NOTICE OF INTENT TO DRILL

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

Date: 5 March 2005

KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

Expected Spud Date: March 5, 2005

OPERATOR: License No. 30240
Name: Palermo Petroleum, Inc.
Address: Newton, Kansas 67114-8827
Contact Person: Kilee R. Washburn
Phone: (316) 788-1000

CONTRACTOR: License No. 51542
Name: Sterling Drilling Company

Type of Equipment:
- Drill Rig: Yes
- Mud Rotary: Yes
- Air Rotary: No
- Cable: No
- Other: No

Wildcat: Yes

Well Name: Sterling

Original Completion Date: Original Total Depth:

Directional, Deviated or Horizontal well? Yes

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. as it read today.

1. Notifying the appropriate district office prior to spudding well
2. A copy of the approved notice of intent to drill shall be posted on each drilling rig
3. The maximum amount of surface pipe as specified below shall be set by circulating cement to the top in all cavity surface protection not through all unconsolidated materials plus a minimum of 20 feet into the underlying formation
4. If the well is a dry hole, an agreement between the operator and the district office on plug length and plugging is necessary prior to plugging
5. The appropriate district office will be notified before well is either plugged or production is being commenced.
6. If an Alternate II Completion, production pipe shall be cemented from below any usable water to surface within 120 days of spud date.

I hereby certify that the statements made herein are true to the best of my knowledge.

Signature: [Signature]
Date: February 14, 2005

For KCC Use Only

API 4-15
Conductor pipe required: None
Minimum surface pipe required: 300 feet per An 95
Approved by: [Signature]
This authorization expires: [Date]
Spud Date: [Date]

Mail to: KCC - Conservation Division, 130 S. Markets - Room 2078, Wichita, Kansas 67202
IN ALL CASES PLOT THE INTENDED WELL ON THE PLAT BELOW
Pil 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 addition unit for gas wells and within 1/4 mile of the boundaries of the proposed acreage addition unit for oil wells.

API No. 15 -
Operator: Palomino Petroleum, Inc.
Lease: Alpers
Well Number: 1
Field: Kenworth

Number of Acres attributable to well:
QTR / QTR / QTR of acreage: NE - NE

Location of Well: County: Stafford
740 feet from E Line of Section
310 feet from S Line of Section
Sec: 21, Twp: 22, R: 12

Is Section: Regular or Irregular

If Section is Irregular, locate well from nearest corner boundary.
Section corner used: NE NW SE SW

PLAN
(Show location of the well and shade attributable acreage for prorated or spaced wells.)
(Show location to the nearest quarter or unit boundary line.)

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

STAFFORD 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).
February 14, 2005

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

RE: Drilling Pit Application
Apers Lease Well No. 1
NE/4 Sec. 21-22S-13W
Stafford 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 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 Durant