

UNITED STATES N.M. Oil Cons. DIV-Dist. 2
DEPARTMENT OF THE INTERIOR 1301 W. Grand Avenue
BUREAU OF LAND MANAGEMENT Artesia, NM 88210

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: <input type="checkbox"/> DRILL <input checked="" type="checkbox"/> REENTER		5. Lease Serial No. NM-0560353	
1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name	
2. Name of Operator Chi Operating, Inc.		7. If Unit or CA Agreement, Name and No.	
3a. Address P.O. Box 1799 Midland, TX 79702		8. Lease Name and Well No. Munchkin Federal, Well No. 3	
3b. Phone No. (include area code) (915) 685-5001		9. API Well No. 30-015-31796	
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 2230' FSL & 1750' FWL At proposed prod. zone same Secretary's Potash		10. Field and Pool, or Exploratory Benson Delaware	
14. Distance in miles and direction from nearest town or post office* 16 road miles S. of Loco Hills, NM		11. Sec., T., R., M., or Blk. and Survey or Area Sec. 1-T19S-R30E	
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1750'		12. County or Parish Eddy	13. State NM
16. No. of Acres in lease 2160.32	17. Spacing Unit dedicated to this well 40		
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 340'	19. Proposed Depth 5250'	20. BLM/BIA Bond No. on file NM-1616	
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3524' GL	22. Approximate date work will start* Sept. 12, 2005	23. Estimated duration 3 weeks	

RECEIVED

DEC 19 2005

CCC-ARTESIA

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 <i>George R. Smith</i>	Name (Printed Typed) George R. Smith	Date 8/8/05
Title Agent for Chi Operating, Inc.		
Approved by (Signature) <i>/s/ Linda S. C. Rundell</i>	Name (Printed Typed) /s/ Linda S. C. Rundell	Date DEC 12 2005
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 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. 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 reverse)

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

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

GRS
George R. Smith, agent

District I
1025 N. French Dr., Hobbs, NM 88249
District II
811 South First, Artesia, NM 88210
District III
1000 Rio Grande Rd., Aztec, NM 87410
District IV
2000 South Pacheco, Santa Fe, NM 87305

State of New Mexico
Energy, Minerals & Natural Resources

Form C-102
Revised March 17, 1999

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number		Pool Code	Pool Name
		97083	Benson Delaware
Property Code	Property Name		Well Number
	MUNCHKIN FEDERAL		3
OCRID No.	Operator Name		Elevation
4378	CHI OPERATING INC.		3524.

" Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
K	1	19-S	30-E		2230	SOUTH	1750	WEST	EDDY

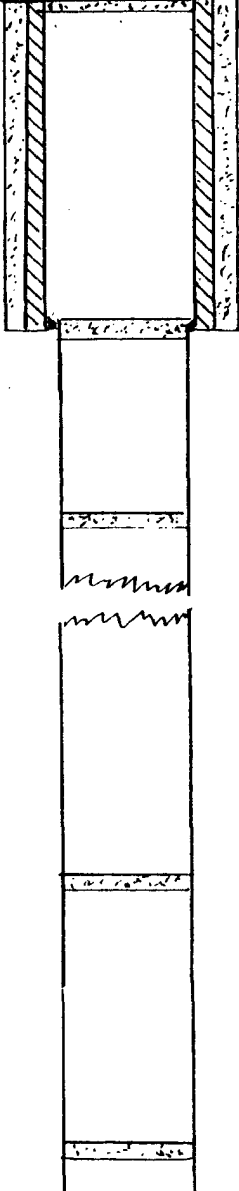
" Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres		Jctn or Indn		Consolidation Code		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. Signature <u>George R. Smith</u> Printed Name <u>George R. Smith</u> Title <u>Agent</u> Date <u>8/8/05</u>			
	" 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. FEBRUARY 2001 Date of Survey Signature and Seal of Registered Engineer 			

CHI OPERATING, INC.
Munchkin Federal, Well No. 3 (Re-entry)
Eddy County, New Mexico
Lease No.: NM-0560353
Existing Casing and Plugs in Re-Entry Well

		BIT	CASING	DEPTH	CEMENT
Surface Plug 20 sk		12 1/4"	8 5/8"	500'	Circ. 400 sx "C"
40 sk plug @ 550' - 450'					
55 sk plug @ 2078' - 1978'		8 3/4"	Open Hole		
45 sk plug @ 4105' - 4005'					
50 sk plug @ 6393' - 6293'					
T.D. 6700'					

APPLICATION FOR DRILLING

CHI OPERATING, INC.

Munchkin Federal, Well No. 3 (Re-entry)
2230' FSL & 1750' FWL, Sec. 1-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.	5250'

3. The estimated depths at which water, oil or gas formations are anticipated to be encountered:

Water: Surface water between 100' - 300'. Behind surface casing.

Oil: Possible in the Queen, Delaware.

Gas: Possible in the Delaware

4. Proposed Casing Program:

HOLE SIZE	CASING SIZE	WEIGHT	GRADE	JOINT	SETTING DEPTH	QUANTITY OF CEMENT
Drill out plugs in surface casing to 550'.						
12 1/4"	9 5/8"	36.0#	J-55	ST&C	500'	Circ. 400 sx "C" + add.(exists in hole)
Drill out cement plugs and clean out to 5,250'.						
8 3/4"	5 1/2"	17.0#	J-55	LT&C	5,250'	Circ in 2 stages: 1,075 sx of "C"

5. Proposed Control Equipment: A 10" 3000 psi wp Shaffer Type "E" double hydraulic ram BOP will be installed on the 9 5/8" casing and will be used as a 2,000 psi system. Casing and BOP will be tested before drilling out with 8 3/4" and will be tested weekly. See Exhibit "E".

6. MUD PROGRAM:	MUD WEIGHT	VIS.	W/L CONTROL
0' - 500': Fresh water mud:	8.4 - 8.7 ppg	32 - 34	No W/L control
500' - 5250': Brine mud	10.0 ppg	29 - 30	W/L cont. <15 cc @ TD

7. Auxiliary Equipment: Blowout-Preventer, gas detector, Kelly cock, pit level monitor, flow sensors and stabbing valve.

8. Testing, Logging, and Coring Program: The following tests were previously performed.

Drill Stem Tests: As deemed necessary.

Logging: T.D thru pay: GR-CAL-CNL-LDT-DLL-MICRO

T.D. to Surface: GR-Neutron

Coring: Rotary Sidewall: as dictated by logs.

Chi Operating, Inc.
Munchkin Federal, Well No. 3 (Re-entry)
Page 2

9. 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 = 2310 psi with a temperature of 112°.
10. H₂S: None expected. None in previously drilled wells.
11. Anticipated starting date: September 12, 2005
Anticipated completion of drilling operations: Approximately 30 days.

MULTI POINT SURFACE USE AND OPERATIONS PLAN

CHI OPERATING, INC
Munchkin Federal, Well No. 3 (Re-entry)
2230' FSL & 1750' FWL, Sec. 1 -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, to the northeast corner of the extant pad of the Munchkin Fed. #3 well site.

2. PLANNED ACCESS ROAD:

- A. Length and Width: The access road currently exists. The existing roads are color coded on Exhibit "A".
- B. Construction: The access road and well site will be reconstructed by grading and topping with compacted caliche.
- C. Turnouts: None required.
- D. Culverts: None required.
- E. Cuts and Fills: No cuts or fills are 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 two-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. A 3" poly oil and water flow line will run parallel to the existing access road to the Munchkin Fed. #1 tank battery. A 3" poly gas flow line will run east parallel to the existing access road to a gas line coming from the Munchkin Fed. #1 tank battery

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 the proposed access road and well site pad will be obtained from a pit on the location, if available, or from an 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 of the well servicing rig that will drill this re-entry. The extant pad and pit area will be reused with no additional surface impact.
- B. Mat Size: 180' X 130', including a small pit on the west.
- C. Cut & Fill: The existing location will require preparation with additional caliche and no new cutting and filling.
- D. The surface will be topped with compacted caliche and the working pit 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 is located in a area on top of and east of the Niminem Ridge with small hummocky dunes. The location has an overall 1% slope to the southwest from an elevation of 3524' GL.
- B. Soil: The topsoil at the well site is a reddish brown colored sandy loam with some considerable caliche scatter on the surface with more rock on the south side. The soil is of the Simona Gravelly Fine Sandy Loam complex on the north side and the Rock Land series on the south side
- C. Flora and Fauna: The vegetation cover is a good to fair grass cover of threeawn, dropseed, fluff grass and ring muhly along with plants of mesquite, creosote bush, 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 no evidence of archaeological, historical or cultural sites in the area. Archaeological Survey Consultants, P. O. Box D, Roswell, NM 88202 previously conducted an archaeological survey, and their report was submitted to the appropriate government agencies.

12. OPERATOR'S REPRESENTATIVE:

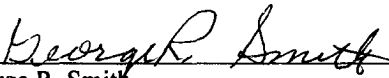
- A. The field representative for assuring compliance with the approved use and operations plan is as follows:

John Qualls
Chi Operating, Inc.
P. O. Box 1799
Midland, Texas 79701
Office Phone: (915) 685-5001
Home Phone: (915) 684-6847

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 8, 2005


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

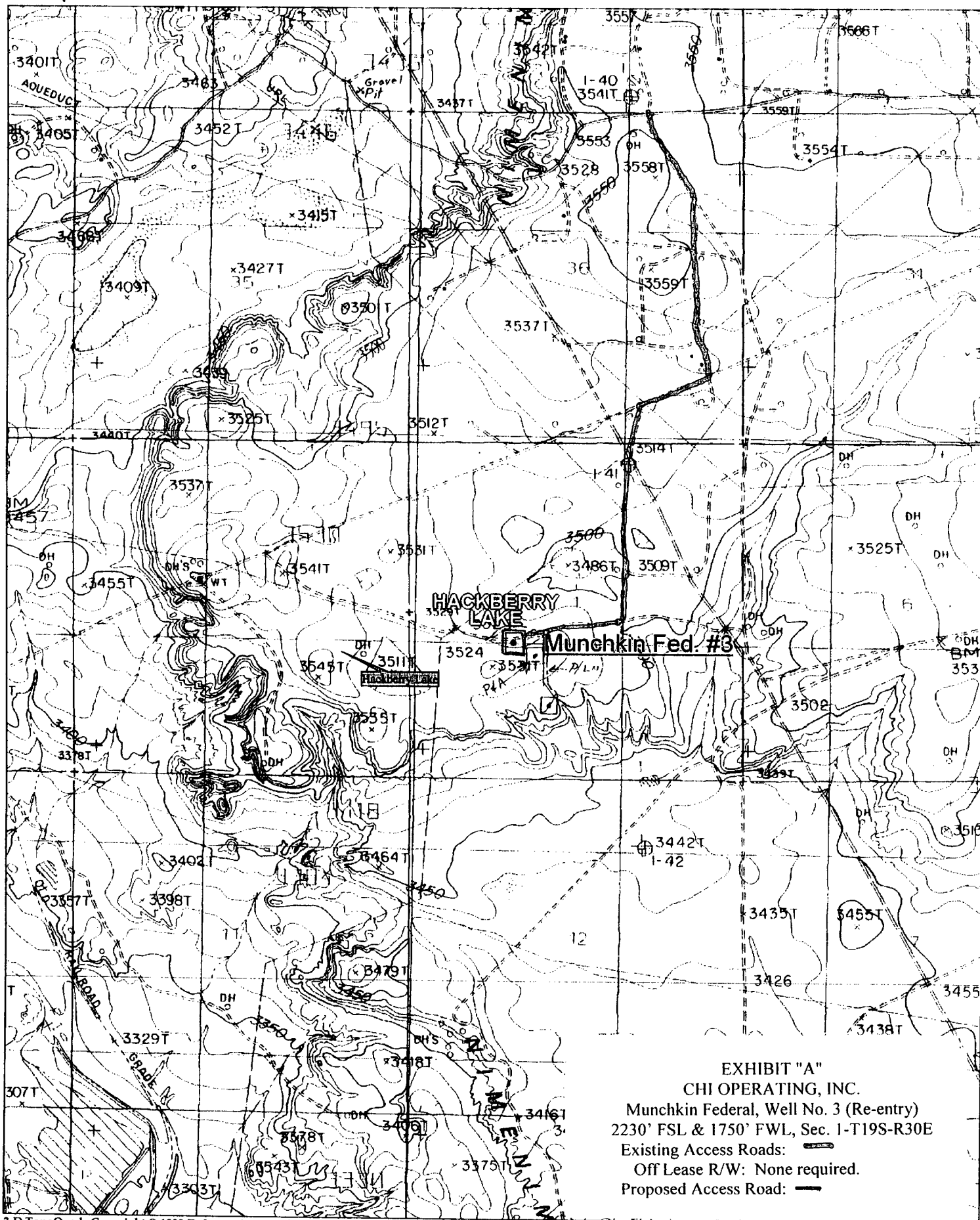




EXHIBIT "A"
 CHI OPERATING, INC.
 Munchkin Federal, Well No. 3 (Re-entry)
 2230' FSL & 1750' FWL, Sec. 1-T19S-R30E
 Existing Access Roads: 
 Off Lease R/W: None required.
 Proposed Access Road: 

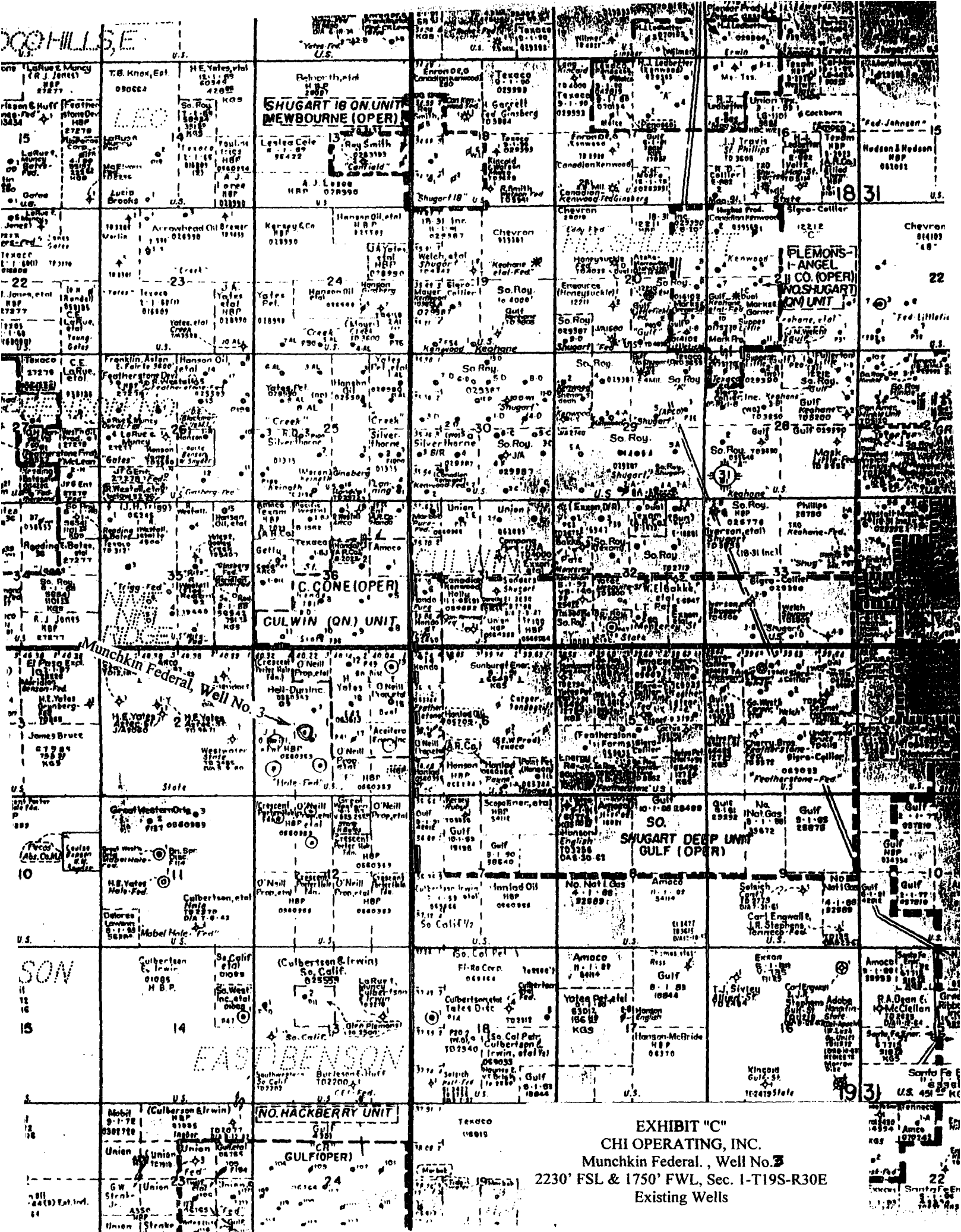


EXHIBIT "C"
CHI OPERATING, INC.
Munchkin Federal, Well No. 3
2230' FSL & 1750' FWL, Sec. 1-T19S-R30E
Existing Wells

DA&S Oil Well Servicing, Inc.
Unit #648
Re-Entry Location Pad

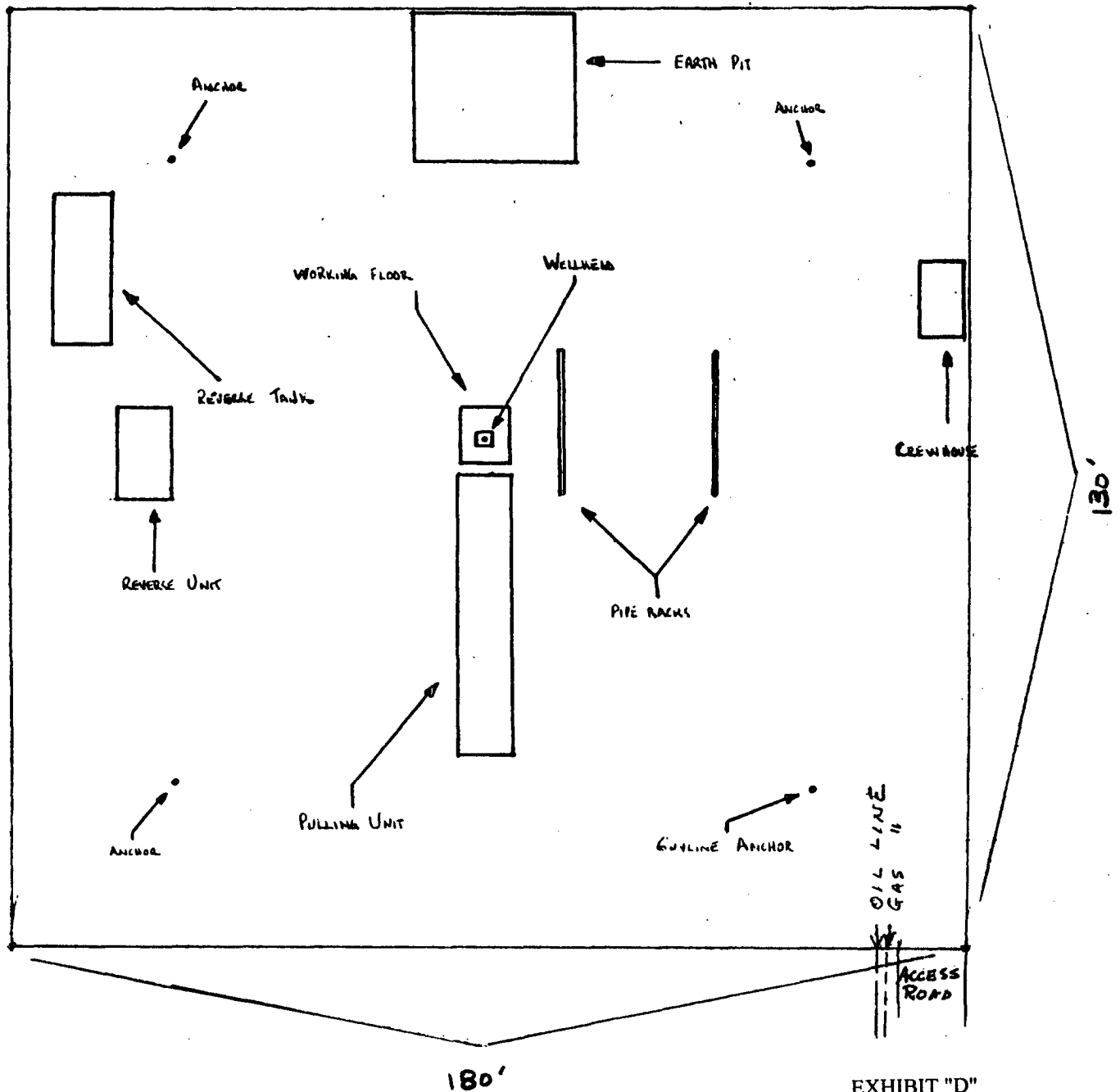


EXHIBIT "D"
CHI OPERATING, INC.
Munchkin Federal, Well No. 3 (Re-entry)
Pad & Pit Layout

BLOWOUT PREVENTOR ARRANGEMENT

2M SYSTEM

10" SHAFFER TYPE "E", 3000 psi WP

80 GALLON, 4 STATION KOOMEY ACCUMULATOR

3000 psi WP CHOKE MANIFOLD

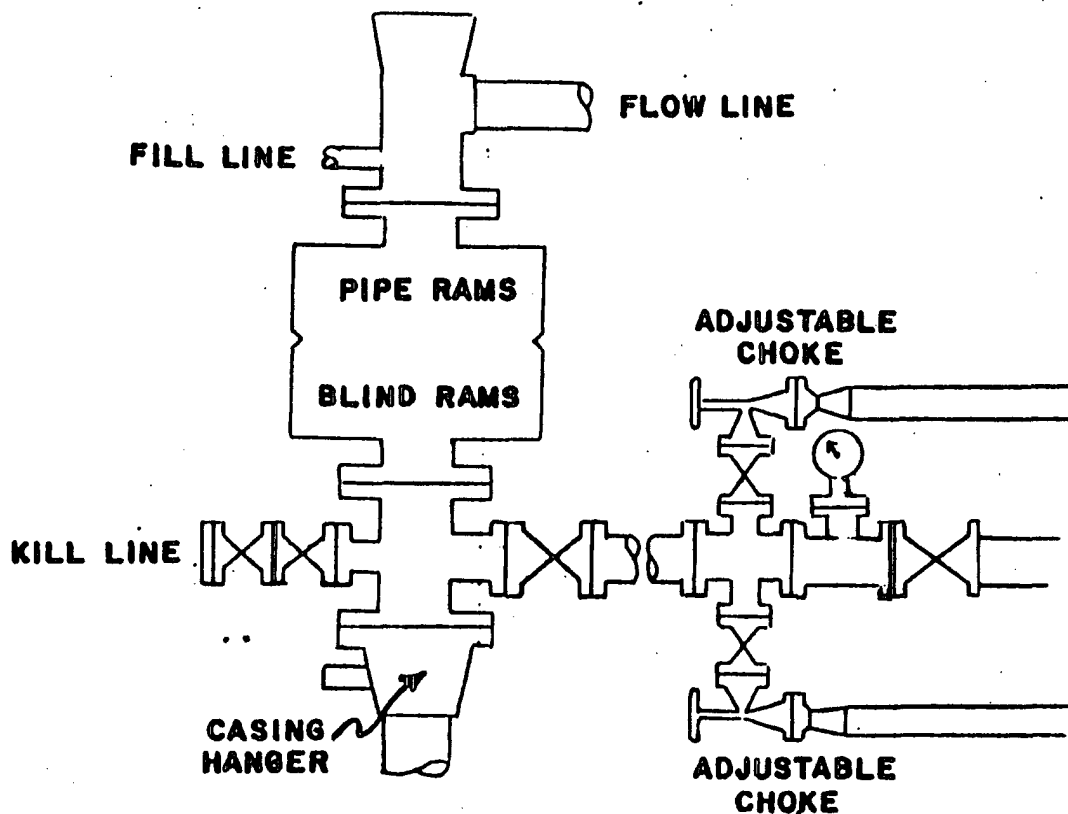


EXHIBIT "E"
CHI OPERATING, INC.
Munchkin Federal, Well No. 3 (Re-entry)
BOP Specifications

CONDITIONS OF APPROVAL - DRILLING

Well Name & No. 3 - MUNCHKIN FEDERAL
Operator's Name: CHI OPERATING, INC
Location: 2230' FSL & 1750' FWL - SEC 1- T19S - R30E - EDDY COUNTY
Lease: NM-0560353

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 for wells in Chaves and Roosevelt Counties; the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 234-5909 or (505) 361-2822 (After hours) - for wells in Eddy County; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

A. Spudding - **This is a Re-entry - 9-5/8" casing has been set @ 500 feet & cement circulated**

B. Cementing casing: 5-1/2 inch

C. BOP tests

2 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.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

5. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. The minimum required fill of cement behind the 5-1/2 inch production casing is **cement shall extend upward a minimum of 500 feet above the uppermost hydrocarbon bearing interval.**

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 9-5/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) is 2000 psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- - The tests shall be done by an independent service company.

- The results of the test shall be reported to the appropriate BLM office.

- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.

- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

(ORIG. SGD.) LES BABYAK