For KCC Use:
Effective Date: 10/31/2011
District # 1
SGA? [X] Yes [ ] No

KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

1066048

Form C-1
March 2010
Form must be Typed
Form must be Signed
All blanks must be Filled

NOTICE OF INTENT TO DRILL

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

Form KSONA-1, Certification of Compliance with the Kansas Surface Owner Notification Act, MUST be submitted with this form.

Expected Spud Date: 10/31/2011 (month / day / year)

OPERATOR: License# 30742
Name: Palomino Petroleum, Inc.
Address 1: 4924 SE 84TH ST
Address 2:
City: NEWTON State: KS Zip: 67114 + 8827
Contact Person: Klee R. Watchous
Phone: 316-799-1000

CONTRACTOR: License# 32701
Name: C & G Drilling, Inc.

Well Drilled For:	Well Class:	Type Equipment:
[X] Oil	[ ] Infield	[X] Mud Rotary
[ ] Gas	[X] Pool Ext.	[ ] Air Rotary
[ ] Enh Rec	[ ] Wildcat	[ ] Cable
[ ] Storage	[ ] Other	
[ ] Disposal		
[ ] Seismic ; ____ # of Holes		
[ ] Other:		

[ ] If OWWO: old well information as follows:

Operator:
Well Name:
Original Completion Date: ____ Original Total Depth: ____

Directional, Deviated or Horizontal wellbore? [ ] Yes [X] No
If Yes, true vertical depth:
Bottom Hole Location:
KCC DKT #:

Spot Description:
NW (Q/Q/Q/Q) - NW - SE - NW Sec. 31 Twp. 18 S. R. 23 [ ] E [X] W
1585 feet from [X] N / [ ] S Line of Section
1391 feet from [ ] E / [X] W Line of Section
Is SECTION: [X] Regular [ ] Irregular?

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

County: Ness
Lease Name: Parkerson-Kerr Well #: 1
Field Name: Ness City SE
Is this a Prorated / Spaced Field? [ ] Yes [X] No
Target Formation(s): Mississippian
Nearest Lease or unit boundary line (in footage): 335
Ground Surface Elevation: 2225 Surveyed Surveyed feet MSL
Water well within one-quarter mile: [ ] Yes [X] No
Public water supply well within one mile: [X] Yes [ ] No
Depth to bottom of fresh water: 180
Depth to bottom of usable water: 720
Surface Pipe by Alternate: [ ] I [X] II
Length of Surface Pipe Planned to be set: 200
Length of Conductor Pipe (if any): 0
Projected Total Depth: 4400
Formation at Total Depth: Mississippian
Water Source for Drilling Operations:
[ ] Well [X] Farm Pond [ ] Other:
DWR Permit #:
*(**Note:** Apply for Permit with DWR [ ])*
Will Cores be taken? [ ] Yes [X] 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.

Submitted Electronically

For KCC Use ONLY
API # 15 - 15-135-25312-00-00
Conductor pipe required 0 feet
Minimum surface pipe required 200 feet per ALT. [ ] I [X] II
Approved by: Rick Hestermann 10/26/2011
This authorization expires: 10/26/2012
(This authorization void if drilling not started within 12 months of approval date.)

Spud date: ____ Agent: ____

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

Remember to:

- File Certification of Compliance with the Kansas Surface Owner Notification Act (KSONA-1) with Intent to Drill;
- 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 (within 60 days);
- Obtain written approval before disposing or injecting salt water.
- If well will not be drilled or permit has expired (See: authorized expiration date) please check the box below and return to the address below.

[ ] **Well will not be drilled or Permit Expired** Date: ____
Signature of Operator or Agent:

31 18 23 [ ] E [X] W

Side Two

1066048

For KCC Use ONLY
API # 15 - 15-135-25312-00-00

IN ALL CASES PLOT THE INTENDED WELL ON THE PLAT BELOW

In all cases, please fully complete this side of the form. Include items 1 through 5 at the bottom of this page.

Operator: Palomino Petroleum, Inc.
Lease: Parkerson-Kerr
Well Number: 1
Field: Ness City SE

Number of Acres attributable to well: ____
QTR/QTR/QTR/QTR of acreage: NW - NW - SE - NW

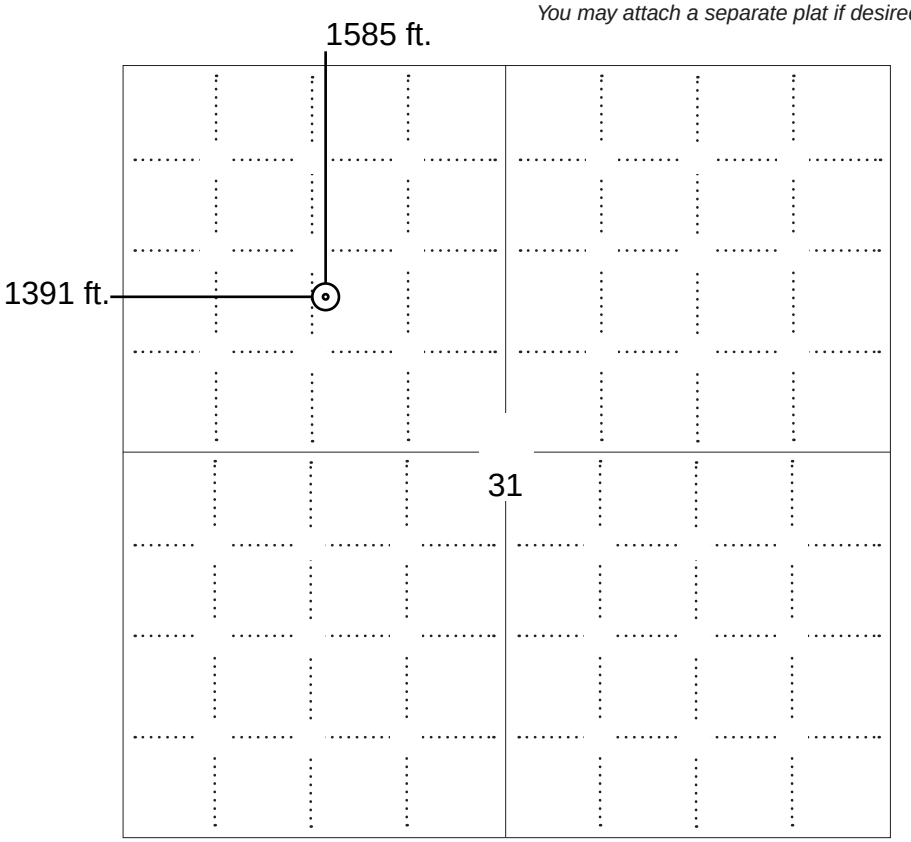
Location of Well: County: Ness
1585 feet from [X] N / [ ] S Line of Section
1391 feet from [ ] E / [X] W Line of Section
Sec. 31 Twp. 18 S. R. 23 [ ] E [X] W

Is Section: [X] Regular or [ ] Irregular

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

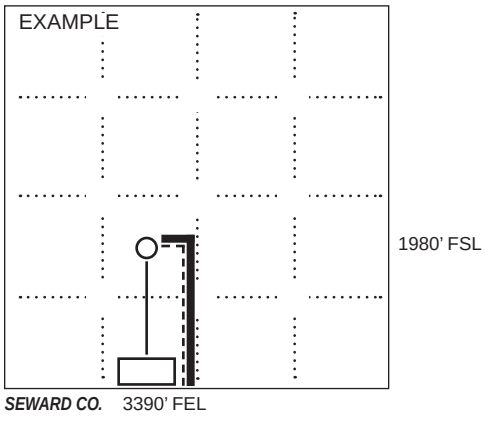
PLAT

Show location of the well. Show footage to the nearest lease or unit boundary line. Show the predicted locations of lease roads, tank batteries, pipelines and electrical lines, as required by the Kansas Surface Owner Notice Act (House Bill 2032). You may attach a separate plat if desired.



LEGEND

- Well Location
- Tank Battery Location
- Pipeline Location
- Electric Line Location
- Lease Road Location



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

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 south / north and east / west outside section lines.
3. The distance to the nearest lease or unit boundary line (in footage).
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).
5. The predicted locations of lease roads, tank batteries, pipelines, and electrical lines.

1066048

KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

Form CDP-1
May 2010
Form must be Typed

APPLICATION FOR SURFACE PIT

Submit in Duplicate

Operator Name: Palomino Petroleum, Inc.
License Number: 30742

Operator Address: 4924 SE 84TH ST NEWTON KS 67114

Contact Person: Klee R. Watchous
Phone Number: 316-799-1000

Lease Name & Well No.: Parkerson-Kerr 1

Pit Location (QQQQ): NW - NW - SE - NW

Sec. 31 Twp. 18 R. 23 ☐ East ☒ West

1585 Feet from ☒ North / ☐ South Line of Section

1391 Feet from ☐ East / ☒ West Line of Section

Ness County

Type of Pit:
☐ Emergency Pit ☐ Burn Pit
☐ Settling Pit ☒ Drilling Pit
☐ Workover Pit ☐ Haul-Off Pit
(If WP Supply API No. or Year Drilled)

Pit is:
☒ Proposed ☐ Existing
If Existing, date constructed:

Pit capacity: 6800 (bbls)

Is the pit located in a Sensitive Ground Water Area? ☒ Yes ☐ No

Chloride concentration: _____ mg/l
(For Emergency Pits and Settling Pits only)

Is the bottom below ground level? ☒ Yes ☐ No

Artificial Liner? ☐ Yes ☒ No

How is the pit lined if a plastic liner is not used?
Drilling mud and shale from well bore

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) ☐ No Pit

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:
1582 feet Depth of water well 85 feet

Depth to shallowest fresh water 22 feet.
Source of information:
☐ measured ☐ well owner ☐ electric log ☒ 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? ☐ Yes ☐ 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.

Submitted Electronically

KCC OFFICE USE ONLY

☐ Liner ☐ Steel Pit ☒ RFAC ☐ RFAS

Date Received: 10/25/2011 Permit Number: 15-135-25312-00-00 Permit Date: 10/26/2011 Lease Inspection: ☒ Yes ☐ No

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

KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

1066048

Form KSONA-1
July 2010
Form Must Be Typed
Form must be Signed
All blanks must be Filled

CERTIFICATION OF COMPLIANCE WITH THE KANSAS SURFACE OWNER NOTIFICATION ACT

This form must be submitted with all Forms C-1 (Notice of Intent to Drill); CB-1 (Cathodic Protection Borehole Intent); T-1 (Request for Change of Operator Transfer of Injection or Surface Pit Permit); and CP-1 (Well Plugging Application). Any such form submitted without an accompanying Form KSONA-1 will be returned.

Select the corresponding form being filed: ☒ **C-1** (Intent) ☐ **CB-1** (Cathodic Protection Borehole Intent) ☐ **T-1** (Transfer) ☐ **CP-1** (Plugging Application)

OPERATOR: License # 30742
Name: Palomino Petroleum, Inc.
Address 1: 4924 SE 84TH ST
Address 2:
City: NEWTON State: KS Zip: 67114 + 8827
Contact Person: Klee R. Watchous
Phone: (316) 799-1000 Fax: (316) 799-2728
Email Address: klee@ppiks.com

Well Location:
NW - NW - SE - NW Sec. 31 Twp. 18 S. R. 23 ☐ East ☒ West
County: Ness
Lease Name: Parkerson-Kerr Well #: 1

If filing a Form T-1 for multiple wells on a lease, enter the legal description of the lease below:

Surface Owner Information:
Name: Jo Parkerson and Keith Parkerson, Trustees
Address 1: 17741 130th Rd.
Address 2:
City: Ness City State: KS Zip: 67560 + _ _ _ _

When filing a Form T-1 involving multiple surface owners, attach an additional sheet listing all of the information to the left for each surface owner. Surface owner information can be found in the records of the register of deeds for the county, and in the real estate property tax records of the county treasurer.

If this form is being submitted with a Form C-1 (Intent) or CB-1 (Cathodic Protection Borehole Intent), you must supply the surface owners and the KCC with a plat showing the predicted locations of lease roads, tank batteries, pipelines, and electrical lines. The locations shown on the plat are preliminary non-binding estimates. The locations may be entered on the Form C-1 plat, Form CB-1 plat, or a separate plat may be submitted.

Select one of the following:

☒ I certify that, pursuant to the Kansas Surface Owner Notice Act (House Bill 2032), I have provided the following to the surface owner(s) of the land upon which the subject well is or will be located: 1) a copy of the Form C-1, Form CB-1, Form T-1, or Form CP-1 that I am filing in connection with this form; 2) if the form being filed is a Form C-1 or Form CB-1, the plat(s) required by this form; and 3) my operator name, address, phone number, fax, and email address.

☐ I have not provided this information to the surface owner(s). I acknowledge that, because I have not provided this information, the KCC will be required to send this information to the surface owner(s). To mitigate the additional cost of the KCC performing this task, I acknowledge that I am being charged a $30.00 handling fee, payable to the KCC, which is enclosed with this form.

If choosing the second option, submit payment of the $30.00 handling fee with this form. If the fee is not received with this form, the KSONA-1 form and the associated Form C-1, Form CB-1, Form T-1, or Form CP-1 will be returned.

Submitted Electronically

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

Pro-Stake LLC

Oil Field & Construction Site Staking

P.O. Box 2324
Garden City, Kansas 67846
Office/Fax: (620) 276-6159
Cell: (620) 272-1499

e102311m
PLAT NO.

9627
INVOICE NO.

Palomino Petroleum
OPERATOR

#1 Parkerson-Kerr
LEASE NAME

Ness Co, Ks
COUNTY

31	18s	23w
Sec.	Twp.	Rng.

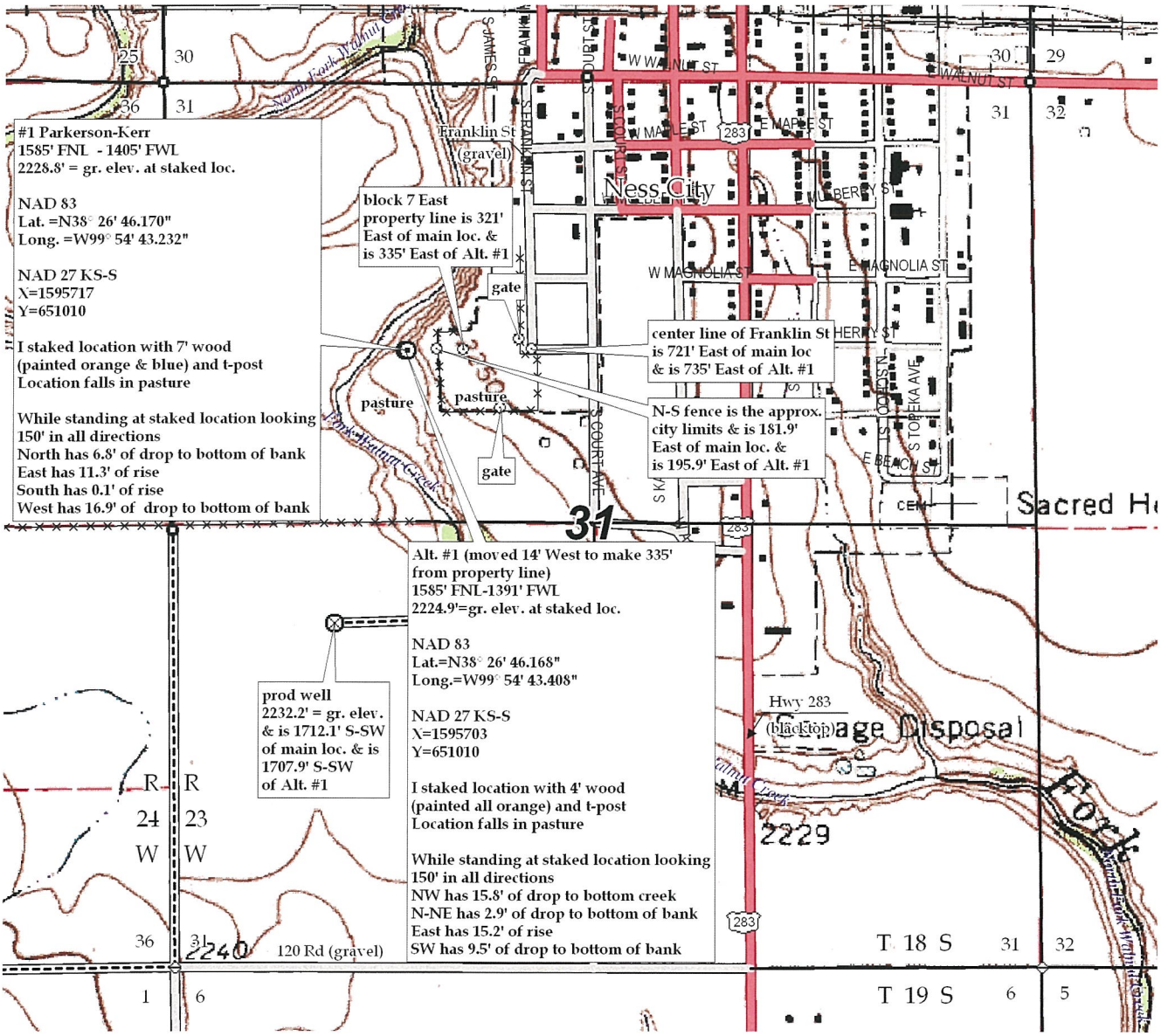
Main loc. 1585' FNL-1405'FWL - 2228.8'= gr.elev.
Alt. #1 1585'FNL-1391'FWL – 2224.9'=gr.elev.
LOCATION SPOT

SCALE: 1" =1000'
DATE STAKED: Oct. 21st, 2011
MEASURED BY: Ben R.
DRAWN BY: Luke R
AUTHORIZED BY: Klee W. & Nick G.

This drawing does not constitute a monumented survey or a land survey plat.
This drawing is for construction purposes only.

N

Directions: From the center of Ness City Ks at the intersection of Hwy 283- Hwy 96 – Now go 0.2 mile West on Hwy 96 – Now go 0.5 mile South on Franklin St – Now go 735' West through pasture into main staked location.
Final ingress must be verified with land owner or Operator.



Pro-Stake LLC

Oil Field & Construction Site Staking

P.O. Box 2324
Garden City, Kansas 67846
Office/Fax: (620) 276-6159
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e102311m
PLAT NO.

9627
INVOICE NO.

Palomino Petroleum
OPERATOR

#1 Parkerson-Kerr
LEASE NAME

Ness Co, Ks
COUNTY

31 Sec. **18s** Twp. **23w** Rng.

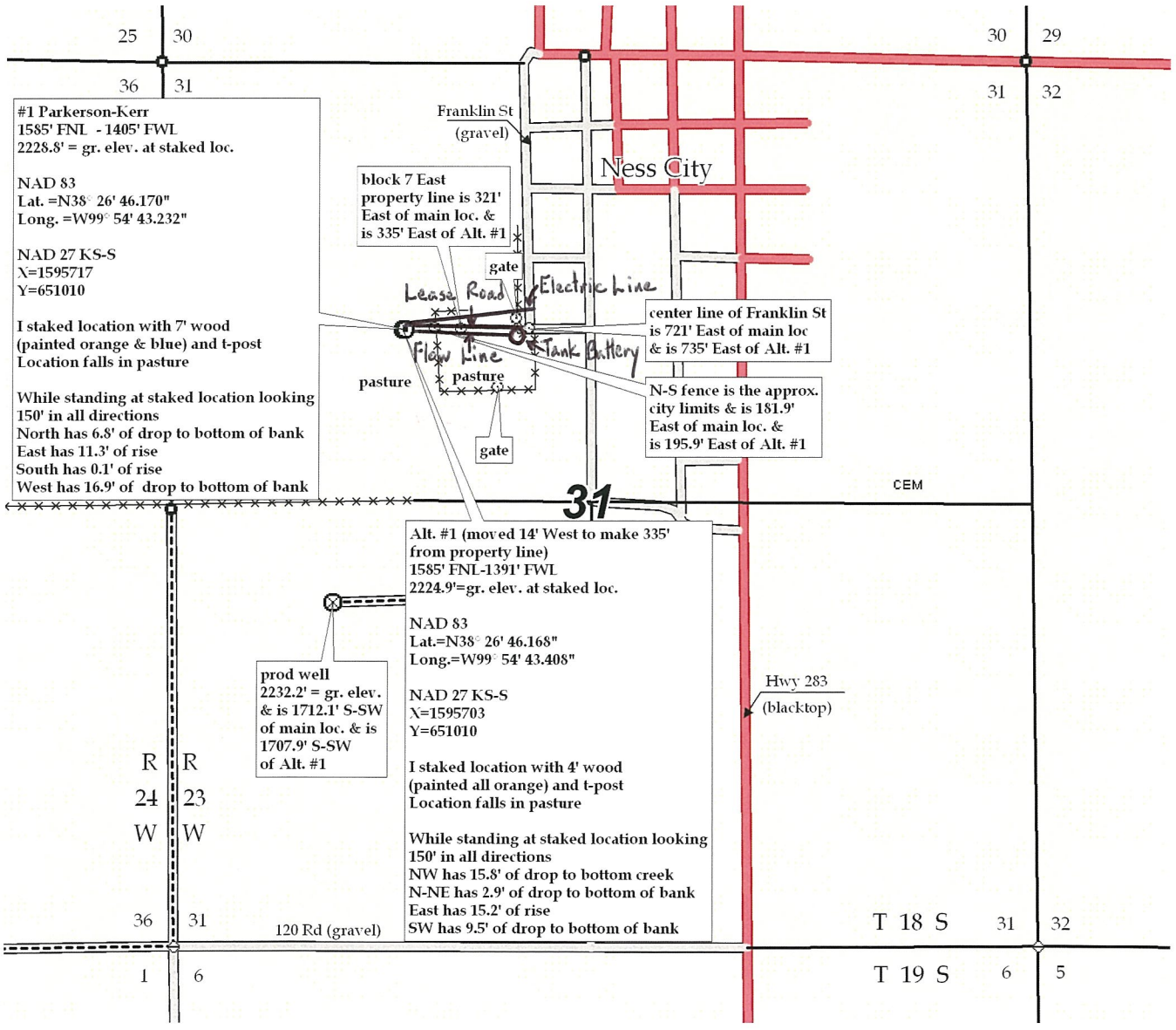
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Final ingress must be verified with land owner or Operator.



FORM 88 — (PRODUCER'S SPECIAL) (PAID-UP)

63U (Rev. 1993)

Reorder No. 09-115

Kansas Blue Print
700 S. Broadway PO Box 793
Wichita, KS 67201-0793
316-264-9344 · 264-5165 fax
www.kbp.com · kbp@kbp.com

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 11th day of November 2009,

by and between Jo Parkerson, Trustee of the Jo Parkerson Revocable Living Trust dated 7-25-2008
Keith Parkerson, Trustee of the Keith Parkerson Revocable Living Trust dated 7-25-2008

whose mailing address is Ness City, Kansas 67560 hereinafter called Lessor (whether one or more),

and Palomino Petroleum Inc.

, hereinafter caller Lessee:

Lessor, in consideration of One and More Dollars ($ One (1.00)) in hand paid, receipt of which is here acknowledged and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring by geophysical and other means, prospecting drilling, mining and operating for and producing oil, liquid hydrocarbons, all gases, and their respective constituent products, injecting gas, water, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, power stations, telephone lines, and other structures and things thereon to produce, save, take care of, treat, manufacture, process, store and transport said oil, liquid hydrocarbons, gases and their respective constituent products and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land, together with any reversionary rights and after-acquired interest, therein situated in County of Ness State of Kansas described as follows to-wit:

Township 18 South, Range 23 West

Section 30: A tract - see Description Rider attached
Section 31: A tract - See Description Rider attached

In Section _____, Township _____, Range _____, and containing ~~KP~~ 120 acres, more or less, and all accretions thereto.

Subject to the provisions herein contained, this lease shall remain in force for a term of ~~One (1)~~ Two (2) years from this date (called "primary term"). and as long thereafter as oil, liquid hydrocarbons, gas or other respective constituent products, or any of them, is produced from said land or land with which said land is pooled.

In consideration of the premises the said lessee covenants and agrees:

1st. To deliver to the credit of lessor, free of cost, in the pipe line to which lessee may connect wells on said land, the equal one-eighth (⅛) part of all oil produced and saved from the leased premises.

2nd. To pay lessor for gas of whatsoever nature or kind produced and sold, or used off the premises, or used in the manufacture of any products therefrom, one-eighth (⅛), at the market price at the well, (but, as to gas sold by lessee, in no event more than one-eighth (⅛) of the proceeds received by lessee from such sales), for the gas sold, used off the premises, or in the manufacture of products therefrom, said payments to be made monthly. Where gas from a well producing gas only is not sold or used, lessee may pay or tender as royalty One Dollar ($1.00) per year per net mineral acre retained hereunder, and if such payment or tender is made it will be considered that gas is being produced within the meaning of the preceding paragraph.

This lease may be maintained during the primary term hereof without further payment or drilling operations. If the lessee shall commence to drill a well within the term of this lease or any extension thereof, the lessee shall have the right to drill such well to completion with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided for shall be paid the said lessor only in the proportion which lessor's interest bears to the whole and undivided fee.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for lessee's operation thereon, except water from the wells of lessor.

When requested by lessor, lessee shall bury lessee's pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of lessor.

Lessee shall pay for damages caused by lessee's operations to growing crops on said land.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

Lessee may at any time execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor, by payment any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof, and the undersigned lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, in so far as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof with other land, lease or leases in the immediate vicinity thereof, when in lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said lease premises so as to promote the conservation of oil, gas or other minerals in and under and that may be produced from said premises, such pooling to be of tracts contiguous to one another and to be into a unit or units not exceeding 40 acres each in the event of an oil well, or into a unit or units not exceeding 640 acres each in the event of a gas well. Lessee shall execute in writing and record in the conveyance records of the county in which the land herein leased is situated an instrument identifying and describing the pooled acreage. The entire acreage so pooled into a tract or unit shall be treated, for all purposes except the payment of royalties on production from the pooled unit, as if it were included in this lease. If production is found on the pooled acreage, it shall be treated as if production is had from this lease, whether the well or wells be located on the premises covered by this lease or not. In lieu of the royalties elsewhere herein specified, lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein on an acreage basis bears to the total acreage so pooled in the particular unit involved.

See RIDER attached hereto and made a part hereof.

REGISTER OF DEEDS SEAL

IN WITNESS WHEREOF, the undersigned execute this instrument as of the day and year first above written.

Witnesses:

Jo Parkerson, Trustee

Jo Parkerson, Trustee

Keith Parkerson, Trustee

Trust ID:

Trust ID:

State of Kansas - Ness County
Book: 328 Page: 227
Receipt #: 6194 Recording Fee: $20.00
Pages Recorded: 4
Cashier Initials: MH

Description Rider

A 115 acre tract in the Northwest Quarter (NW/4) of Section Thirty-one (31), Township Eighteen (18) South, Range Twenty-three (23) West of the 6th P.M., more particularly described as follows: Beginning at the SW corner of said NW/4; thence North along the West line of said section to the NW corner of said quarter section; thence East on the North line of said section a distance of 1600 feet; thence South at a right angle a distance of 100 feet; thence East on a line parallel with the North section line a distance of 150 feet; thence North at a right angle to the South line of Walnut Street; thence East to the NW corner of Block 11, South Ness City Addition to Ness City, Kansas; thence South along the West line of the South Ness City Addition to the NW corner of Lot One (1) in Block 8, South Ness City Addition; thence West to the NW corner of Lot Ten (10), in Block 8, South Ness City Addition; thence South at a right angle to the SW corner of said Lot Ten (10); thence West to the NW corner of Lot Nine (9) in Block 8, thence South to the SW corner of said Lot Nine (9); thence West to the NW corner of Block 7 in South Ness City Addition; thence South along the West line of said Block 7 to the SW corner of said Block 7; thence East to the center line of the alley in Block 5, South Ness City Addition; thence South on a line parallel to the East line of said quarter section to a point 24 rods North of the South line of said quarter section and 200 feet West of the East quarter section line; thence West at a right angle 196 feet; thence South at a right angle to the South quarter section line; thence West along the quarter section line to the place of beginning, except a triangular tract of land located in the Northwest Quarter (NW/4) of Section 31, Township 18 South, Range 23 West of the 6th P.M., described as follows: beginning at the NW corner of Block Nine (9) in South Ness City Addition; thence South along the West line of said Block Nine (9) a distance of 300 feet to the SW corner of said Block Nine (9); thence continuing South on the extended West line of said Block Nine (9) a distance of 50 feet to the center line of Magnolia Street; thence West on the extended center line of Magnolia Street for a distance of 125 feet; thence running Northeasterly on a straight line to the point of beginning, being NW corner of said Block Nine (9), South Ness City Addition to Ness City, Kansas; and a 4.5 acre tract in the Southwest Quarter (SW/4) of Section Thirty (30), Township Eighteen (18) South, Range Twenty-three (23) West of the 6th P.M., Ness County, Kansas, more particularly described as follows: Beginning at a point 600 feet East of the SW corner of said SW/4; thence North at a right angle to the South line of the AT&SF railroad right-of-way; thence East along the said South right-of-way line a distance of 515 feet; thence North along the AT&SF Railroad right-of-way a distance of 50 feet; thence East along the said South railroad right-of-way a distance of 120 feet; thence South at a right angle to the South line of the SW/4 of said Section 30; thence West along the said quarter section line to the place of beginning;

FORM 88 — (PRODUCER'S SPECIAL) (PAID-UP)

63U (Rev. 1993)

Reorder No. 09-115

Kansas Blue Print
700 S. Broadway PO Box 703
Wichita, KS 67201-0703
316-264-9344 · 264-5165 fax
www.kbp.com · kbp@kbp.com

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 20th day of October 2011

by and between Gaylen Kerr and Debra M. Kerr, his wife

whose mailing address is 815 S. Court Avenue Ness City, KS 67560 hereinafter called Lessor (whether one or more),

and Palomino Petroleum, Inc.

, hereinafter caller Lessee:

Lessor, in consideration of One and More Dollars ($ One ($1.00)) in hand paid, receipt of which is here acknowledged and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring by geophysical and other means, prospecting drilling, mining and operating for and producing oil, liquid hydrocarbons, all gases, and their respective constituent products, injecting gas, water, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, power stations, telephone lines, and other structures and things thereon to produce, save, take care of, treat, manufacture, process, store and transport said oil, liquid hydrocarbons, gases and their respective constituent products and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land, together with any reversionary rights and after-acquired interest, therein situated in County of Ness State of Kansas described as follows to-wit:

ALL of Block Seven (7) in South Ness City Addition to the City of Ness City, Kansas

In Section , Township , Range , and containing 1 (one) acres, more or less, and all accretions thereto.

Subject to the provisions herein contained, this lease shall remain in force for a term of 2 (two) years from this date (called "primary term"). and as long thereafter as oil, liquid hydrocarbons, gas or other respective constituent products, or any of them, is produced from said land or land with which said land is pooled.

In consideration of the premises the said lessee covenants and agrees:

1st. To deliver to the credit of lessor, free of cost, in the pipe line to which lessee may connect wells on said land, the equal one-eighth (⅛) part of all oil produced and saved from the leased premises.

2nd. To pay lessor for gas of whatsoever nature or kind produced and sold, or used off the premises, or used in the manufacture of any products therefrom, one-eighth (⅛), at the market price at the well, (but, as to gas sold by lessee, in no event more than one-eighth (⅛) of the proceeds received by lessee from such sales), for the gas sold, used off the premises, or in the manufacture of products therefrom, said payments to be made monthly. Where gas from a well producing gas only is not sold or used, lessee may pay or tender as royalty One Dollar ($1.00) per year per net mineral acre retained hereunder, and if such payment or tender is made it will be considered that gas is being produced within the meaning of the preceding paragraph.

This lease may be maintained during the primary term hereof without further payment or drilling operations. If the lessee shall commence to drill a well within the term of this lease or any extension thereof, the lessee shall have the right to drill such well to completion with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided for shall be paid the said lessor only in the proportion which lessor's interest bears to the whole and undivided fee.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for lessee's operation thereon, except water from the wells of lessor.

When requested by lessor, lessee shall bury lessee's pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of lessor.

Lessee shall pay for damages caused by lessee's operations to growing crops on said land.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

Lessee may at any time execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor, by payment any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof, and the undersigned lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, in so far as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof with other land, lease or leases in the immediate vicinity thereof, when in lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said lease premises so as to promote the conservation of oil, gas or other minerals in and under and that may be produced from said premises, such pooling to be of tracts contiguous to one another and to be into a unit or units not exceeding 40 acres each in the event of an oil well, or into a unit or units not exceeding 640 acres each in the event of a gas well. Lessee shall execute in writing and record in the conveyance records of the county in which the land herein leased is situated an instrument identifying and describing the pooled acreage. The entire acreage so pooled into a tract or unit shall be treated, for all purposes except the payment of royalties on production from the pooled unit, as if it were included in this lease. If production is found on the pooled acreage, it shall be treated as if production is had from this lease, whether the well or wells be located on the premises covered by this lease or not. In lieu of the royalties elsewhere herein specified, lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein on an acreage basis bears to the total acreage so pooled in the particular unit involved.

IN WITNESS WHEREOF, the undersigned execute this instrument as of the day and year first above written.

Witnesses:

Gaylen Kerr — Debra M. Kerr

Conservation Division
Finney State Office Building
130 S. Market, Rm. 2078
Wichita, KS 67202-3802

Kansas
Corporation Commission

Phone: 316-337-6200
Fax: 316-337-6211
http://kcc.ks.gov/

Mark Sievers, Chairman
Ward Loyd, Commissioner
Thomas E. Wright, Commissioner

Sam Brownback, Governor

October 26, 2011

Klee R. Watchous
Palomino Petroleum, Inc.
4924 SE 84TH ST
NEWTON, KS 67114-8827

Re: Drilling Pit Application
Parkerson-Kerr 1
NW/4 Sec.31-18S-23W
Ness County, Kansas

Dear Klee R. 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 within 96 hours of completion of drilling operations. KEEP PITS away from draw/drainage.

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 2008), Exploration and Production Waste Transfer, through KOLAR 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 District Office at (620) 225-8888.