

For KCC Use: 530-07  
Effective Date: \_\_\_\_\_  
District # 1  
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 June 19 2007  
month day year

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# 5822  
Name: VAL Energy, Inc.

Well Drilled For:	Well Class:	Type Equipment:
<input checked="" type="checkbox"/> Oil	<input type="checkbox"/> Enh Rec	<input checked="" type="checkbox"/> Mud Rotary
<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Storage	<input type="checkbox"/> Air Rotary
<input type="checkbox"/> OWWO	<input type="checkbox"/> Disposal	<input type="checkbox"/> Cable
<input type="checkbox"/> Seismic; _____ # of Holes	<input checked="" type="checkbox"/> Wildcat	
<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 #: \_\_\_\_\_

Spot 50' S & 140' E of  East  
SW - NW - SW Sec. 2 Twp. 32 S. R. 21  West  
1600 feet from  N /  S Line of Section  
470 feet from  E /  W Line of Section

Is SECTION  Regular  Irregular?  
(Note: Locate well on the Section Plat on reverse side)

County: Clark  
Lease Name: Stephens Well #: 1  
Field Name: Wildcat (None)

Is this a Prorated / Spaced Field?  Yes  No  
Target Formation(s): Morrow

Nearest Lease or unit boundary: 470  
Ground Surface Elevation: 1963 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: 180

Surface Pipe by Alternate:  1  2  
Length of Surface Pipe Planned to be set: 700

Length of Conductor Pipe required: None  
Projected Total Depth: 5500

Formation at Total Depth: Mississippian  
Water Source for Drilling Operations:

Well  Farm Pond  Other \_\_\_\_\_  
DWR Permit #: \_\_\_\_\_

(Note: Apply for Permit with DWR )  
Will Cores be taken?  Yes  No

If Yes, proposed zone: \_\_\_\_\_  
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**AFFIDAVIT**

The undersigned hereby affirms that the drilling, completion and eventual plugging of this well will comply with K.S.A. 55 et seq. **MAY 23 2007**

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: May 23, 2007 Signature of Operator or Agent: Klee R. Watchous Title: President

**For KCC Use ONLY**  
API # 15 - 025-21417-00-00  
Conductor pipe required NONE feet  
Minimum surface pipe required 200 feet per Alt. 1  
Approved by: WHM 5-25-07  
This authorization expires: 11-25-07  
(This authorization void if drilling not started within 6 months of approval 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: \_\_\_\_\_

2  
32  
21

**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 - 025-21417-0000  
Operator: Palomino Petroleum, Inc.  
Lease: Stephens  
Well Number: 1  
Field: Wildcat (None)  
Number of Acres attributable to well: \_\_\_\_\_  
QTR / QTR / QTR of acreage: SW - NW - SW

Location of Well: County: Clark  
1600 feet from  N /  S Line of Section  
470 feet from  E /  W Line of Section  
Sec. 2 Twp. 32 S. R. 21  East  West

Is Section:  Regular or  Irregular

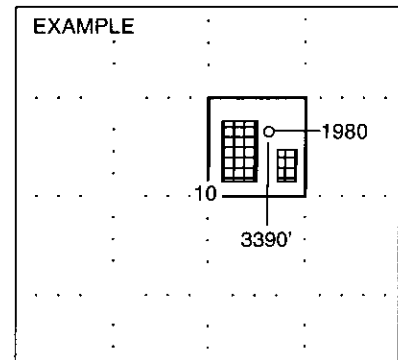
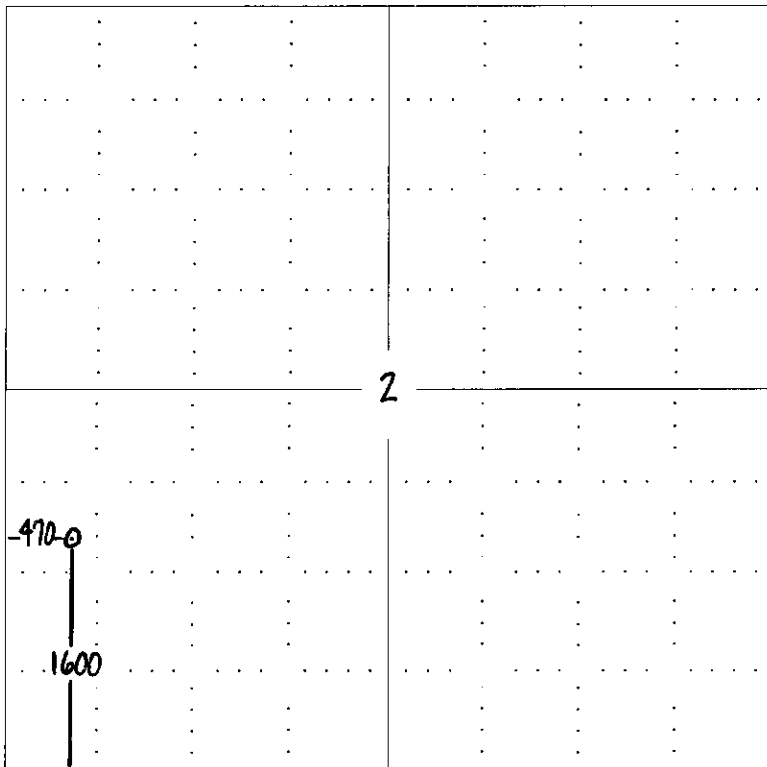
**If Section is Irregular, locate well from nearest corner boundary.**

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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MAY 23 2007

CONSERVATION DIVISION  
WICHITA, KS

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

**CLARK CO.**

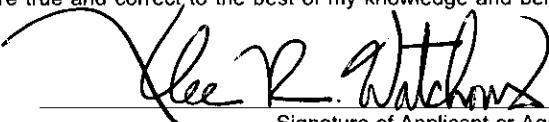
**In plotting the proposed location of the well, you must show:**

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: (C0-7 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: <b>Palomino Petroleum, Inc.</b>		License Number: <b>30742</b>
Operator Address: <b>4924 SE 84th St., Newton, Kansas 67114-8827</b>		
Contact Person: <b>Klee R. Watchous</b>		Phone Number: ( <b>316</b> ) <b>799 - 1000</b>
Lease Name & Well No.: <b>Stephens #1</b>		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: <b>50' S &amp; 140' E</b> of <b>SW NW SW</b> <input checked="" type="checkbox"/> Proposed <input type="checkbox"/> Existing If Existing, date constructed: _____ Pit capacity: <b>6800</b> (bbls)	
		Sec. <b>2</b> Twp. <b>32S</b> R. <b>21</b> <input type="checkbox"/> East <input checked="" type="checkbox"/> West <b>1600</b> Feet from <input type="checkbox"/> North / <input checked="" type="checkbox"/> South Line of Section <b>470</b> Feet from <input type="checkbox"/> East / <input checked="" type="checkbox"/> West Line of Section <b>Clark</b> County
Is the pit located in a Sensitive Ground Water Area? <input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No		Chloride concentration: _____ mg/l <small>(For Emergency Pits and Settling Pits only)</small>
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	How is the pit lined if a plastic liner is not used? <b>Drig. mud and shale from well bore.</b>
Pit dimensions (all but working pits): <b>80</b> Length (feet) <b>80</b> Width (feet) <b>N/A: Steel Pits</b> Depth from ground level to deepest point: <b>3</b> (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 <b>2791</b> feet    Depth of water well <b>58</b> feet		Depth to shallowest fresh water <b>24</b> feet. Source of information: <b>2</b> _____ measured    _____ well owner    _____ electric log    _____ KDWR
<b>Emergency, Settling and Burn Pits ONLY:</b> 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		<b>Drilling, Workover and Haul-Off Pits ONLY:</b> Type of material utilized in drilling/workover: <b>fresh</b> Number of working pits to be utilized: <b>2</b> Abandonment procedure: <b>evaporate and backfill</b> _____ Drill pits must be closed within 365 days of spud date.
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I hereby certify that the above statements are true and correct to the best of my knowledge and belief. <b>KANSAS CORPORATION COMMISSION</b>		
<u>May 23, 2007</u> Date	 Signature of Applicant or Agent	<b>MAY 23 2007</b> CONSERVATION DIVISION WICHITA, KS

**KCC OFFICE USE ONLY**

*KFAJ/C*

Date Received: 5/23/07 Permit Number: \_\_\_\_\_ Permit Date: 5/24/07 Lease Inspection:  Yes  No

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

15-025-21417-00-00



Kathleen Sebelius, Governor  
Brian J. Moline, Chair  
Robert E. Krehbiel, Commissioner  
Michael C. Moffet, Commissioner

May 24, 2007

Klee R Watchous  
Palomino Petroleum, Inc.  
4924 SE 84<sup>th</sup> St  
Newton KS 67114-8827

Re: Drilling Pit Application  
Stephens Lease Well No. 1  
SW 02-32S-21W  
Clark 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.

**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 (620) 225-8888 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: <http://kcc.ks.gov/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,

Jonelle Rains, Supervisor  
Department of Environmental Protection and Remediation

cc: Steve Durrant  
File

15-025-21417-0000