



For KCC Use ONLY

API # 15 - \_\_\_\_\_

**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: \_\_\_\_\_

Lease: \_\_\_\_\_

Well Number: \_\_\_\_\_

Field: \_\_\_\_\_

Number of Acres attributable to well: \_\_\_\_\_

QTR/QTR/QTR/QTR of acreage: \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Location of Well: County: \_\_\_\_\_

\_\_\_\_\_ feet from  N /  S Line of Section

\_\_\_\_\_ feet from  E /  W Line of Section

Sec. \_\_\_\_\_ Twp. \_\_\_\_\_ S. R. \_\_\_\_\_  E  W

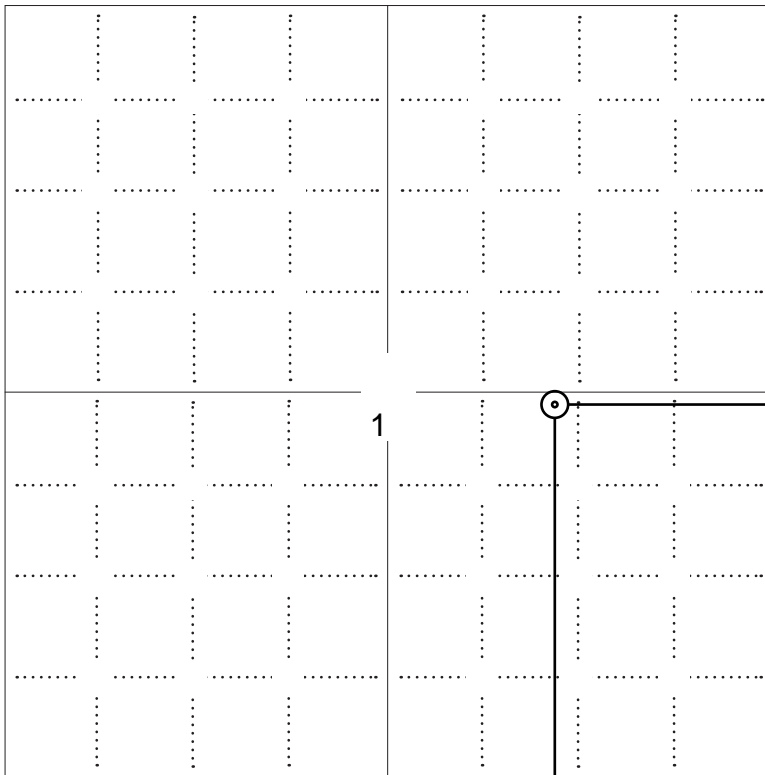
Is Section:  Regular or  Irregular

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

Section corner used:  NE  NW  SE  SW

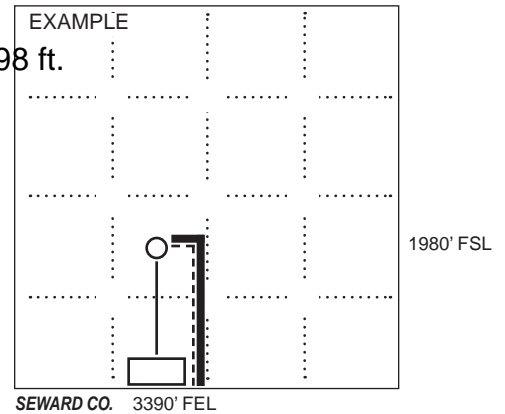
**PLAT**

Show location of the well. 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.**

2550 ft.

**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.

**APPLICATION FOR SURFACE PIT**

*Submit in Duplicate*

Operator Name:		License Number:	
Operator Address:			
Contact Person:		Phone Number:	
Lease Name & Well No.:		Pit Location (QQQQ): _____-_____-_____-_____	
Type of Pit: <input type="checkbox"/> Emergency Pit <input type="checkbox"/> Burn Pit <input type="checkbox"/> Settling Pit <input type="checkbox"/> Drilling Pit <input type="checkbox"/> Workover Pit <input type="checkbox"/> Haul-Off Pit <i>(If WP Supply API No. or Year Drilled)</i>		Pit is: <input type="checkbox"/> Proposed <input type="checkbox"/> Existing If Existing, date constructed: _____ Pit capacity: _____ (bbls)	
Is the pit located in a Sensitive Ground Water Area? <input type="checkbox"/> Yes <input type="checkbox"/> No		Chloride concentration: _____ mg/l <i>(For Emergency Pits and Settling Pits only)</i>	
Is the bottom below ground level? <input type="checkbox"/> Yes <input type="checkbox"/> No		Artificial Liner? <input type="checkbox"/> Yes <input type="checkbox"/> No	
How is the pit lined if a plastic liner is not used?			
Pit dimensions (all but working pits):    _____ Length (feet)    _____ Width (feet) <input type="checkbox"/> N/A: Steel Pits Depth from ground level to deepest point: _____ (feet) <input type="checkbox"/> 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: _____ feet    Depth of water well _____ feet		Depth to shallowest fresh water _____ feet. Source of information: <input type="checkbox"/> measured <input type="checkbox"/> well owner <input type="checkbox"/> electric log <input type="checkbox"/> KDWR	
<b>Emergency, Settling and Burn Pits ONLY:</b> 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		<b>Drilling, Workover and Haul-Off Pits ONLY:</b> Type of material utilized in drilling/workover: _____ Number of working pits to be utilized: _____ Abandonment procedure: _____ _____ Drill pits must be closed within 365 days of spud date.	
Submitted Electronically			

<b>KCC OFFICE USE ONLY</b>			
		<input type="checkbox"/> Liner <input type="checkbox"/> Steel Pit <input type="checkbox"/> RFAC <input type="checkbox"/> RFAS	
Date Received: _____		Permit Number: _____	
		Permit Date: _____    Lease Inspection: <input type="checkbox"/> Yes <input type="checkbox"/> No	



**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 # \_\_\_\_\_  
Name: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ + \_\_\_\_\_  
Contact Person: \_\_\_\_\_  
Phone: ( \_\_\_\_\_ ) \_\_\_\_\_ Fax: ( \_\_\_\_\_ ) \_\_\_\_\_  
Email Address: \_\_\_\_\_

Well Location:  
\_\_\_\_ - \_\_\_\_ - \_\_\_\_ - \_\_\_\_ Sec. \_\_\_\_ Twp. \_\_\_\_ S. R. \_\_\_\_  East  West  
County: \_\_\_\_\_  
Lease Name: \_\_\_\_\_ Well #: \_\_\_\_\_

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

**Surface Owner Information:**

Name: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ + \_\_\_\_\_

*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:**

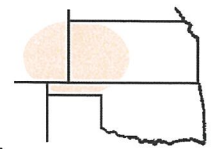
- I certify that, pursuant to the Kansas Surface Owner Notice Act (House Bill 2032), I have provided the following to the surface owner(s) of the land upon which the subject well is or will be located: 1) a copy of the Form C-1, Form CB-1, Form T-1, or Form CP-1 that I am filing in connection with this 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



**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



**121826bar**  
 PLAT NO.

**10611**  
 INVOICE NO.

**Palomino Petroleum, Inc.**

OPERATOR

**#1 KU-Dinges**

LEASE NAME

**Ness County, KS**

COUNTY

**1 18s 26w**  
 Sec. Twp. Rng.

**2550' FSL - 1498' FEL**

LOCATION SPOT

SCALE: **1" = 1000'**

DATE STAKED: **Jan. 17<sup>th</sup>, 2013**

MEASURED BY: **Ben R.**

DRAWN BY: **Drew H.**

AUTHORIZED BY: **Klee W. & Nick G.**

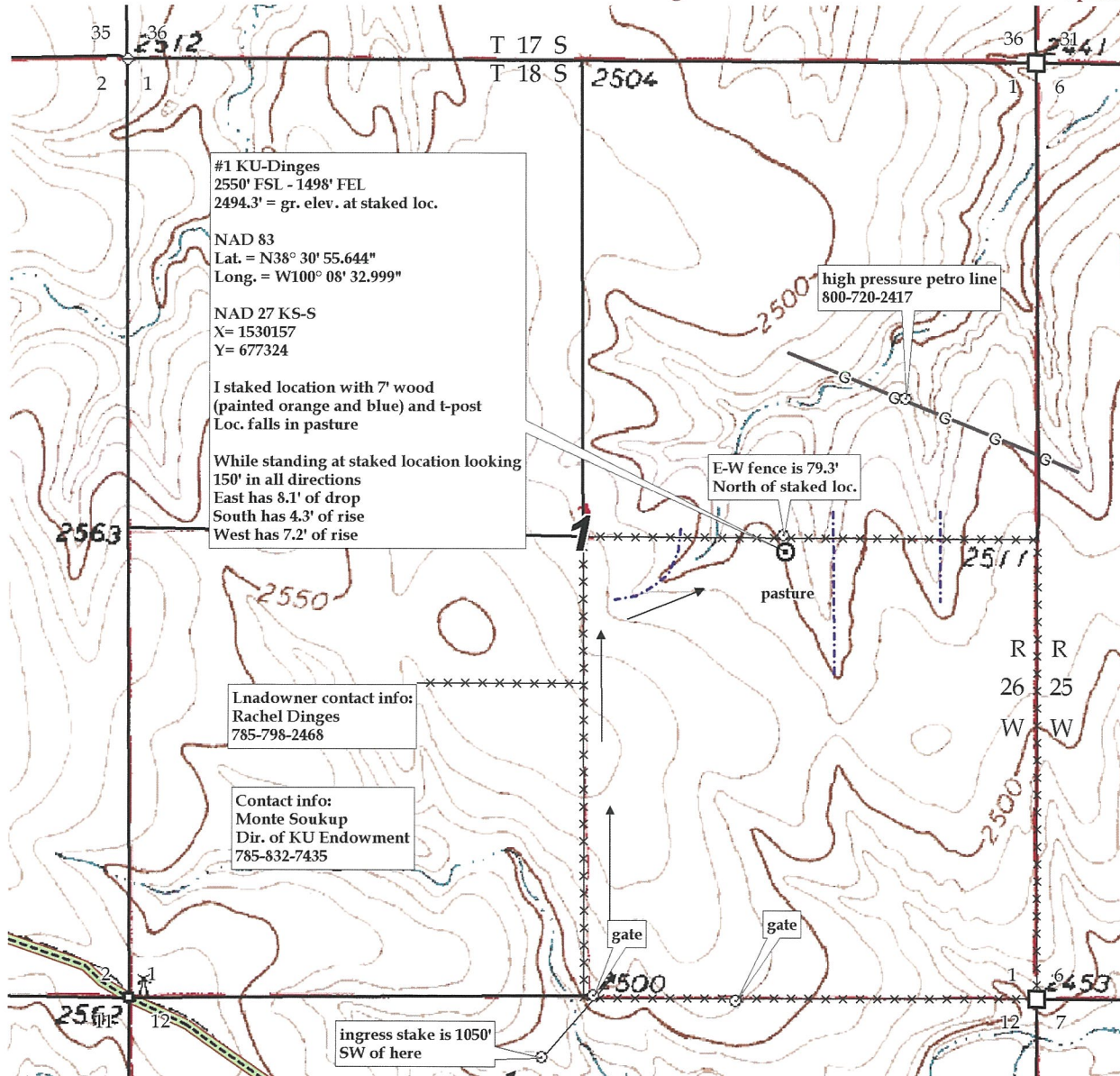


GR. ELEVATION: **2494.3'**

**Directions:** From the center of Ness City, Ks at the intersection of Hwy 283 & Hwy 96 West - Now go 11.6 miles West on Hwy 96 - Now go 3 miles North on G Rd to ingress stake - W-NW into - Now go 1.8 mile W-NW on trail to ingress stake NE into which is approx. 1900' SE of the SW corner section of 1-18s-26w - Now go approx. 1550' NE through pasture to gate - Now go approx. 2100' North through pasture - Now go approx. 1250' N-NE through pasture into staked location.

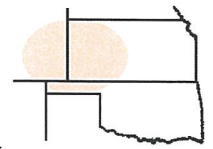
**Final ingress must be verified with land owner or Operator.**

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





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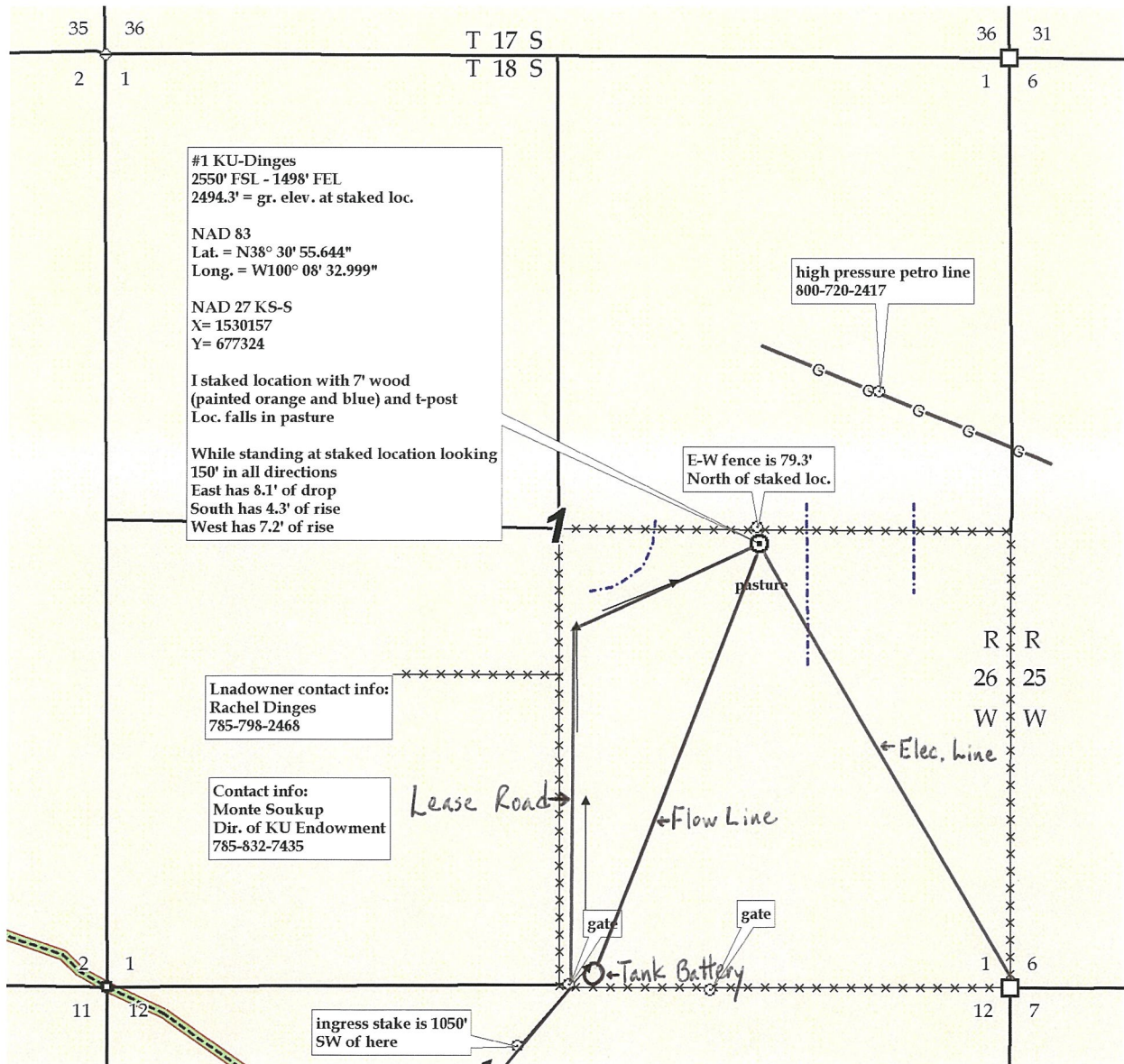


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**Final ingress must be verified with land owner or Operator.**

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OIL AND GAS LEASE

AGREEMENT, Made and entered into the 22nd day of February 2010 by and between The Kansas University Endowment Association PO Box 928 Lawrence, KS 66044

whose mailing address is hereinafter called Lessor (whether one or more), and J. Fred Hambright, Inc. - 125 N. Market, #1415 - Wichita, KS 67202

hereinafter called Lessee: Lessor, in consideration of Ten and More Dollars (\$10.00) 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 26 West Section 1: SE/4

In Section Township Range and containing 160 acres, more or less, and all accretions thereto.

Subject to the provisions herein contained, this lease shall remain in force for a term of three(3) 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 (1/8) 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 (1/8), at the market price at the well, (but, as to gas sold by lessee, in no event more than one-eighth (1/8) 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 pooled acreage. The entire acreage so pooled 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.

\*plus a tolerance of 10% to conform to governmental survey sections.

3rd. The Addendum to the OIL AND GAS LEASE attached hereto is an integral and material part of this OIL AND GAS LEASE.



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

THE KANSAS UNIVERSITY ENDOWMENT ASSOCIATION BY: Dale Seufferling, President

ADDENDUM to Oil & Gas Lease

between The Kansas University Endowment Association

hereinafter collectively referred to as Lessor, and \_\_\_\_\_

J. Fred Hambright, Inc.

as Lessee

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1. This Addendum shall be attached to and incorporated by reference in the Agreement executed contemporaneously by the parties hereto. The terms, conditions and provisions of this Addendum shall modify and superseded any terms, conditions, and provisions of the OIL AND GAS LEASE or any other Exhibit or Addenda to the extent that such terms, conditions, and provisions are contrary to, or inconsistent with, the terms, conditions and provisions of this Addendum.
2. No right is granted to the Lessee to erect on any part of the leased premises any plant or facility for gasoline extraction or for the processing of gas or petroliferous substances, except the normal and necessary heater treater and separator customarily used. Lessee specifically agrees to build any meter houses, separators, heater treaters and storage tanks, used for the purpose of producing and saving any oil and gas upon the above described premises adjacent to any county, state, or federal road or highway adjoining the above described premises. All storage tanks and tank battery installations shall be installed in any of the four (4) corners of the leased premises to avoid interference with any irrigation circular sprinkler system. Provided, further, no such installation shall be made closer than 1400 feet to the center of the leased premises.
3. Lessor reserves all rights to grant, lease, mine and/or produce any minerals from said lands except interests in gas and oil and their constituent products herein leased to Lessee.
4. Lessee shall bury pipelines and utility lines to a depth of not less than forty-eight (48) inches below the surface. Lessee shall pay Lessor for reasonable damages to all property, real, personal or mixed, caused by its operations on said land, including but specifically not limited to land, growing crops, grass, buildings, livestock, surface, fences and other improvements and personal property. All slush pits shall be filled and leveled within sixty (60) calendar days after well completion or abandonment unless a longer time therefor is granted by Lessor, at his option.

Lessee further agrees to pay to Lessor a reasonable amount, but not less than \$2,500, for each drill site location on the leased premises. As further consideration hereunder, Lessee agrees to pay to Lessor a minimum of \$15.00 per rod, plus crop damages, for any pipeline installed or constructed on the above land, whether or not connecting to the well on the

leased premises.

All damages payable under Paragraph 4 shall be due and payable on or before one hundred twenty (120) calendar days after such damages occur.

5. Lessor reserves the right to designate all routes of ingress and egress. Prior to the construction of any roads, pipelines, tank battery installations, or installation of other equipment on the leased premises, Lessee shall consult and agree with the surface owner and tenant as to the location and direction of same. There shall be no oil road surfaces or hard surfacing of any access roads without the written consent of Lessor.
6. It is the intention of the parties hereto to cause as little interference with farming operations on said land as possible, including but specifically not limited to the operation of pivotal irrigation sprinkler systems, or any other irrigation method. Any production equipment, including but specifically not limited to pump jacks, hydraulic lifting equipment, or any other equipment necessary to produce any oil or gas well on the above described land, shall be recessed to such depth as to permit the use by Lessor of a circular Irrigation sprinkler system.

In the event Lessee shall cause a well to be drilled on this lease during the growing season of whatever crop is planted and should Lessee's or his agent's equipment prohibit the use of any irrigation system on this land during that time the well is being drilled, Lessee agrees to pay Lessor the difference in the value of the crop produced on that strip of land that could not be watered. The field average shall be used as the maximum producing capability of the land, and the price per unit shall be the cash price at the local elevator in the town nearest to this land as of the first of the normally accepted harvest month.

7. The use of water provided for under this lease is limited to use for drilling operations on the leased premises only. Lessee shall specifically not have any right to use fresh water from the above described premises for the purpose of water flooding or injection in any water flooding program in which the leased premises may, for any reason, be pooled or unitized.
8. The installation of any salt water disposal equipment by Lessee in the operation of the lease shall be subject to the written approval of Lessor. Lessee shall not be permitted to use any well drilled on the leased premises as a salt water disposal well without the written consent of Lessor and without compensating Lessor for the use thereof. Provided, however, the terms of this paragraph do not apply to the disposal of salt water produced from wells located on lands covered by this lease or on lands unitized and consolidated with lands covered by this lease. However, if such well is used as a salt water disposal well by Lessee, such salt water must be disposed of below the Glorietta Formation and in accordance with the orders of the State Corporation of Kansas dealing with the disposal of salt or mineralized water by a lessee of an oil or gas well.
9. Subject to Lessee's obligations under Paragraph 4 above, in the event there is no production in paying quantities found by any operations undertaken by Lessee during the primary term

of the lease and there is an abandonment of said lease, the Lessee shall fill all pits, ponds, remove all structures and reasonably restore the premises to the condition existing at the time the lease is executed. Within one hundred eighty (180) calendar days after the expiration of the lease by its terms, Lessee shall have the obligation to restore, as nearly as practicable as possible, the leased premises to the same condition as received, natural wear and tear and damages by the elements excepted.

10. Notwithstanding anything in this lease to the contrary, it is expressly agreed that if the Lessee shall commence drilling operations within the primary term of this lease or upon a consolidated gas unit of which this lease is a part and shall complete a well capable of producing gas in paying quantities, this lease shall remain in force and its terms shall continue only in the event either (a) pipeline connections are made within two (2) years from the date well is completed and shut-in; or (b) in the event pipeline connections have not been made within said two (2) year period, then the Lessee shall pay or tender to the Lessor a royalty hereinafter referred to as a substitute royalty in the amount of \$5.00 per acre, per year; or (c) if pipeline connections are not made within three (3) years from date the well is shut-in, then the Lessee shall pay or tender to the Lessor a royalty hereinafter referred to a substitute royalty in the amount of \$7.00 per acre, per year. Said substitute royalties may be paid directly to the Lessor at his last known mailing address. The payment of said substitute royalties as just provided shall continue said lease; said lease shall be in full force and effect as if said well had been completed and connected to a pipeline and producing within the primary term as hereinbefore mentioned.
11. Lessee agrees that no time during the life of this lease shall the royalty paid to Lessor for a yearly period commencing with first production from the well be less than \$10.00 per acre. Such deficiency, if any, shall be paid to Lessor by Lessee within thirty (30) days after notice and written demand thereof is made by Lessor.
12. (a) Lessee agrees that it will comply with all regulations and statutes of all governmental entities having jurisdiction over compliance with environmental legislation. Lessee further agrees to accept the leased premises in its "as is" condition. It is acknowledged that Lessee has been advised to inspect the property to determine that it is suitable for the purpose intended and to ascertain that no environmental hazards or toxins are now present.  
  
(b) Lessee shall indemnify and hold Lessor harmless from any claims, damages, actions or causes of action from any environmental damage or contamination caused or contributed to by Lessee subsequent to the commencement of this lease.
13. Notwithstanding any of the other provisions herein, not less than all of the lands covered by this lease shall be included in any one unit for the production of gas.
14. (a) It is expressly agreed, notwithstanding anything to the contrary herein, if this lease be in force and effect at the expiration of the primary term, this lease shall thereupon terminate as to all formations not penetrated by the drilling of a test well or wells on

- the leased premises or land pooled or consolidated therewith, except if drilling is in progress at the end of the extended primary term.
- (b) Seven (7) years after the expiration of the primary term of this lease, formations on the leased premises not included in any unit and not producing oil or gas in paying quantities shall revert to Lessor. Lessee shall be obligated, subject to the other terms of this paragraph, to file of record in the courthouse a release of the lease covering such nonproducing zones or formations within sixty (60) calendar days following written demand therefor. If such release is not filed within said sixty (60) calendar day period, then Lessee shall be subject to damages and for any attorney's fees incurred by Lessor in obtaining such release.
15. Lessee agrees to maintain any well site, storage tank location, or any other area used in its lease operations reasonably free of weeds, but without the use of salt or chemical substances in such weed control. Lessee will use reasonable diligence in its operations to cause minimal interference with any cattle operations on said lands.
- (a) Lessee shall fence all slush pits and areas containing equipment, chemicals or other substances which may be harmful to livestock of Lessor and/or Lessor's surface tenant.
- (b) The Lessee agrees with the Lessor that in connection with the operation and development of the above described leased premises, it will use its best effort and follow the general practices customary within the industry to protect all fresh water strata and the surface from pollution by salt water and other refuse.
16. This lease shall not be assigned except in its entirety. Lessee agrees to notify Lessor by written notice of any lease assignment within thirty (30) calendar days following such assignment.
17. Any abstracting charges for drilling operations by Lessee under the terms of this lease shall be paid by Lessee.
18. Notwithstanding anything in this lease to the contrary, this lease does not confer to the Lessee, or Lessee's agents, employees, contractors or subcontractors the right to conduct seismic exploration on the leased land. Any seismic exploration of behalf of Lessee shall be subject to an additional and separate agreement and additional and separate compensation to Lessor.
19. Whenever necessary in this lease and addendum and where the context requires, the singular term and the related pronoun shall include the plural, the masculine and the feminine.

This lease and Addendum, and all its terms, conditions and stipulations shall extend to and be binding on all of the heirs, administrators, executors, trustees, successors and assigns of Lessor and

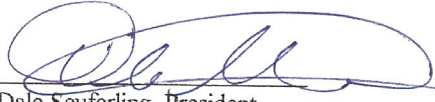
Lessee.

IN WITNESS WHEREOF, we sign the day and year first above written.

SIGNED FOR IDENTIFICATION  
LESSOR

The Kansas University Endowment Association

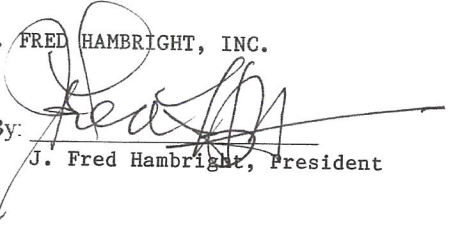
By:

  
Dale Seuferling, President

LESSEE

J. FRED HAMBRIGHT, INC.

By:

  
J. Fred Hambricht, President

63U (Rev. 1993)

OIL AND GAS LEASE

Reorder No. 09-115



Kansas Blue Print 700 S. Broadway PO Box 703 Wichita, KS 67201-0703 316-264-9344 264-5105 fax www.kbp.com kbp@kbp.com

AGREEMENT, Made and entered into the 12th day of March 2010 by and between Joseph Dinges and Rachel I. Dinges, Co-Trustees Joseph Dinges Trust, dated 6-4-82 Rachel I. Dinges Trust, dated 6-4-82 whose mailing address is 9169 J Road Ness City, KS 67560 hereinafter called Lessor (whether one or more), and Palomino Petroleum, Inc. hereinafter called 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 26 West Section 1: Lots 1(40.25) and 2(40.75), S/2NE/4

In Section Township Range and containing 161 acres, more or less, and all accretions thereto.

Subject to the provisions herein contained, this lease shall remain in force for a term of Three(3) 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 (1/8) 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 (1/8), at the market price at the well, (but, as to gas sold by lessee, in no event more than one-eighth (1/8) 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.

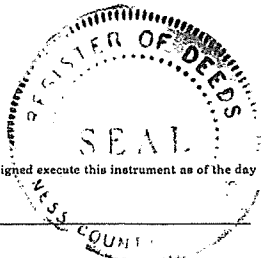
Lessee may at any time execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

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 of 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 rights 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.

Lessee, or its assigns, agree to restore the surface to its original contour and condition as nearly as practicable.



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

Witnesses: Joseph Dinges, Co-Trustee

Rachel I. Dinges, Co-Trustee

Joseph Dinges Trust and Rachel I. Dinges Trust, dated 6-4-82

Joseph Dinges Trust and Rachel I. Dinges Trust, dated 6-4-82

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



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

Mark Sievers, Chairman  
Thomas E. Wright, Commissioner  
Shari Feist Albrecht, Commissioner

Sam Brownback, Governor

January 24, 2013

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

Re: Drilling Pit Application  
KU-Dinges 1  
SE/4 Sec.01-18S-26W  
Ness County, Kansas

Dear K. Robert 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.