

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK DRILL <input checked="" type="checkbox"/> DEEPEN <input type="checkbox"/>			5. LEASE DESIGNATION AND SERIAL NO. LC-064790		
b. TYPE OF WELL OIL WELL <input checked="" type="checkbox"/> GAS WELL <input type="checkbox"/> OTHER <input type="checkbox"/> SINGLE ZONE <input type="checkbox"/> MULTIPLE ZONE <input type="checkbox"/>			6. IF INDIAN, ALLOTTED OR TRIBE NAME		
2. NAME OF OPERATOR Chi Operating, Inc. 915/685-5001			7. UNIT AGREEMENT NAME		
3. ADDRESS AND TELEPHONE NO. P. O. Box 1799 Midland, Texas 79702			8. FARM OR LEASE NAME, WELL NO. Mustang Federal		
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)* At surface 660' FNL & 990' FEL At proposed prod. zone Same Unit A			9. API WELL NO. 4		
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* 21 miles S. of Maljamar, NM			10. FIELD AND POOL, OR WILDCAT Crazy Horse Delaware		
15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any) 330'			11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA Sec. 19-T19S-R33E		
16. NO. OF ACRES IN LEASE 320			12. COUNTY OR PARISH Lea		
17. NO. OF ACRES ASSIGNED TO THIS WELL 40			18. STATE New Mexico		
18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 1150'			20. ROTARY OR CABLE TOOLS Rotary		
21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3618' GL			22. APPROX. DATE WORK WILL START* March 15, 1997		

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#	490'	Circ 475 sx "C"
11"	8 5/8"J-55	32.0#	3100'	Circ. 1200 sx "C"
7 7/8"	5 1/2"J-55	17.0#	7900'	1055 sx two stage DV tool*

MUD PROGRAM:

0' - 490': Fresh water spud mud:
490' - 3100': Brine mud:
3100' - 7900': Cut Brine mud w/gel:

MUD WT.

8.4 ppg
10.0 ppg
8.8 ppg

VIS.

32
28-32
28-32

W/L Control

No W/L control.
No W/L control.
W/L control 15cc.

BOP PROGRAM:

A 12" 3000 psi wp 900Cameron Space Saver, double ram BOP, will installed on the 13 3/8" casing. Casing and BOP will be tested before drilling out with 11". The BOP will be tested daily.

* 7 7/8": Cement with DV tool in two stages starting at 6780':

1st stage: 230 sx "H" cement.

2nd stage: 825 sx lite cement. Cement 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 Jan. 24, 1997

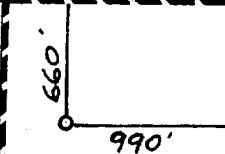
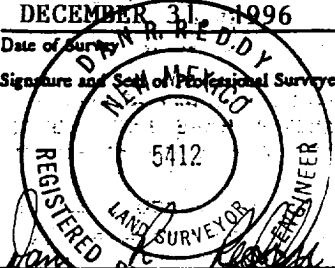
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PERMIT NO. _____ APPROVAL DATE _____

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 conduct operations thereon.
CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY ORIG. SGD; TORY FERGUSON TITLE ADM. MINERAL DATE 2/14/97

*See Instructions On Reverse Side

16			17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.
	NM-064790 Hudson & Hudson		Signature George R. Smith, agent for:
			Printed Name Chi Operating, Inc.
			Title January 24, 1997
			Date
			18 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.
			DECEMBER 31, 1996 Date of Survey
			Signature and Seal of Professional Surveyor:
			
			Certificate Number NM PRS No. 5412

APPLICATION FOR DRILLING

CHI OPERATING, INC.
Mustang Federal, Well No. 4
660' FNL & 990' FEL, Sec. 19-T19S-R33E
Lea County, New Mexico
Lease No.: LC-064790
(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:

Top of Salt	1482'	San Andres	4925'
Base of Salt	2823'	Delaware	5389'
Yates	3076'	Bone Spring	7655'
Seven Rivers	3235'	T.D	7900'
Queen	4165'		

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 Delaware below 5389'.
Gas: None expected.

4. Proposed Casing Program: See Form 3160-3.
5. Proposed Control Equipment: See Form 3160-3 and Exhibit "E".
6. Mud Program: See Form 3160-3.
7. Auxiliary Equipment: Blowout Preventer, gas detector, Kelly cock, pit level monitor, flow sensors and stabbing valve.
8. Testing, Logging, and Coring Program:

Drill Stem Tests: None.
Logging: T.D. to 3100': LDT-CNL, DLL/msfl, GR.
3100' to surface: LDT/GR
Coring: None.
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 = 3200 with a temperature of 140°.
10. H₂S: None expected, but a Drilling Operations Plan, Exhibit "F", is being submitted to cover this contingency.
11. Anticipated starting date: March 15, 1997.
Anticipated completion of drilling operations: Approximately 4 weeks.

B O P & CHOKE MANIFOLD

12"/900 Cameron SS Space Saver
 3000# Working Pressure
 3000# Working Pressure Choke Manifold.

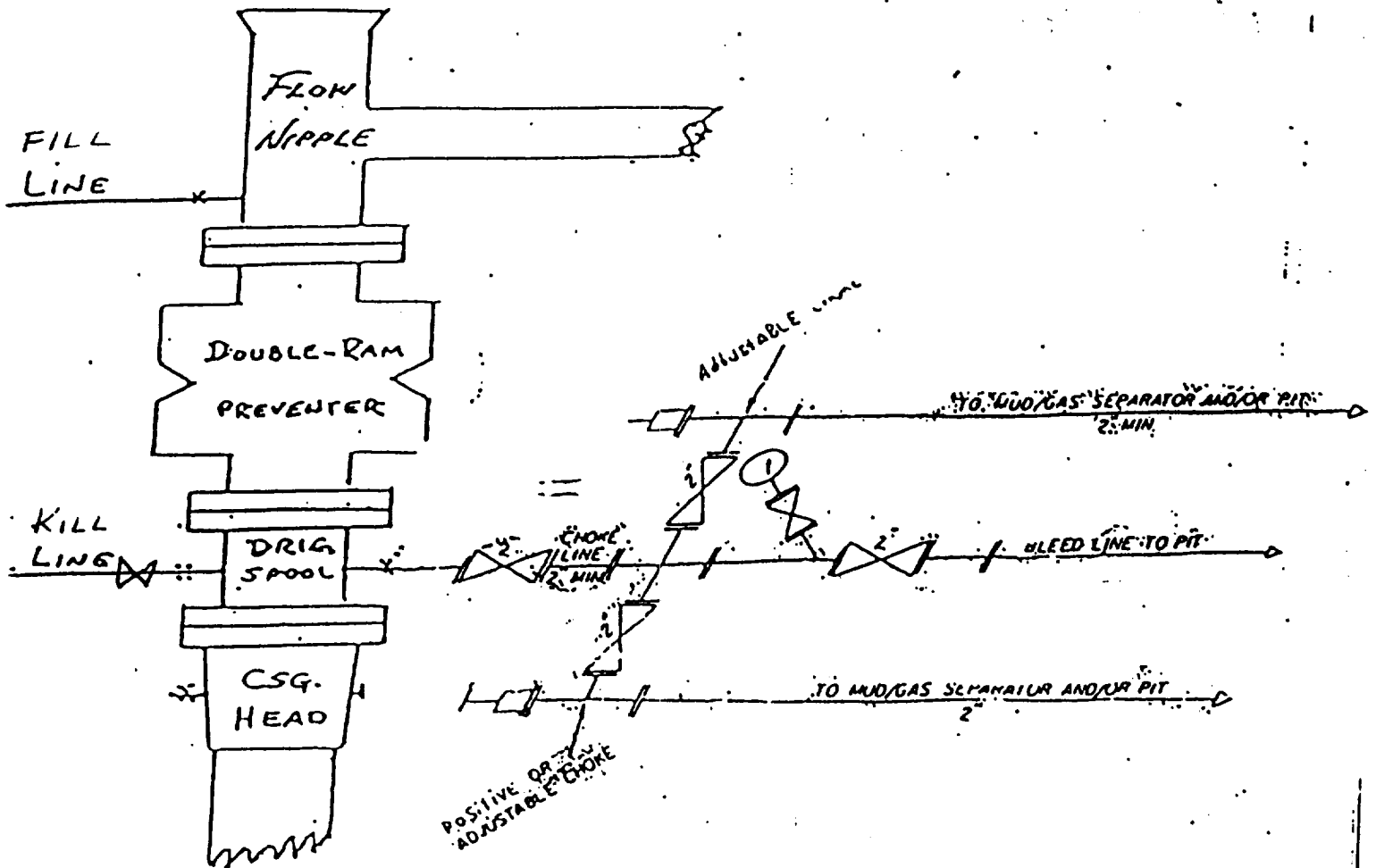


EXHIBIT "E"
 CHI OPERATING, INC.
 Mustang Federal, Well No. 4
 BOP Specifications