

For KCC Use: 9-16-07
 Effective Date: 9-16-07
 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 September 17 2007
 month day year

Spot 230' N & 80' W of East
N/2 N/2 NW Sec. 24 Twp. 17 S. R. 26 West
100 feet from N / S Line of Section
1240 feet from E / W Line of Section

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

Is SECTION Regular Irregular?

(Note: Locate well on the Section Plat on reverse side)

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

County: Ness
 Lease Name: Norton-Klement Well #: 1
 Field Name: Lazy 17

Is this a Prorated / Spaced Field? Yes No

Target Formation(s): Mississippian

Nearest Lease or unit boundary: 330 + (unit)

Ground Surface Elevation: 2463 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: 50-100

Depth to bottom of usable water: 1140

Surface Pipe by Alternate: 1 2

Length of Surface Pipe Planned to be set: 200+

Length of Conductor Pipe required: None

Projected Total Depth: 4500

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: _____

Well Drilled For:	Well Class:	Type Equipment:
<input checked="" type="checkbox"/> Oil <input type="checkbox"/> Enh Rec	<input checked="" type="checkbox"/> Infield	<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"/> OWWO <input type="checkbox"/> Disposal	<input type="checkbox"/> Wildcat	<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 #: _____

AFFIDAVIT

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

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. **SEP 06 2007**
CONSERVATION DIVISION
WICHITA, KS
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 5, 2007 Signature of Operator or Agent: Klee R. Watchous Title: President

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: _____

For KCC Use ONLY	
API # 15 - <u>135-24702-00-00</u>	
Conductor pipe required <u>None</u> feet	
Minimum surface pipe required <u>200</u> feet per Alt. X 2	
Approved by: <u>SB 9-11-07</u>	
This authorization expires: <u>3-11-08</u>	
(This authorization void if drilling not started within 6 months of effective date.)	
Spud date: _____	Agent: _____

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

24
17
26W

IN ALL CASES PLOT THE INTENDED WELL ON THE PLAT BELOW

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

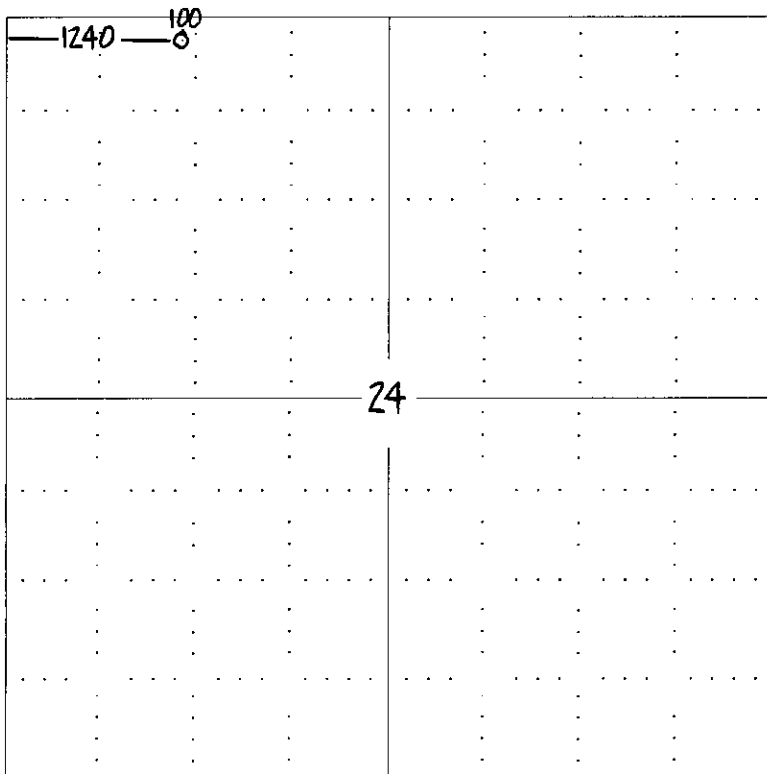
If the intended well is in a prorated or spaced field, please fully complete this side of the form. If the intended well is in a prorated or spaced field complete the plat below showing that the well will be properly located in relationship to other wells producing from the common source of supply. Please 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 - 135-24702-00-00
 Operator: Palomino Petroleum, Inc.
 Lease: Norton-Klement
 Well Number: 1
 Field: Lazy 17
 Number of Acres attributable to well: _____
 QTR / QTR / QTR of acreage: N/2 - N/2 - NW

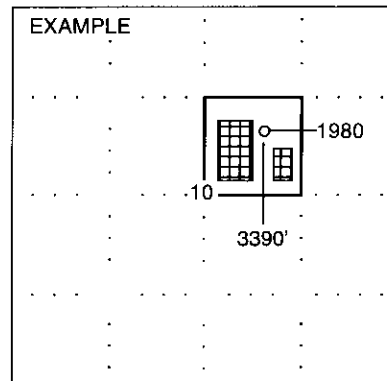
Location of Well: County: Ness
100 feet from N / S Line of Section
1240 feet from E / W Line of Section
 Sec. 24 Twp. 17 S. R. 26 East West
 Is Section: Regular or Irregular
If Section is Irregular, locate well from nearest corner boundary.
 Section corner used: NE NW SE SW

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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 KANSAS CORPORATION COMMISSION
 SEP 06 2007
 CONSERVATION DIVISION
 WICHITA, KS



SEWARD CO.

**NOTE: In all cases locate the spot of the proposed drilling locaton.
 NESS 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.: Norton-Klement #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: 230' N & 80' W of N/2 - N/2 - NW - <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. 24 Twp. 17S R. 26 <input type="checkbox"/> East <input checked="" type="checkbox"/> West 100 Feet from <input checked="" type="checkbox"/> North / <input type="checkbox"/> South Line of Section 1240 Feet from <input type="checkbox"/> East / <input checked="" type="checkbox"/> West Line of Section Ness County
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.
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
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 determine liner integrity, including any special monitoring.
		RECEIVED KANSAS CORPORATION COMMISSION SEP 05 2007 CONSERVATION DIVISION WICHITA, KS
Distance to nearest water well within one-mile of pit 3262 feet Depth of water well 40 feet		Depth to shallowest fresh water 17 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: 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 5, 2007 Date		 Signature of Applicant or Agent

15-135-29702-00-00

KCC OFFICE USE ONLY		RFAS4C
Date Received: 9/6/07	Permit Number: _____	Permit Date: 9/10/07 Lease Inspection: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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



*Kathleen Sebelius, Governor
Thomas E. Wright, Chairman
Michael C. Moffet, Commissioner
Joseph F. Harkins, Commissioner*

September 10, 2007

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

RE: Drilling Pit Application
Norton-Klement Lease Well No. 1
NW/4 Sec. 24-17S-26W
Ness 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: 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

15-135-24702-00-00