NOTICE OF INTENT TO DRILL

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

For KCC Use:
Expected Spud Date: November 15, 2004

OPERATOR:
License#: 30742
Name: Palominio 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#: 33530
Name: Southwind Drilling, Inc.

Well Drilled For:
- ✅ Oil
- ✅ Gas
- ✅ Storage
- ✅ Disposal
- ✅ Seismic
- ✅ Other

Well Class:
- ✅ Infield
- ✅ Pool Ext.
- ✅ Wildcat
- ✅ Cable

Type Equipment:
- ✅ Mud Rotary
- ✅ Air Rotary

Spot:
- 40° S & 50° E of
- E/2 . SW . SW
- Sec. 7
- Twp. 19 N
- S. R. 23 E

East: 620 feet from
West: 1040 feet from

Is SECTION Regular: ✅ Yes   ❌ No

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

County: Ness
Lease Name: None (Wildcat)

Is this a Prorated / Spaced Field?
- ✅ Yes
- ❌ No

Target Formation(s):
- Cherokee Sand

Nearest Lease or unit boundary:
- 620 feet

Ground Surface Elevation: 2230 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:
- 180 feet

Depth to bottom of usable water:
- 750 feet

Surface Pipe by Alternate:
- ✅ 1
- ❌ 2

Length of Surface Pipe Planned to be set:
- 200+

Length of Conductor Pipe required:
- None

Projected Total Depth:
- 4300 feet

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:

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 is the best of my knowledge and belief.

Date: October 26, 2004
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: Yee R. Watchous
Date:

Mail to: KCC - Conservation Division, 130 S. Market - Room 2078, Wichita, Kansas 67202
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: ____________________________
Operator: Palomino Petroleum, Inc.
Lease: ____________________________
Well Number: 1
Field: None (Wildcat)

Number of Acres attributable to well: ________________
QTR / QTR / QTR of acreage: E/2. SW. SW

Location of Well: County: ____________________________
Ness
620 feet from N / S Line of Section
1040 feet from E / W Line of Section
Sec. 7 Twp. 19 S. R. 23
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.)

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

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: (CG-7 for oil wells; CG-8 for gas wells).
November 1, 2004

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

RE: Drilling Pit Application
Stum Lease Well No. 1
SW/4 Sec. 07-19S-23W
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 practical after drilling operations have ceased.

If production casing is set all completion fluids shall be removed on a daily basis.

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. Also, please file the enclosed CDP-5 form, Surface Pond Waste Transfer, within 30 days of fluid removal.

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
Environmental Protection and Remediation Department

cc: S Durrant