

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

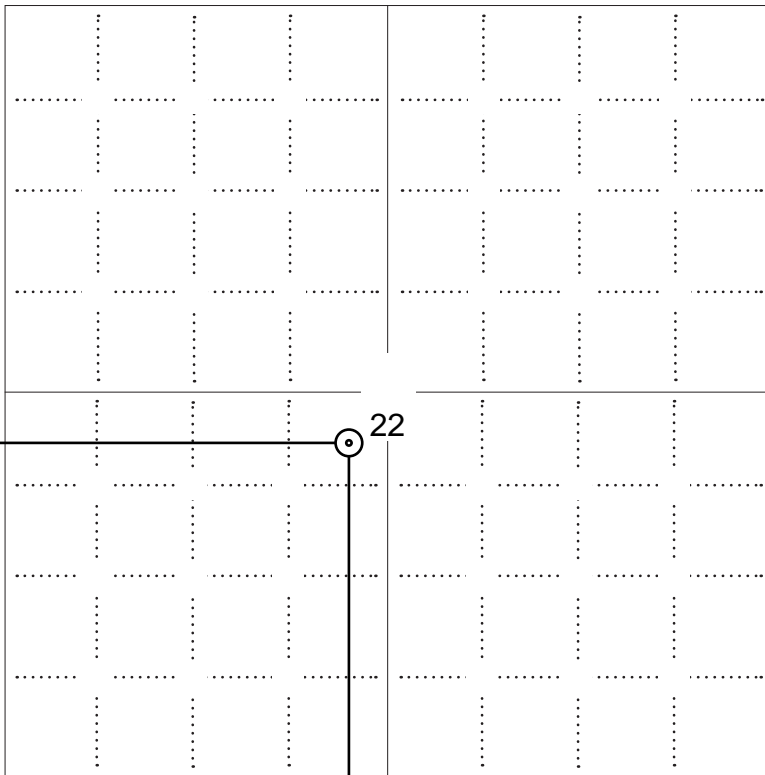
Is Section: Regular or Irregular

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.



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

LEGEND

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



1980' FSL

2288 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	
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? <input type="checkbox"/> Yes <input type="checkbox"/> No		Drilling, Workover and Haul-Off Pits ONLY: 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			

KCC OFFICE USE ONLY

Liner Steel Pit RFAC RFAS

Date Received: _____ Permit Number: _____ Permit Date: _____ Lease Inspection: Yes 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.

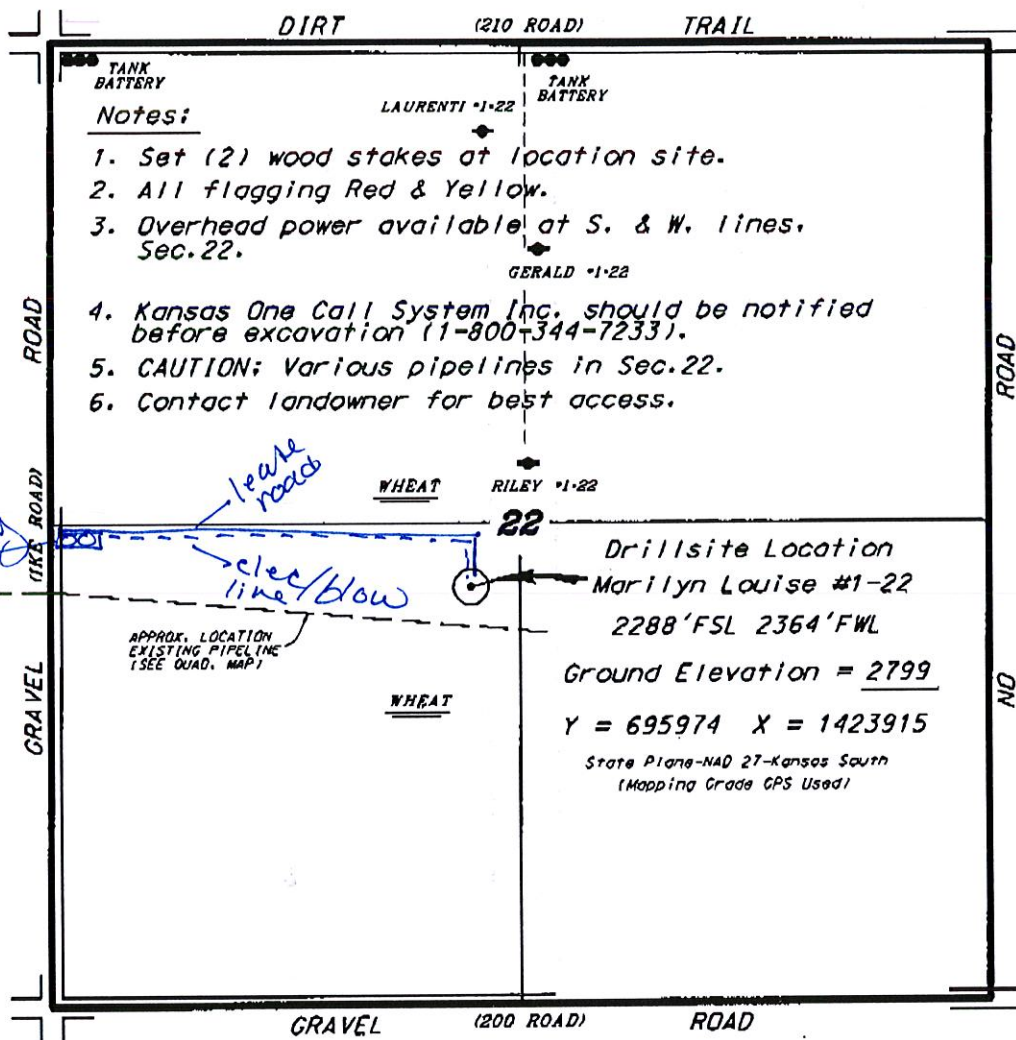
Select one of the following:

- 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.

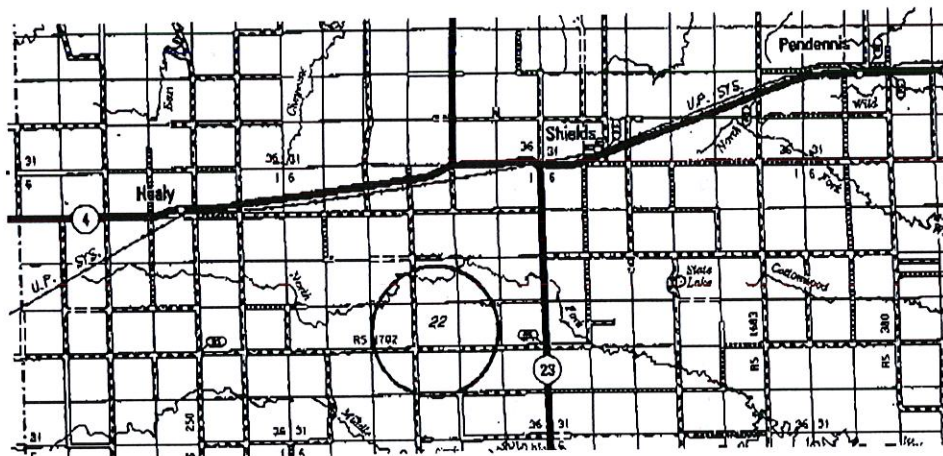
If choosing the second option, submit payment of the \$30.00 handling fee with this form. If the fee is not received with this form, the KSONA-1 form and the associated Form C-1, Form CB-1, Form T-1, or Form CP-1 will be returned.

I Submitted Electronically

FORESTAR PETROLEUM CORPORATION
MARILYN LOUISE LEASE
SW. 1/4, SECTION 22, T17S, R29W
LANE COUNTY, KANSAS



* Ingress and egress to location as shown on this plot is for public use only and may not be legally opened for public use. Contract landowner, Tenant and county road department for access.



Controlling data is based upon the best maps and photographs available to us and upon a regular section of land containing 640 acres.
 Approximate section lines were determined using the normal standard of care of oilfield surveyors practicing in the state of Kansas. The section corners, which establish the precise section lines, were not necessarily located, and the exact location of the drill site location in the section is not guaranteed. Therefore, the operator securing this service and occupying this plot and all other parties relying thereon agree to hold Central Kansas Oilfield Services, Inc., its officers and employees harmless from all claims, costs and expenses and said entities released from any liability from incidental or consequential damages.
 Elevations derived from National Geodetic Vertical Datum.

Date February 18, 2013

NUMERICAL
DIRECT
INDIRECT
COMPR. ORIG.
COMPUTER

OIL AND GAS LEASE
KANSAS (PAID UP)

STATE OF KANSAS, LANE COUNTY, SS
This instrument was filed for record on the
5 day of November 2009 at 11 o'clock AM and
A.D. 2009 at 129 on page 169
duly recorded in Book 129 on page 169
Fee 36.00
James DeBecker DSB
Register of Deeds
by and between

THIS AGREEMENT, made and entered into this 22nd day of August

Alan Eugene James and Marilyn Louise James, husband and wife; and

John David James and Vickie Louise James, husband and wife

251 Karl Road, Dighton, KS 67839; and 2 West Road 210, Dighton, KS 67839, respectively

hereinafter called Lessor, (whether one or more) and CREDO PETROLEUM CORPORATION

1801 Broadway, Suite 900, Denver, Colorado 80202

hereinafter called Lessee:

WITNESSETH:

1. That the Lessor, for and in consideration of the sum of ten and more Dollars (\$ 10.00+), and other good and valuable consideration, receipt of which is hereby acknowledged, and the covenants and provisions contained herein to be kept by Lessee, does hereby grant, demise, lease and let unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, operating for, producing, and taking care of all oil, gas and all of the products of oil and gas, with rights of way and easements for laying pipelines, telephone and telegraph lines and the exclusive right of injecting water, brine and other fluids into subsurface strata, and the building of structures, tanks, roadways and any and all other rights and privileges necessary, incident to, or convenient for the economical operation alone, or conjointly with neighboring land, for the production, saving and taking care of all said products on that certain tract of land situated in the County of Lane State of Kansas, described as follows, to-wit:

TOWNSHIP 17 SOUTH, RANGE 29 WEST OF THE 6TH P.M.
Section 22: SW 1/4, SE 1/4

containing 320 acres, more or less.

2. It is agreed that this lease shall remain in full force and effect for a primary term of Three (3) years from this date, and as long thereafter as oil, gas or the products of oil or gas are produced from said leased premises, or drilling operations are continued as hereinafter provided.

3. This is a PAID-UP LEASE. In consideration of the down payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term, or to make any rental payments during the primary term. Lessee may at any time or times during or after the primary term hereof surrender this lease as to all or a portion of the lands covered herein by delivering to Lessor, or by filing for record a release or releases, and thereafter be relieved of all obligations accruing hereunder as to the acreage surrendered. The lease shall continue in force and effect as to all of the acreage not surrendered.

4. All payments required to be made under this lease shall be made or tendered to the Lessor or to the Lessor's credit in the Bank (depository bank) at or successors, or any bank with which it may be merged, or consolidated, or which succeeds to its business or assets or any part thereof, by purchase or otherwise, which shall continue as the depository regardless of changes in the ownership of said land.

5. Lessee agrees to pay Lessor a royalty on production covered hereby as follows:

1st. Lessee shall deliver to the credit of Lessor as royalty, free of cost, in the pipeline to which Lessee may connect its wells, the equal one-eighth part of all oil produced and saved from the leased premises, or at Lessee's option, may pay to the Lessor for such one-eighth royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipeline, or into storage tanks.

2nd. Lessee shall pay Lessor as royalty on gas marketed from each well one-eighth of the proceeds if sold at the well, or if marketed by Lessee, off the leased premises, then one-eighth of its market value at the well.

3rd. Lessee shall pay Lessor one-eighth of the proceeds received by the Lessee from the sale of casinghead gas produced from any oil well and one-eighth of the value, at the mouth of the well, computed at the prevailing market price, of the casinghead gas produced from any oil well and used by Lessee off the leased premises for any purpose or used on the leased premises by Lessee for purposes other than the development and operation thereof.

4th. Lessee shall pay to Lessor one-eighth of the proceeds from the sale of all other products of oil and gas not otherwise referred to hereinabove.

6. Where there is a gas well, or wells on the lands covered by this Lease, or acreage pooled therewith, whether it be before or after the primary term hereof, and such well or wells are shut-in, and there is no other production, drilling operations or other operations being conducted capable of keeping this Lease in force under any of its provisions, Lessee shall pay as royalty to Lessor the sum of One Dollar (\$1.00) per year per net royalty acre, such payment to be made on or before the anniversary date of this Lease next ensuing after the expiration of 90 days from the date such well or wells are shut-in, and thereafter on the anniversary date of this Lease during the period such wells are shut-in, and upon such payment it shall be considered that this Lease is maintained in full force and effect.

7. If the Lessor owns a lesser interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the said Lessor only in the proportion which Lessor's interests bear to the whole and undivided fee.

8. Notwithstanding anything in this lease contained to the contrary, it is expressly agreed that if Lessee shall commence operations for drilling a well at any time while this lease is in force, this lease shall remain in force and its term shall continue so long as such operations are prosecuted as set out in Paragraph 9 hereof, and if production results therefrom, then so long as production continues.

9. If at the expiration of the primary term of this lease, oil, gas, or the products of oil and gas are not being produced on the leased premises but Lessee has been engaged in drilling or reworking operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises, and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or the abandonment of one well and the beginning of operations for the drilling of a subsequent well. If, after the discovery of oil or gas or the products of oil or gas on said land or acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or reworking operations within ninety (90) days from the date of cessation of production or from date of completion of a dry hole. If oil, gas or the products of oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil, gas, or the products of oil or gas shall be produced from the leased premises.

10. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operations thereon, except water from the wells of the Lessor. When requested by Lessor, Lessee shall bury pipelines below plow depth. No well shall be drilled nearer than 200 feet to any house or barn on said premises as of the date of this lease without written consent of the 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, but shall not have the obligation to do so.

1571742244
LEAD #35

11. The rights of the Lessor and Lessee hereunder may be assigned in whole or in part; however, no change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until the Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from the Lessor, and then only with respect to payments thereafter made. No other notice of any kind or character, whether actual or constructive, shall be binding on the Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations, or to diminish the rights of the Lessee, and all of Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission on the part of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power to voluntarily pool or combine the lands covered by this lease, or any portion thereof, as to the oil and gas, or either of them, with any other land, lease or leases adjacent thereto when in Lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said premises, such pooling to be into units not exceeding eighty (80) acres for an oil well, plus a tolerance of ten percent (10%), and not exceeding six hundred forty (640) acres for a gas well, plus a tolerance of ten percent (10%), except that larger units may be created to conform to any spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. Lessee shall execute in writing and record in the County Records as instrument identifying and describing the pooled acreage. The entire acreage so pooled into units shall be treated for all purposes, except the payment of royalties, as if it were included in this lease, and drilling or reworking operations thereon or production of oil or gas therefrom, or the completion thereon of a well as a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if such operation were on, or such production were from, or such completion was on the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease. In lieu of royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive from a unit so formed only such portion of the royalties stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein bears to the total acreage so pooled.

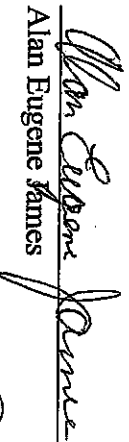
13. On or before the expiration of the primary term of this lease, the Lessee, its successors or assigns, shall have the option and right to renew this lease as to all or any portion of the acreage described herein and extend the primary term thereto an additional TWO (2) years commencing on the expiration of the primary term of this lease, by making payment to Lessor's credit in the depository bank hereinabove shown on or before such expiration date in the sum of Ten and No Hundredths DOLLARS (\$ 10.00) per net mineral acre for each acre to which the term of this lease is extended, and to release this lease as to those portions of the leased premises to which an extension is not sought.

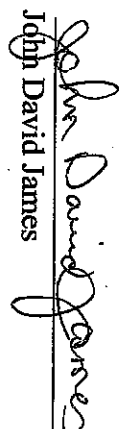
14. In the absence of production, Lessee may terminate any unitized area by filing in the county records a Notice of Termination of the unit. All express or implied covenants of this lease shall be subject to all federal and state laws, executed orders, rules or regulations of governmental bodies having jurisdiction, and this lease shall not terminate in whole or in part, nor shall Lessee be 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.

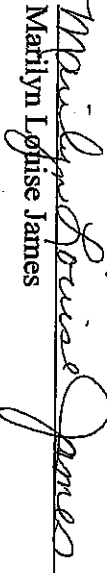
15. Lessor hereby warrants and agrees to defend the title to the lands herein described and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described land in the event of failure of payment by the Lessor, and be subrogated to the rights of the holder thereof, and in addition Lessee may reimburse itself for such payments out of any royalties or rentals payable to Lessor.

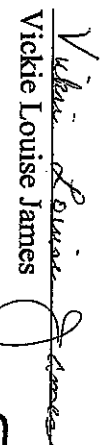
16. All the provisions of this Lease shall be binding on the heirs, successors, assigns, and legal representatives of the Lessor and Lessee.

IN WITNESS WHEREOF this instrument is executed on the day and year first hereinabove set out.


Alan Eugene James


John David James


Marilyn Louise James


Vickie Louise James

STATE OF KANSAS)
COUNTY OF LANE) SS


(INDIVIDUAL ACKNOWLEDGMENT)

Before me the undersigned, a Notary Public, within and for said county and state, on this day of September, 2009, personally appeared Alan Eugene James and Marilyn Louise James, husband and wife; and John David James and Vickie Louise James, husband and wife and to me personally to be the identical person s who executed the within and foregoing instrument and acknowledged to me that they executed the same as their free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.

My commission expires 5-28-2013 
Notary Public

STATE OF _____)
COUNTY OF _____) SS (CORPORATION ACKNOWLEDGMENT)

On this _____ day _____ before me, the undersigned, a Notary Public in and for the county _____ and state aforesaid, personally appeared _____ to me _____ personally known to be the identical person who signed the name of the maker thereof to the within and foregoing instrument as its _____ and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed, and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.

My commission expires _____ Notary Public

ADDENDUM To Oil and Gas Lease, dated August 26, 2009, by and between

Alan Eugene James and Marilyn Lynn James, husband and wife; and John David James and Vickie Louise James, husband and wife

Hereinafter referred to as Lessor and

CREDO PETROLEUM CORPORATION

Hereinafter referred to as Lessee:

This Addendum is a part of that certain Oil and Gas Lease (the "Lease") identified above by date and parties covering all of the property described in paragraph 1 below, located in **LANE COUNTY, KANSAS**, and containing 320 acres, more or less, to the same extent as if the provisions hereof had originally been written in said Lease. The terms and provisions of the Addendum shall be deemed controlling, notwithstanding anything to the contrary or inconsistent with the provisions contained within the attached Lease, and regardless of whether such contrary or inconsistent items have been deleted.

The Lessee acknowledged that this Addendum is included for the benefit of the Lessor (as owner of the minerals). And for the benefit of the surface owner, as an intended third-party beneficiary. The Lessee thus further acknowledges and agrees that the surface owner (or the surface owner's tenant) shall have the right to bring an action for the enforcement of any provisions included in this Addendum, to the extent such provisions pertain in any manner to the utilization of or damage to the surface of the above-described property.

1. SEPARATE LEASE FOR EACH TRACT. Lessor and Lessee agree that this Lease that constitute a separate Lease agreement with respect to each of the following described tracts in Lane County, Kansas:

<u>Township 17 South, Range 29 West of the 6th P.M.</u>	<u>Acres</u>
<u>Section 22: SW ¼</u>	<u>160</u>
<u>Section 22: SE ¼</u>	<u>160</u>

In no event shall the production of oil or gas on any individual tract extend the primary term of the lease on the other tracts listed herein, unless such tracts are included in a gas-producing unit pursuant to the provisions of paragraph 15 below. Lessee shall be obligated to file of record in the county courthouse in which the leased premises are located, within thirty (30) days following written demand thereof by Lessor, a release of this Lease covering any tracts whose primary term is not extended by actual production on such tract or by being included in a gas-producing unit. If such release is not mailed or delivered to the county for filing within thirty (30) days following written demand, Lessee shall be liable for damages, including attorney's fees, if any, incurred by Lessor in obtaining such.

2. CONSTRUCTION AND LOCATION OF EQUIPMENT. No right is granted to the Lessee to erect on any part of said 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 agrees to utilize reasonable efforts to build any meter houses, separators, heater treaters and storage tanks for the purpose of producing and saving any oil and gas upon the above-described premises adjacent to any county or state road or highway adjoining the above-described premises. If Lessee does not believe such structures can feasibly be located adjacent to an adjoining road, Lessee shall consult with the surface owner prior to placement of such structures; provided, further, in no event shall storage tanks be built less than 100 feet from such county or state highway or roadway adjoining such property.

3. LOCATION OF WELLS. There shall be no core drilling within 1,000 Feet of any water wells located on the leased property, nor within 300 Feet of any underground water pipeline on the property. In addition to these general restrictions, it is recognized by Lessee that a permanent fresh water spring is located in a draw in the Southeast portion of the NE ¼ of Section 24-16-29. It is further recognized by Lessee that a permanent fresh water spring is located in a draw in Southeast portion of the leased premises. It is further recognized and understood that this spring is the only source of water available for the livestock pastured on the leased premises and on approximately 40 acres adjacent to the leased premises. For this reason, Lessee agrees to exercise due care in drilling, blasting and conducting its oil and gas operations within the proximate areas of said springs. In this regard, Lessee shall consult with surface owner before conducting any tests or drilling any wells on the leased premises, and shall install surface casing on any drilled wells to a depth sufficient to prevent contamination of any such springs. Notwithstanding the forgoing, should owner's spring(s) become contaminated, or cease production of fresh water, or should the production of water decrease to such extent that surface owner or surface owner's tenant is not able to fully utilize the leased premises for the pasturing of livestock, and such contamination or decrease in production in caused by Lessee's operations, regardless of the amount of due care exercised by Lessee, Lessee covenants and agrees, at its option, to either: (a) drill and equip a fresh water well or wells on the leased premises; at Lessee's cost, which well or wells shall produce and continue to produce fresh water in quantities equal to or greater than surface owner's spring; or (b) construct and lay a pipeline, at Lessee's cost, from another source of fresh water selected by surface owner, for the transmission of water to the leased premises, in quantities equal to or greater than that produced by surface owners spring. In the event surface owner's spring becomes contaminated or otherwise nonproductive as aforesaid, it is further understood and agreed that the Lessee shall have the burden of proving that such contamination, non-production or reduced production is not the result of its oil and gas operations.

4. ACCESS ROADS AND PIPELINES, TERRACES AND PITS.

- (a) Prior to the construction of any road on the leased premises, Lessee shall consult with the surface owner as to the location and direction of the same. However, final determination for the location of the road to above-described equipment shall reside with Lessee.
- (b) There shall be no oil road surfaces or hard surfacing of any access roads without the written consent of the surface owner. Lessee shall bury pipelines to a depth of not less than forty inches (40") below the surface.
- (c) Lessee agrees to conduct its operations in such a manner as to protect any terraces located on the leased premises. In this regard, it is further understood and agreed that if a pipeline or electric line crosses a terrace, Lessee shall cut a channel through the terrace (level with the ground), bury the line at least 40 inches beneath the surface of the channel cut, and then refill and repack the terrace with a bulldozer, subject to the inspection and approval of surface owner.
- (d) Lessee agrees to assume the responsibility for and the expense of lowering any pipeline, electric line, or pumping unit installed upon the leased premises when requested by surface owner, when reasonably necessary for the use of surface owner in his agricultural operations, including, but not specifically limited to, the use of said land for irrigation purposes. Surface owner agrees to allow Lessee to use standard pumping unit (should production be established) on said lease. However, Lessee shall be required to use a low profile pumping unit at such time as surface owner puts in an overhead sprinkler. Furthermore, should any natural erosion or dirt work performed by surface owner in the normal course of conducting his farming/ranching operations necessitates the lowering in depth of any pipeline or electric line, such lines shall be lowered by Lessee at no expense to surface owner.
- (e) When Lessee digs a reserve pit, all black dirt will be piled separately. In the event of a dry hole or abandonment and the said pit is filled and leveled, then the last dirt removed from the pit shall be the first dirt put back into the pit.

5. RESERVATION OF OTHER MINERALS. 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.

6. PURCHASE OF GAS BY SURFACE OWNER. Surface owner shall have the right to purchase from Lessee, gas from any gas well on the leased premises or on any land pooled therewith for use in farming and livestock purposes and including fuel for grain dryers and pumping water wells for irrigation. Any gas so purchased by surface owner shall be purchased at the price paid by Lessee's gas purchaser. Lessee shall install, operate and maintain at or near said designated point all connections, regulators and meters and appurtenant equipment installed shall remain the property of Lessee. Surface owner at his own risk and expense and at locations that will not interfere with Lessee's lease operations shall install, operate and maintain the line necessary to all gas in its condition as produced from the well and Lessee shall have no liability for any variance or interruptions in the supply if the production from any well is restricted or shut down for any reason.

7. TERMINATION AND ABANDONMENT. Upon termination of the lease (whether by abandonment or otherwise), the Lessee shall fill all pits and ponds constructed by Lessee, and remove all structures placed on the leased premises by Lessee, and reasonably restore the leased premises to the condition existing at the time this Lease was executed, all within six (6) months following such termination or abandonment. All pits shall be filled and leveled in accordance with the rules and regulations as set forth by the Kansas Corporation Commission. The surface owner is to be notified when pits are filled so that the surface owner may be present when the pits are filled and the surface is restored. All plastic liners must be removed from the pits prior to surface restoration.

8. PROTECTION AGAINST POLLUTION. The Lessee agrees with the Lessor and surface owner that in connection with the operation and development of the leased premises, Lessee will follow the rules and regulations of the appropriate State or Federal Government Agency to protect all fresh water strata and the surface from pollution by salt water and other refuse. If at any time oil or salt water or chemicals used in the production of oil or gas shall flood over any grounds other than the immediate well site or tank battery site, damages shall be paid to the surface owner for each and every occurrence.

9. SALT WATER DISPOSAL. The Lessee shall consult with surface owner as to the location of any saltwater disposal equipment prior to its installation by Lessee in the operation of the Lease. With the exception of salt water produced from wells located on the leased premises or on lands pooled or utilized therewith, Lessee is prohibited from disposing of salt water without the written consent of the surface owner and without compensating the surface owner for the use thereof, upon such terms as are agreeable to the surface owner.

10. ABSTRACT CHARGES. Any abstracting charges on such tract for drilling operations by Lessee under the terms of the Lease shall be paid by the Lessee.

11. DAMAGES.

(a) Lessee shall be liable and responsible unto the surface owner for damages suffered by Surface owner and caused by Lessee, including, but not limited to, water contamination (surface and subsurface), damages to growing crops, land, pasture grass (pasture grass being considered a growing crop at any time of the year, notwithstanding the time of year the damage to the pasture occurs), livestock, underground pipelines, water wells, irrigation wells, buildings, improvements and fences. All damages payable under this paragraph (a) shall be due and payable within three (3) months of Lessee being notified by surface owner of the damages.

(b) Lessee agrees to pay surface owner the sum of Three Thousand Five Hundred Dollars (\$3,500.00), as liquidated damages, for each drill site location on the leased premises, inclusive of lease road and normal crop damages. Lessee further agrees to pay the sum of Five dollars (\$5.00) per rod, plus surface and crop damages, for the installation of flow lines, and Fifteen Dollars (\$15.00) per rod, plus surface and crop damages, for any other pipelines installed or constructed upon the leased premises, whether or not such pipelines are connected to the well on said premises. All damages payable under this paragraph (b) shall be due and payable within thirty (30) days of completion.

(c) Lessee shall construct and properly maintain a permanent fence around each pumping unit, pit and tank battery installed on the leased premises in order to prevent injury to livestock. No notice shall be required from surface owner or surface owner's tenant with regard to the placement of cattle on the leased premises. Notwithstanding the construction of fencing, all livestock killed or poisoned by oil or chemicals, or injured by equipment or vehicles used in the operation of this Lease, shall be paid for by Lessee at fair market value, plus the sum of \$50 per animal for trouble and inconvenience caused to the owner of the livestock, said payment to be made within 30 days after notice to Lessee. Lessee shall have the right to have the livestock examined by a licensed veterinarian; the livestock owner shall thus notify Lessee before disposing of any dead or injured livestock.

12. INDEMNIFICATION. Lessee will indemnify, hold harmless, and defend Lessor and the surface owner against any claim, demand, cost, liability, loss, or damage (including reasonable attorney's fees suffered by Lessor or surface owner arising out of the following activities conducted by Lessee, or those having a contractual relationship with Lessee, on the leased premises:

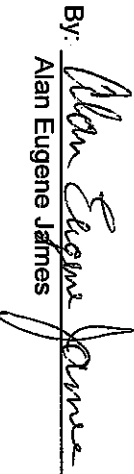
- (a) Any activity expressly or implicitly authorized or required by this Lease.
- (b) Plugging and abandonment of wellbores drilled by Lessee.
- (c) Management, use, and disposal of produced water and wastes or substances associated with Lessee's activities.
- (d) The generation, processing, handling, transportation, storage, treatment, recycling, marketing, use, disposal, release of oil, natural gas, natural gas liquids, all other petroleum substances, and waste material, or any "Hazardous Substance" or "Pollutant" or Contaminant" as those terms are defined by the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) at CERCLA §101 (14) and (33), 42 U.S.C. §9601 (14) and (3) (1988).

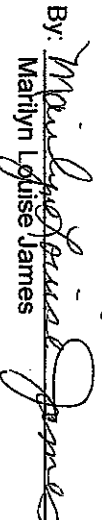
Lessee's obligations created by this section are continuing obligations that will continue in effect, and be enforceable by Lessor and surface owner, or either of them, even after the Lessee terminates or otherwise ceases to burden the leased premises.

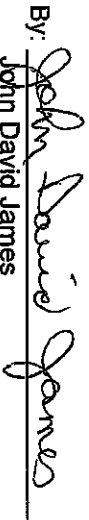
13. LIMITATION ON SHUT-IN ROYALTY. Notwithstanding the provisions of paragraph 6 of the Lease to the contrary, if the Lease is not otherwise being maintained by operations, or if production is not being sold by Lessee from another well or wells on the leased premises or land pooled or unitized therewith, Lessee shall have one (1) year, herein called "shut-in period", from the date of completion of a gas well (*i.e.*, a well with no liquid production) in which to make pipeline connections for production or marketing of gas. The shut-in period may be extended for three (3) additional periods of one (1) year each, at the option of Lessee. During the shut-in period, Lessee shall pay to Lessors a shut-in royalty at the rate of Five Dollars (\$5.00) per acre per year, which royalty shall be due and payable on the anniversary date of this lease. During any shut-in period, it shall be considered that gas is being produced from the leased premises in paying quantities so long as Lessee is paying the shut-in royalty as herein provided.

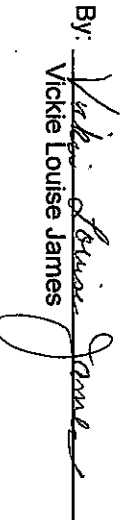
14. SEISMOGRAPH TESTING AND COMPENSATION. Lessor and surface owner acknowledge that, under the terms of the Lease, Lessee has the authority to conduct geophysical exploration (including seismograph testing) or to authorize third parties (as Lessee's agent) to conduct such testing upon the leased premises. Notwithstanding the grant of such authority, Lessee acknowledges that it may not proceed with the initial seismograph testing contemplated by the parties until surface owner and Lessee (or Lessee's agent) have entered into a seismic survey permit and damage settlement agreement (said seismic survey permit attached hereto as EXHIBIT "A" and made a part hereof). The parties further agree that surface owner shall be reasonably compensated for any further seismograph testing conducted by Lessee during the term of the Lease, based upon comparable rates being paid by the industry within the local geographic area at that time. Notwithstanding the surface owner's subsequent execution of a seismograph permit or similar instrument provided by an agent of Lessee, the Lessee shall remain obligated to surface owner under the provisions of this Lease for any damages suffered by surface owner as a result of such testing.

15. MONTHS IN WHICH SEISMOGRAPHY MAY BE DONE All geophysical explorations (including seismography testing) shall only be performed between the dates of November 1st thru March 15th unless otherwise agreed to by Lessor in writing.
16. UNITIZATION AND POOLING. The leased premises may not be unitized or pooled by Lessee without the prior written consent of Lessors; provided, however, Lessor acknowledges that Lessee may need to unitize all or a portion of the leased premises with other tracts to form up a 640 acre unit (plus or minus 10%) for the production of gas. To this end, Lessor agrees not to unreasonably withhold such consent in the event that less than all of the lands covered by the Lease are included in any one (1) unit for the production of either oil or gas. Lessee agrees to release any tracts upon which a producing well has not been completed within three (3) years from the end of a primary term or extension of this Lease.
17. SEPARATE ZONES. It is expressly agreed, notwithstanding anything to the contrary herein, that if the lease be in force and effect at the expiration of the primary term, a well drilling, being re-worked or being completed over the end of the primary term, or in the event of the completion of a well, additional, the Lease shall thereupon terminate as to the oil and gas rights in all zones and formations beneath 100' below the stratigraphic equivalent of the deepest producing formation or beneath 100' below the total depth drilled, whichever is the deeper of the two, by any well drilled on the leased premises or lands pooled or unitized therewith, during the term of this lease. Lessee shall be obligated to file of record in the county courthouse in which the leased premises are located a release of this Lease covering such zones or formations within sixty (60) days following written demand thereof by Lessor. If such release is not mailed or delivered to the county for filing within sixty (60) days following written demand, Lessee shall be liable for damages, including attorney's fees, if any, incurred by Lessor in obtaining such release. Notwithstanding anything to the contrary implied by any of the provisions of the Lease of this Addendum, in no event may the payment of delay rentals extend the term of this Lease beyond the date specified in Paragraphs 6 and 13 of the Lease. The term of this Lease may only be continued by the production of oil or gas or other substances covered by the Lease in paying quantities within the primary term or extension thereof.
18. CONSERVATION PRACTICES: If the Lessor is planning to conduct certain conservation practices, such as terracing, Lessor agrees to notify Lessee in writing that Lessor will be commencing such conservation practices. Lessee agrees not to interfere with the person conducting the conservation practice during the proposed period of time to conduct said practices.
19. CRP PROVISIONS. The Lessee acknowledges that all or part of the land covered by this Addendum may now or subsequently be enrolled in the Conservation Reserve Program (CRP) of the Commodity Credit Corporation (CCC), United States Department of Agriculture. As long as any part of the leased premises is enrolled in the CRP, the Lessee shall be obligated, at Lessee's expense, to restore lands used by Lessee during its operations, to the same condition as nearly as practicable to its original condition as found prior to Lessee's operations and to take all necessary and reasonable precautions to prevent soil erosion resulting from Lessee's drilling operations. Such work shall be performed in a good and workmanlike manner and in such manner as may be required by the Farm Services Administration (FSA) under the terms of the CRP Contract. If drilling a well causes surface owner to lose any benefits of a CRP Contract that is in existence at the time the well is drilled, including repayment of past CRP payments, or loss of future CRP payments, Lessee shall reimburse surface owner for such damages.
20. TWO-YEAR EXTENSION OF LEASE. If at the end of the primary term, this lease is not otherwise continued in force under the provisions hereof, this lease shall expire, unless Lessee on or before the end of the primary term shall pay or tender to Lessor, the sum of Ten (\$10.00) multiplied by the number of net mineral acres owned by the Lessor in the land above described and then subject to this lease; and subject to other provisions of this lease, the primary term shall be extended for an additional term of two (2) years from the end of the primary term hereof. Notwithstanding the provisions of the lease to the contrary, this lease shall not be considered a producing lease by the payment of delay rental beyond the expiration of the primary term.
21. BINDING EFFECT. This Lease and Addendum to said Lease and all of its terms, conditions and stipulations shall extend to and be binding upon the Lessor, the Lessee and the surface owner, together with the Heirs, devisees, executors, administrators, personal representatives, assigns and successors of the Lessor, Lessee and surface owner.

By: 
Alan Eugene James

By: 
Marilyn Louise James

By: 
John David James

By: 
Vickie Louise James