

For KCC Use: 7-31-07
 Effective Date: 7-31-07
 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 July 26, 2007
 month day year

OPERATOR: License# 31725
 Name: Shelby Resources, LLC
 Address: P.O. Box 1213
Hays, Kansas 67601
 City/State/Zip:
 Contact Person: Brian Karlin
 Phone: 785-623-3290

CONTRACTOR: License# 5142
 Name: Sterling Drilling Company

| | | |
|--|-----------------------------------|--|
| 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 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 Approx.
 NE - SW - NE Sec. 16 Twp. 31 S. R. 14 East West
1759' feet from N / S Line of Section
1482' feet from E / W Line of Section
 Is SECTION Regular Irregular?

(Note: Locate well on the Section Plat on reverse side)
 County: Barber
 Lease Name: Jacobs Well #: 2-16
 Field Name: Skinner
 Is this a Prorated / Spaced Field? Yes No
 Target Formation(s): Arbuckle
 Nearest Lease or unit boundary: 1482' FEL
 Ground Surface Elevation: 1622 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: 150'
 Depth to bottom of usable water: 180'
 Surface Pipe by Alternate: 1 2
 Length of Surface Pipe Planned to be set: +/- 1130'
 Length of Conductor Pipe required: +/- 90'
 Projected Total Depth: +/- 4650'
 Formation at Total Depth: Arbuckle
 Water Source for Drilling Operations:
 Well Farm Pond Other _____
 DWR Permit #: 20069103
 (Note: Apply for Permit with DWR)
 Will Cores be taken? Yes No
 If Yes, proposed zone: _____

AFFIDAVIT

RECEIVED

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

JUL 26 2007

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: July 23, 2007 Signature of Operator or Agent: Brian Karlin Title: Operations Manager

For KCC Use ONLY
 API # 15 - 007-23181-0000
 Conductor pipe required None feet
 Minimum surface pipe required 200 feet per Alt. 1
 Approved by: [Signature]
 This authorization expires: 1-26-08
 (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: _____

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

10
31
14W

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 - 007-23181-0000
Operator: Shelby Resources, LLC
Lease: Jacobs
Well Number: 2-16
Field: Skinner
Number of Acres attributable to well: _____
QTR / QTR / QTR of acreage: NE - SW - NE

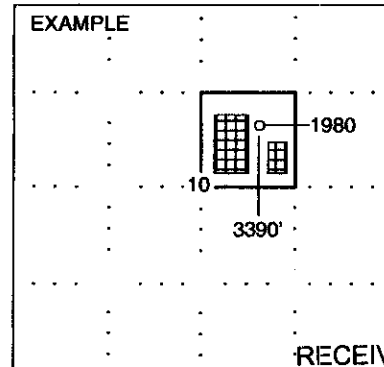
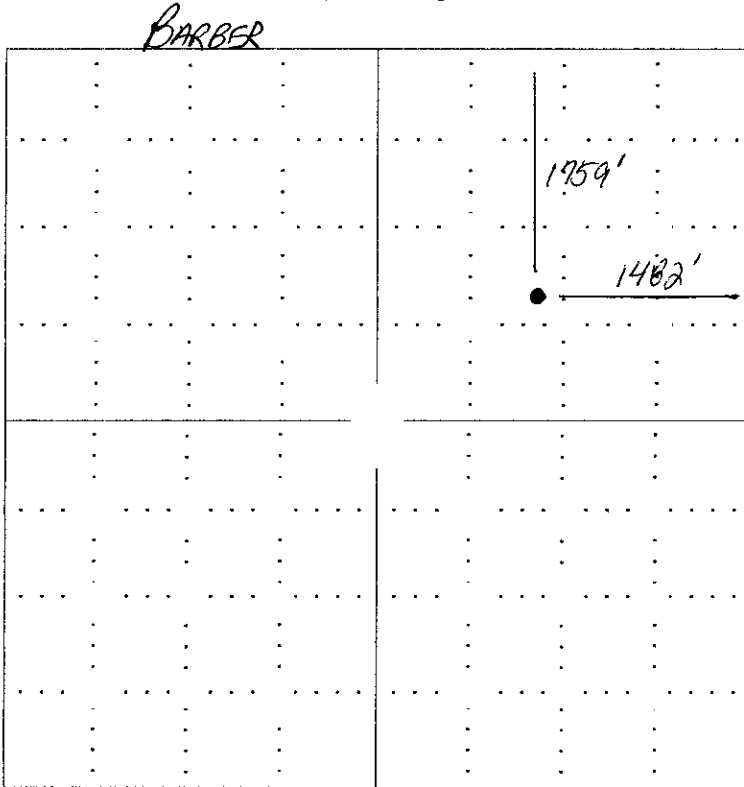
Location of Well: County: Barber
1759' feet from N / S Line of Section
1482' feet from E / W Line of Section
Sec. 16 Twp. 31 S. R. 14 East West

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.)*



RECEIVED
SEWARD CO. KANSAS CORPORATION COMMISSION

JUL 26 2007

CLERK OF COURSE DIVISION
KANSAS

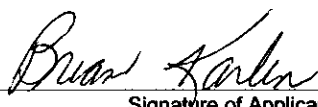
In plotting the proposed location of the well, you must show:

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: Shelby Resources, LLC | | License Number: 31725 |
| Operator Address: P.O. Box 1213, Hays, Kansas 67601 | | |
| Contact Person: Brian Karlin | | Phone Number: (785) 623 - 3290 |
| Lease Name & Well No.: Jacobs #2-16 | | Pit Location (QQQQ): app. NE SW NE |
| 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: <input checked="" type="checkbox"/> Proposed <input type="checkbox"/> Existing If Existing, date constructed: _____ Pit capacity: 3000 (bbis) | Sec. 16 Twp. 31S R. 14 <input type="checkbox"/> East <input checked="" type="checkbox"/> West 1759' Feet from <input checked="" type="checkbox"/> North / <input type="checkbox"/> South Line of Section 1482' Feet from <input checked="" type="checkbox"/> East / <input type="checkbox"/> West Line of Section Barber County |
| Is the pit located in a Sensitive Ground Water Area? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | | Chloride concentration: _____ mg/l <small>(For Emergency Pits and Settling Pits only)</small> |
| Is the bottom below ground level? <input type="checkbox"/> Yes <input checked="" 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? |
| Pit dimensions (all but working pits): 80' Length (feet) 80' Width (feet) N/A: Steel Pits Depth from ground level to deepest point: 4' (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 1392 feet Depth of water well 10 feet | Depth to shallowest fresh water 25' 7 feet. Source of information: _____ measured _____ well owner _____ electric log <input checked="" type="checkbox"/> 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: chemical drilling mud. Number of working pits to be utilized: 3 Abandonment procedure: Evaporation and then 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. <small>KANSAS CORPORATION COMMISSION</small> | | |
| July 23, 2007 Date |  Signature of Applicant or Agent | RECEIVED JUL 26 2007 |
| KCC OFFICE USE ONLY | | |
| Date Received: 7/26/07 Permit Number: _____ | Permit Date: 7/26/07 Lease Inspection: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | <i>Steel Pits</i> |

15-007-23181-0000



*Kathleen Sebelius, Governor
Thomas E. Wright, Chairman
Robert E. Krehbiel, Commissioner
Michael C. Moffet, Commissioner*

July 26, 2007

Mr. Brian Karlin
Shelby Resources, LLC
PO Box 1213
Hays, KS 67601

Re: Drilling Pit Application
Jacobs Lease Well No. 2-16
NE/4 Sec. 16-31S-14W
Barber County, Kansas

Dear Mr. Karlin:

District staff has inspected the location and has determined that an unsealed condition will present a pollution threat to water resources.

District staff has instructed that no earthen pits are to be used at the location. Steel pits are to be used. Please inform the Commission in writing as to which disposal well you will utilize to dispose of the contents in the steel pits and the amount of fluid that will be disposed. **If a haul-off pit is necessary please file, form CDP-1, Application for Surface Pit.** This location will have to be inspected prior to approval of the haul-off pit application.

If fluids are taken to an authorized disposal well, please call the District Office at (620) 225-8888. Please file form CDP-5, 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.

Sincerely,

A handwritten signature in black ink that reads "Kathy Haynes".

Kathy Haynes
Environmental Protection and Remediation Department

Cc: File

**HAUL-OFF PIT APPLICATION
FILING REQUIREMENTS**

82-3-607. DISPOSAL OF DIKE AND PIT CONTENTS.

- (a) Each operator shall perform one of the following when disposing of dike or pit contents:
- (1) Remove the liquid contents to a disposal well or other oil and gas operation approved by the commission or to road maintenance or construction locations approved by the department;
 - (2) dispose of reserve pit waste down the annular space of a well completed according to the alternate I requirements of K.A.R. 82-3-106, if the waste to be disposed of was generated during the drilling and completion of the well; or
 - (3) dispose of the remaining solid contents in any manner required by the commission. The requirements may include any of the following:
 - (A) Burial in place, in accordance with the grading and restoration requirements in K.A.R. 82-3-602 (f);
 - (B) removal and placement of the contents in an on-site disposal area approved by the commission;
 - (C) removal and placement of the contents in an off-site disposal area on acreage owned by the same landowner or to another producing lease or unit operated by the same operator, if prior written permission from the landowner has been obtained; or
 - (D) removal of the contents to a permitted off-site disposal area approved by the department.
- (b) Each violation of this regulation shall be punishable by the following:
- (1) A \$1,000 penalty for the first violation;
 - (2) a \$2,500 penalty for the second violation; and
 - (3) a \$5,000 penalty and an operator license review for the third violation.

Complete and return with Haul-Off Pit Application, Form CDP1(2004)

Haul-off pit will be located in an on-site disposal area: Yes No

Haul-off pit is located in an off-site disposal area on acreage owned by the same landowner: Yes
No If yes, written permission from the land owner must be obtained. Attach written permission to haul-off pit application.

Haul-off pit is located in an off-site disposal area on another **producing** lease or unit operated by the same operator: Yes No If yes, written permission from the land owner must be obtained. Attach permission and a copy of the lease assignment that covers the acreage where the haul-off pit is to be located, to the haul-off pit application.