

For KCC Use: 11.6.04
 Effective Date: _____
 District #: _____
 SGA? Yes No

KANSAS CORPORATION COMMISSION
 OIL & GAS CONSERVATION DIVISION

Form C-1
 December 2002
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

Expected Spud Date November 15 2004
month day year

Spot 40' S & 50' E of East
E/2 - SW - SW Sec. 7 Twp. 19 S. R. 23 West
 _____ feet from N / S Line of Section
620
 _____ feet from E / W Line of Section
1040

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: _____ Stum Well #: 1
 Field Name: _____ None (Wildcat)

Is this a Prorated / Spaced Field? Yes No
 Target Formation(s): _____ Cherokee Sand

Well Drilled For:	Well Class:	Type Equipment:
<input checked="" type="checkbox"/> Oil	<input type="checkbox"/> Enh Rec	<input checked="" type="checkbox"/> Mud Rotary
<input type="checkbox"/> Gas	<input type="checkbox"/> Storage	<input type="checkbox"/> Air Rotary
<input type="checkbox"/> OWO	<input type="checkbox"/> Disposal	<input type="checkbox"/> Cable
<input type="checkbox"/> Seismic; _____ # of Holes	<input checked="" type="checkbox"/> Wildcat	
<input type="checkbox"/> Other _____	<input type="checkbox"/> Other	

Nearest Lease or unit boundary: _____ 620

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

Depth to bottom of usable water: _____ 750

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

Formation at Total Depth: _____ Mississippian

If OWWO: old well information as follows:
 Operator: _____
 Well Name: _____
 Original Completion Date: _____ Original Total Depth: _____

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: _____

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.

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 to the best of my knowledge and belief.

Date: October 26, 2004 Signature of Operator or Agent: Klee R. Watchous Title: President

For KCC Use ONLY
 API # 15 - 135-24314-00-00
 Conductor pipe required NONE feet
 Minimum surface pipe required 200 feet per Alt. 2
 Approved by: RTP 11-1-04
 This authorization expires: 5-1-05
 (This authorization void if drilling not started within 6 months of effective 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: _____

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

7
19
23w

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: Stum
 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

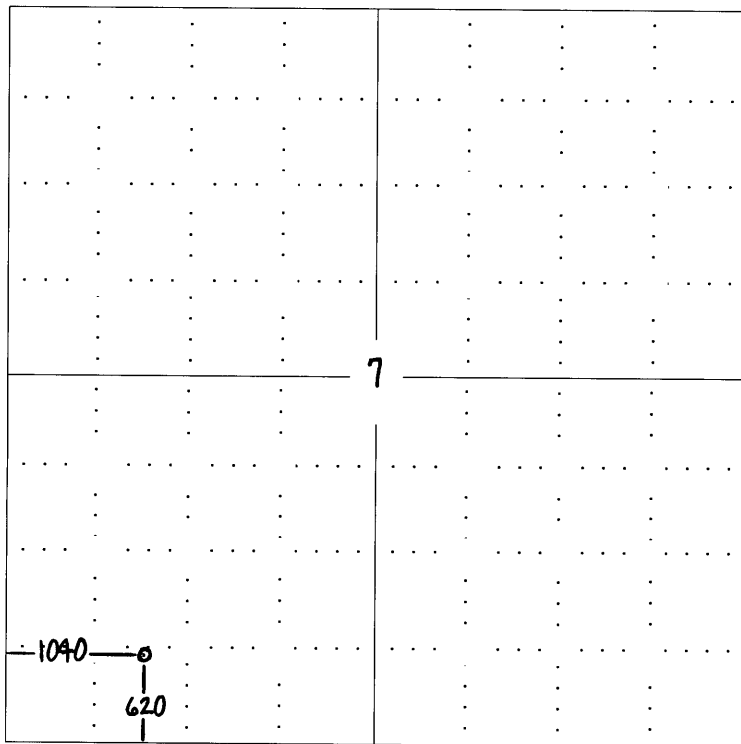
If Section is Irregular, locate well from nearest corner boundary.

Section corner used: NE NW SE SW

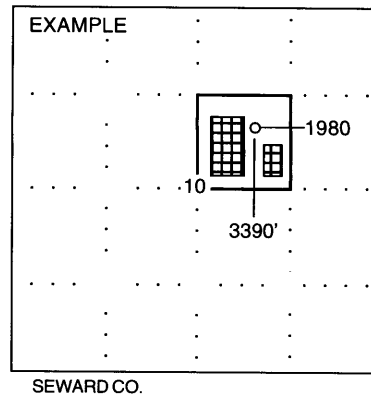
PLAT

(Show location of the well and shade attributable acreage for prorated or spaced wells.)

(Show footage to the nearest lease or unit boundary line.)



RECEIVED
 OCT 27 2004
 KCC WICHITA



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: (C0-7 for oil wells; CG-8 for gas wells).

KANSAS

CORPORATION COMMISSION

KATHLEEN SEBELIUS, GOVERNOR
BRIAN J. MOLINE, CHAIR
ROBERT E. KREHBIEL, COMMISSIONER
MICHAEL C. MOFFET, COMMISSIONER

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