

For KCC Use:
 Effective Date: 9-26-06
 District # 4
 SGA? Yes No

KANSAS CORPORATION COMMISSION
 OIL & GAS CONSERVATION DIVISION
NOTICE OF INTENT TO DRILL

Form C-1
 December 2002
Form must be Typed
Form must be Signed
All blanks must be Filled

Must be approved by KCC five (5) days prior to commencing well

Expected Spud Date September 23 2006
 month day year

Spot 140' S & 50' W of East
N/2 NW NE Sec. 23 Twp. 20 S. R. 13 West
470 feet from N / S Line of Section
2030 feet from E / W Line of Section
 Is SECTION Regular Irregular?

OPERATOR: License# 30742 ✓
 Name: Palomino Petroleum, Inc.
 Address: 4924 SE 84th St.
 City/State/Zip: Newton, Kansas 67114-8827
 Contact Person: Klee R. Watchous
 Phone: (316) 799-1000

CONTRACTOR: License# 33350 ✓
 Name: Southwind Drilling, Inc.

Well Drilled For:		Well Class:		Type Equipment:	
<input checked="" type="checkbox"/> Oil	<input type="checkbox"/> Enh Rec	<input type="checkbox"/> Infield	<input checked="" type="checkbox"/> Mud Rotary	<input checked="" type="checkbox"/> Mud Rotary	
<input type="checkbox"/> Gas	<input type="checkbox"/> Storage	<input type="checkbox"/> Pool Ext.	<input type="checkbox"/> Air Rotary	<input type="checkbox"/> Air Rotary	
<input type="checkbox"/> OWD	<input type="checkbox"/> Disposal	<input checked="" type="checkbox"/> Wildcat	<input type="checkbox"/> Cable	<input type="checkbox"/> Cable	
<input type="checkbox"/> Seismic; _____ # of Holes	<input type="checkbox"/> Other				
<input type="checkbox"/> Other					

If OWWO: old well information as follows:
 Operator: _____
 Well Name: _____
 Original Completion Date: _____ Original Total Depth: _____

Directional, Deviated or Horizontal wellbore? Yes No
 If Yes, true vertical depth: _____
 Bottom Hole Location: _____
 KCC DKT #: _____

(Note: Locate well on the Section Plat on reverse side)
 County: Barton
 Lease Name: Lonnon "B" Well #: 1
 Field Name: None (Wildcat)
 Is this a Prorated / Spaced Field? Yes No
 Target Formation(s): LKC, Arbuckle
 Nearest Lease or unit boundary: 470
 Ground Surface Elevation: 1869 feet MSL
 Water well within one-quarter mile: Yes No
 Public water supply well within one mile: Yes No
 Depth to bottom of fresh water: 120
 Depth to bottom of usable water: 250 280
 Surface Pipe by Alternate: 1 2
 Length of Surface Pipe Planned to be set: 320+
 Length of Conductor Pipe required: None
 Projected Total Depth: 3700
 Formation at Total Depth: Arbuckle
 Water Source for Drilling Operations:
 Well Farm Pond Other _____
 DWR Permit #: Contractor will apply
 (Note: Apply for Permit with DWR)
 Will Cores be taken? Yes No
 If Yes, proposed zone: _____

AFFIDAVIT

The undersigned hereby affirms that the drilling, completion and eventual plugging of this well will comply with K.S.A. 55 et. seq. It is agreed that the following minimum requirements will be met:

1. Notify the appropriate district office **prior** to spudding of well;
2. A copy of the approved notice of intent to drill **shall be** posted on each drilling rig;
3. The minimum amount of surface pipe as specified below **shall be set** by circulating cement to the top; in all cases surface pipe **shall be set** through all unconsolidated materials plus a minimum of 20 feet into the underlying formation.
4. If the well is dry hole, an agreement between the operator and the district office on plug length and placement is necessary **prior to plugging**;
5. The appropriate district office will be notified before well is either plugged or production casing is cemented in;
6. If an ALTERNATE II COMPLETION, production pipe shall be cemented from below any usable water to surface within **120 days** of spud date. Or pursuant to Appendix "B" - Eastern Kansas surface casing order #133,891-C, which applies to the KCC District 3 area, alternate II cementing must be completed within 30 days of the spud date or the well shall be plugged. **In all cases, NOTIFY district office** prior to any cementing.

I hereby certify that the statements made herein are true and to the best of my knowledge and belief.
 Date: September 19, 2006 Signature of Operator or Agent: Klee R. Watchous Title: President

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For KCC Use ONLY
 API # 15 - 009-24985-00-00
 Conductor pipe required NONE feet
 Minimum surface pipe required 300 feet per Alt. 1 X
 Approved by: WJM 9-21-06
 This authorization expires: 3-21-07
 (This authorization void if drilling not started within 6 months of effective date.)
 Spud date: _____ Agent: _____

Remember to:
 - File Drill Pit Application (form CDP-1) with Intent to Drill;
 - File Completion Form ACO-1 within 120 days of spud date;
 - File acreage attribution plat according to field proration orders;
 - Notify appropriate district office 48 hours prior to workover or re-entry;
 - Submit plugging report (CP-4) after plugging is completed;
 - Obtain written approval before disposing or injecting salt water.
 - If this permit has expired (See: authorized expiration date) please check the box below and return to the address below.
 Well Not Drilled - Permit Expired
 Signature of Operator or Agent: _____
 Date: _____

Mail to: KCC - Conservation Division, 130 S. Market - Room 2078, Wichita, Kansas 67202

23
 20
 13W

IN ALL CASES PLOT THE INTENDED WELL ON THE PLAT BELOW

Plat of acreage attributable to a well in a prorated or spaced field

If the intended well is in a prorated or spaced field, please fully complete this side of the form. If the intended well is in a prorated or spaced field complete the plat below showing that the well will be properly located in relationship to other wells producing from the common source of supply. Please show all the wells and within 1 mile of the boundaries of the proposed acreage attribution unit for gas wells and within 1/2 mile of the boundaries of the proposed acreage attribution unit for oil wells.

API No. 15 - 009-24985-00-00
 Operator: Palomino Petroleum, Inc.
 Lease: Lonnon "B"
 Well Number: 1
 Field: None (Wildcat)
 Number of Acres attributable to well: _____
 QTR / QTR / QTR of acreage: N/2 - NW - NE

Location of Well: County: Barton
470 feet from N / S Line of Section
2030 feet from E / W Line of Section
 Sec. 23 Twp. 20 S. R. 13 East West

Is Section: Regular or Irregular

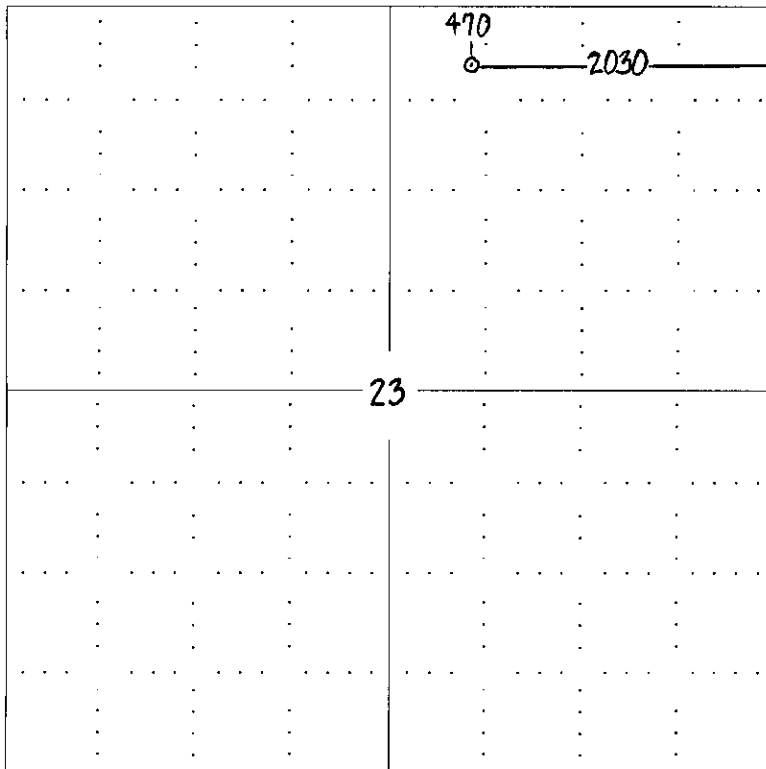
If Section is Irregular, locate well from nearest corner boundary.

Section corner used: NE NW SE SW

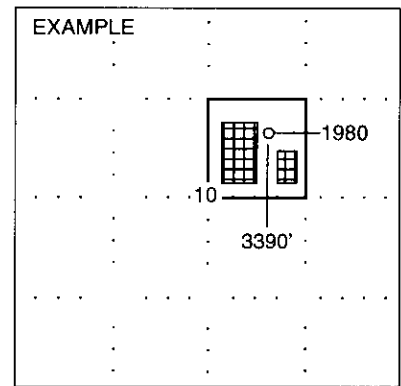
PLAT

(Show location of the well and shade attributable acreage for prorated or spaced wells.)

(Show footage to the nearest lease or unit boundary line.)



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NOTE: In all cases locate the spot of the proposed drilling location.

BARTON CO.

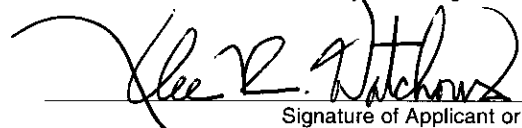
In plotting the proposed location of the well, you must show:

1. The manner in which you are using the depicted plat by identifying section lines, i.e. 1 section, 1 section with 8 surrounding sections, 4 sections, etc.
2. The distance of the proposed drilling location from the section's south / north and east / west.
3. The distance to the nearest lease or unit boundary line.
4. If proposed location is located within a prorated or spaced field a certificate of acreage attribution plat must be attached: (CO-7 for oil wells; CG-8 for gas wells).

**KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION
APPLICATION FOR SURFACE PIT**

Form CDP-1
April 2004
Form must be Typed

Submit in Duplicate

Operator Name: Palomino Petroleum, Inc.		License Number: 30742
Operator Address: 4924 SE 84th St., Newton, Kansas 67114-8827		
Contact Person: Klee R. Watchous		Phone Number: (316) 799 - 1000
Lease Name & Well No.: Lonnon "B" #1		Pit Location (QQQQ):
Type of Pit: <input type="checkbox"/> Emergency Pit <input type="checkbox"/> Burn Pit <input type="checkbox"/> Settling Pit <input checked="" type="checkbox"/> Drilling Pit <input type="checkbox"/> Workover Pit <input type="checkbox"/> Haul-Off Pit <small>(If WP Supply API No. or Year Drilled)</small>	Pit is: 140' S & 50' W of N/2 - NW - NE <input checked="" type="checkbox"/> Proposed <input type="checkbox"/> Existing If Existing, date constructed: _____ Pit capacity: 6800 (bbls)	
Is the pit located in a Sensitive Ground Water Area? <input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No		Sec. 23 Twp. 20S R. 13 <input type="checkbox"/> East <input checked="" type="checkbox"/> West 470 Feet from <input checked="" type="checkbox"/> North / <input type="checkbox"/> South Line of Section 2030 Feet from <input checked="" type="checkbox"/> East / <input checked="" type="checkbox"/> West Line of Section Barton County
Is the bottom below ground level? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Artificial Liner? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Chloride concentration: _____ mg/l <small>(For Emergency Pits and Settling Pits only)</small> How is the pit lined if a plastic liner is not used? Drlg. mud and shale from well bore.
Pit dimensions (all but working pits): 80 Length (feet) 80 Width (feet) N/A: Steel Pits Depth from ground level to deepest point: 3 (feet)		
If the pit is lined give a brief description of the liner material, thickness and installation procedure.		Describe procedures for periodic maintenance and determining liner integrity, including any special monitoring.
Distance to nearest water well within one-mile of pit 756 feet Depth of water well 65 feet		Depth to shallowest fresh water 25 feet. Source of information: KHKG (2) _____ measured _____ well owner _____ electric log _____ KDWR
Emergency, Settling and Burn Pits ONLY: Producing Formation: _____ Number of producing wells on lease: _____ Barrels of fluid produced daily: _____ Does the slope from the tank battery allow all spilled fluids to flow into the pit? <input type="checkbox"/> Yes <input type="checkbox"/> No		Drilling, Workover and Haul-Off Pits ONLY: Type of material utilized in drilling/workover: fresh Number of working pits to be utilized: 2 Abandonment procedure: evaporate and backfill Drill pits must be closed within 365 days of spud date.
I hereby certify that the above statements are true and correct to the best of my knowledge and belief. September 19, 2006  Date Signature of Applicant or Agent		

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KCC WICHITA**

15-007-24985-00-00

KCC OFFICE USE ONLY		RFASNC
Date Received: 9/20/06	Permit Number: _____	Permit Date: 9/20/06 Lease Inspection: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Mail to: KCC - Conservation Division, 130 S. Market - Room 2078, Wichita, Kansas 67202

KANSAS

CORPORATION COMMISSION

KATHLEEN SEBELIUS, GOVERNOR
BRIAN J. MOLINE, CHAIR
ROBERT E. KREHBIEL, COMMISSIONER
MICHAEL C. MOFFET, COMMISSIONER

September 20, 2006

Mr. Klee R. Watchous
Palomino Petroleum, Inc.
4924 SE 84th St.
Newton, KS 67114-8827

Re: Drilling Pit Application
Lonnon B Lease Well No. 1
NE/4 Sec. 23-20S-13W
Barton County, Kansas

Dear Mr. Watchous:

District staff has inspected the above referenced location and has determined that the reserve pit shall be constructed **without slots**, the bottom shall be flat and reasonably level and the free fluids must be removed. The fluids are to be removed from the reserve pit as soon as the Hutchinson Salt section has been drilled through and displacement of the fluids into the reserve pit has occurred. The fluids should be removed again as soon as practical after drilling operations have ceased. **Please keep all pits away from any draws.**

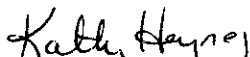
If production casing is set all completion fluids shall be removed from the working pits daily. NO completion fluids or non-exempt wastes shall be placed in the reserve pit.

The fluids should be taken to an authorized disposal well. Please call the District Office at (785) 625-0550 when the fluids have been removed. Please file form CDP-5 (August 2004), Exploration and Production Waste Transfer, within 30 days of fluid removal. Conservation division forms are available through our office and on the KCC web site: www.kcc.state.ks.us/conservation/forms.

A copy of this letter should be posted in the doghouse along with the approved Intent to Drill.

If you have any questions or concerns please feel free to contact the undersigned at the above address.

Sincerely,



Kathy Haynes
Department of Environmental Protection and Remediation

cc: File