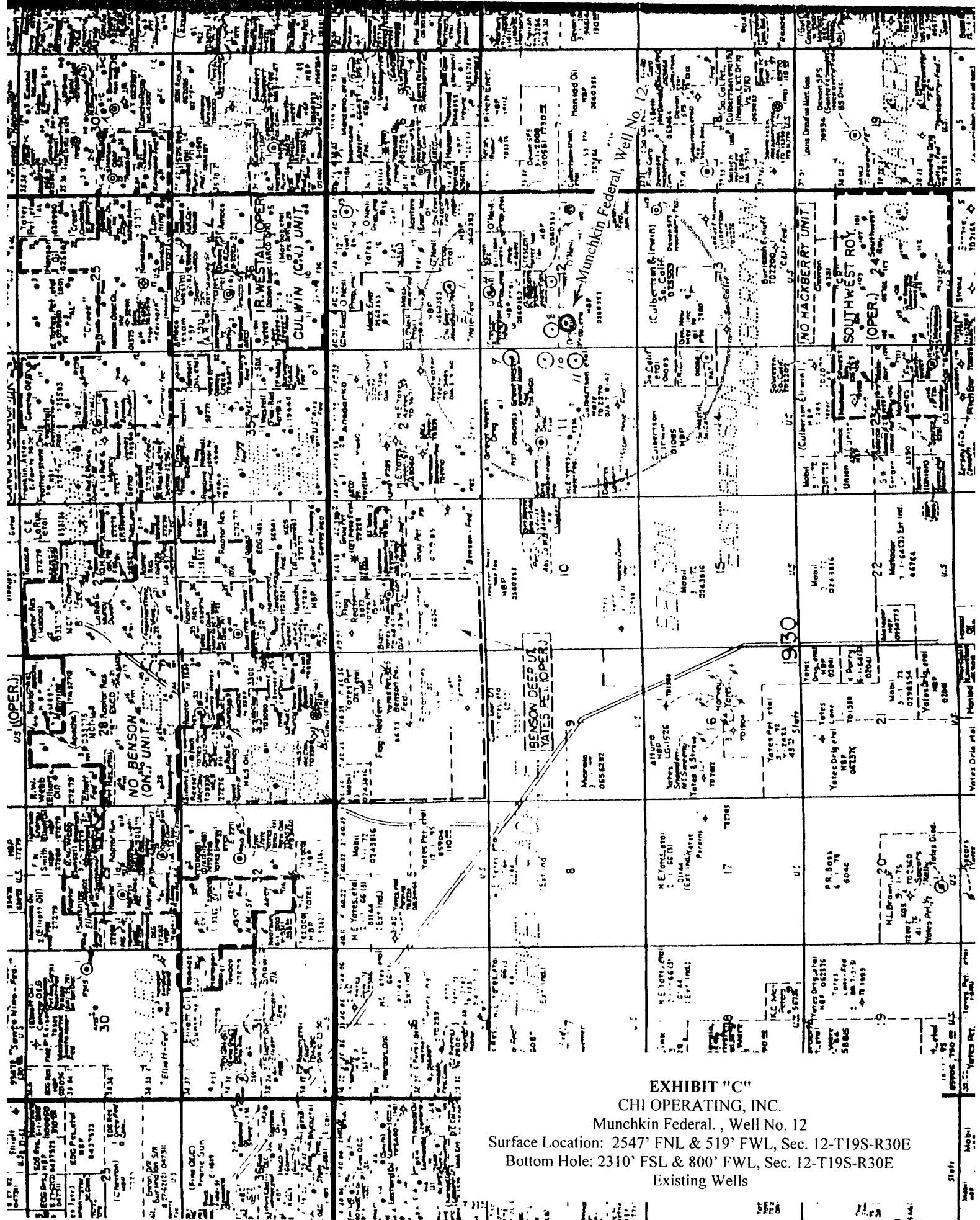


EXHIBIT "C"

CHI OPERATING, INC.

Munchkin Federal., Well No. 12

Surface Location: 2547' FNL & 519' FWL, Sec. 12-T19S-R30E

Bottom Hole: 2310' FSL & 800' FWL, Sec. 12-T19S-R30E

Existing Wells

5528

5167

() Other

RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit shall be constructed entirely in cut material and lined with 6-mil plastic.

Mineral material extracted from within the boundary of the APD during construction of the well pad and reserve pits and be used for the construction of this well pad and its immediate access road only, as long as that portion of the access road it is use on remains on-lease. Removal of any additional material from this location for construction or improvement of other well pads and other access or lease roads must first be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of the pit contents.

The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

CULTURAL

Whether or not an archaeological survey has been completed and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously unidentified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to process by BLM.

TRASH PIT STIPS

All trash, junk, and other waste material shall be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not permitted.

Conditions of Approval Recreation

EA#: NM-520-07-0883

Lease #: NM-0560353

Chi Operating, Inc.

Munchkin Fed. #11 & #12

The proposed action lies on one of the trails to the Hackberry OHV recreation area. The company will be responsible for rerouting these trails safely around the proposed pads. This may be as simple as flagging a new route to the blading of a new route. These new routes will be completed before the existing routes are closed.

Please call Jon Jasper (505) 234-2221 to discuss routing proposals, before beginning pad construction.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Chi Operating Inc
Well Name & No. 12-Munchkin Federal
Location (SHL): 2547' FNL, 0519' FWL, Sec. 12, T-19-S, R-30-E, Eddy County, NM
Location (BHL): 2310' FSL, 0800' FWL, Sec. 12, T-19-S, R-30-E, Eddy County, NM
Lease: NM-0560353

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I. DRILLING OPERATIONS REQUIREMENTS:

- A. The Bureau of Land Management (BLM) is to be notified a minimum of 2 hours in advance for a representative to witness:
1. Spudding well
 2. Setting and/or Cementing of all casing strings
 3. BOPE tests
- Eddy County call the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822
- B. **Although Hydrogen Sulfide has not been reported in this section, it is always a potential hazard and has been detected in Township 32E measuring 200-3000 ppm in gas streams and 200-3000 ppm in STVs from the Yates and Delaware formations.**
- C. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.
- D. Gamma-Ray/Neutron logs shall be run from the base of the Salado formation to the surface. The logs shall be run at a speed which allows the logs to be legible and no faster than manufacturers of the logging tools recommended speed. (R-111-P area only)

II. CASING: If used casing is used, certification required.

- A. The 13-3/8 inch surface casing shall be set a minimum of 25 feet into the Rustler Anhydrite at approximately 500 feet and cemented to the surface.
1. If cement does not circulate to the surface, the appropriate BLM office shall be notified and a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
 2. Wait on cement (WOC) time for a primary cement job will be a minimum of 24 hours in the potash area or 500 pounds compressive strength, whichever is greater. (This is to include the lead cement)
 3. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compressive strength, whichever is greater.
 4. **If cement falls back, remedial action will be done prior to drilling out that string.**

Possible lost circulation in the Artesia Group and Capitan Reef.
Possible water flows in the Artesia and Salado Groups.

- B. The minimum required fill of cement behind the 8-5/8 inch intermediate casing is **for cement to come to surface**. If cement does not circulate see A.1 thru 4.
- C. The minimum required fill of cement behind the 5-1/2 inch production casing is **for cement to come to surface**. If cement does not circulate see A.1 thru 4.
- D. If hardband drill pipe is rotated inside casing; returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.
- E. **Whenever a casing string is cemented in the R-111-P potash area, the NMOCD requirements shall be followed, which includes all cement seal tests prior to and after drilling out each string.**

III. PRESSURE CONTROL:

- A. All blowout preventer (BOP) and related equipment (BOPE) shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2 and API RP 53 Sec. 17.
- B. The appropriate BLM office shall be notified a minimum of 2 hours in advance for a representative to witness the tests.
 - 1. The tests shall be done by an independent service company.
 - 2. The results of the test shall be reported to the appropriate BLM office.
 - 3. All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.
 - 4. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.
 - 5. A variance to test the surface casing and BOP/BOPE to the reduced pressure of 1000 psi with the rig pumps is approved.

IV. Drill Stem Test

If drill stem tests are performed, Onshore Order 2.III.D shall be followed.

Engineer on call phone (after hours): Carlsbad - 505-706-2779

WWI 081707