



KANSAS CORPORATION COMMISSION 1068192
OIL & GAS CONSERVATION DIVISION

Form CDP-1
May 2010
Form must be Typed

APPLICATION FOR SURFACE PIT

Submit in Duplicate

Operator Name: Shelby Resources LLC		License Number: 31725
Operator Address: 445 Union Boulevard		Suite 208 LAKEWOOD CO 80228
Contact Person: Chris Gottschalk		Phone Number: 720-274-4682
Lease Name & Well No.: Eakin 5-7		Pit Location (QQQQ): NE - NE - NW - NE Sec. 7 Twp. 22 R. 16 <input type="checkbox"/> East <input checked="" type="checkbox"/> West 5232 Feet from <input type="checkbox"/> North / <input checked="" type="checkbox"/> South Line of Section 1569 Feet from <input checked="" type="checkbox"/> East / <input type="checkbox"/> West Line of Section Pawnee County
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 checked="" type="checkbox"/> Haul-Off Pit <i>(If WP Supply API No. or Year Drilled)</i>	Pit is: <input checked="" type="checkbox"/> Proposed <input type="checkbox"/> Existing If Existing, date constructed: _____ Pit capacity: 3000 (bbls)	
Is the pit located in a Sensitive Ground Water Area? <input checked="" 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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Artificial Liner? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	How is the pit lined if a plastic liner is not used? Drilling Mud
Pit dimensions (all but working pits): 70 Length (feet) 70 Width (feet) Depth from ground level to deepest point: 5 (feet)		<input type="checkbox"/> N/A: Steel Pits <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: 476 feet Depth of water well 34 feet	Depth to shallowest fresh water 7 feet. Source of information: <input type="checkbox"/> measured <input type="checkbox"/> well owner <input type="checkbox"/> electric log <input checked="" 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: Drilling Mud Number of working pits to be utilized: 1 Abandonment procedure: Haul off free fluids, let cuttings dry and then backfill Drill pits must be closed within 365 days of spud date.	
Submitted Electronically		

KCC OFFICE USE ONLY			
Date Received: 11/18/2011	Permit Number: 15-145-21655-00-00	Permit Date: 11/21/2011	Lease Inspection: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		<input checked="" type="checkbox"/> Liner <input type="checkbox"/> Steel Pit <input checked="" type="checkbox"/> RFAC <input type="checkbox"/> RFAS	

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

Kansas Corporation Commission Oil & Gas Conservation Division

HAUL-OFF PIT APPLICATION FILING REQUIREMENTS

82-3-607. DISPOSAL OF DIKE AND PIT CONTENTS.

- (a) Each operator shall perform one of the following when disposing of dike or pit contents:
- (1) Remove the liquid contents to a disposal well or other oil and gas operation approved by the commission or to road maintenance or construction locations approved by the department;
 - (2) dispose of reserve pit waste down the annular space of a well completed according to the alternate I requirements of K.A.R. 82-3-106, if the waste to be disposed of was generated during the drilling and completion of the well; or
 - (3) dispose of the remaining solid contents in any manner required by the commission. The requirements may include any of the following:
 - (A) Burial in place, in accordance with the grading and restoration requirements in K.A.R. 82-3-602 (f);
 - (B) removal and placement of the contents in an on-site disposal area approved by the commission;
 - (C) removal and placement of the contents in an off-site disposal area on acreage owned by the same landowner or to another producing lease or unit operated by the same operator, if prior written permission from the landowner has been obtained; or
 - (D) removal of the contents to a permitted off-site disposal area approved by the department.
- (b) Each violation of this regulation shall be punishable by the following:
- (1) A \$1,000 penalty for the first violation;
 - (2) a \$2,500 penalty for the second violation; and
 - (3) a \$5,000 penalty and an operator license review for the third violation.

Complete and return with Haul-Off Pit Application, Form CDP1(2004)

Haul-off pit will be located in an on-site disposal area: Yes No

Haul-off pit is located in an off-site disposal area on acreage owned by the same landowner:
 Yes No If yes, written permission from the land owner must be obtained. Attach written permission to haul-off pit application.

Haul-off pit is located in an off-site disposal area on another **producing** lease or unit operated by the same operator: Yes No If yes, written permission from the land owner must be obtained. Attach permission and a copy of the lease assignment that covers the acreage where the haul-off pit is to be located, to the haul-off pit application.



Dec 17, 2008 10:10 AM Fees \$20.00

Jacqueline Schulze
Jacque Schulze, Register of Deeds

Eakin #

620-285-7379

FORM 88 - (PRODUCERS SPECIAL)(PAID-UP W/OPT)
63U (Rev. 2004 CRI)

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OIL & GAS LEASE

AGREEMENT, Made and entered into the 12th day of August, 2008, by and between **Chad T. Eakin and Janice M. Eakin, husband and wife**, whose mailing address is 4501 Prairie Rose Drive, Great Bend, KS 67530, hereinafter called Lessor (whether one or more), and **Captiva II, LLC**, 1658 Cole Boulevard, Suite 205, Lakewood, CO 80401, hereinafter called Lessee:

Lessor, in consideration of Ten and more Dollars (\$10.00) in hand paid, receipt of which is hereby 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 Pawnee, State of Kansas described as follows, to-wit:

TOWNSHIP 22 SOUTH, RANGE 16 WEST OF THE 6TH PRINCIPAL MERIDIAN

Section 7: Lot Seven (7), N/2NE/4, SW/4NE/4, LESS AND EXCEPT that portion lying West and North of the Atchison, Topeka and Santa Fe Railroad, (now known as the Kansas and Oklahoma Railroad), AND EXCEPT a tract described as follows: Commencing at the Northwest corner of the Northeast Quarter (NE/4) of said Section 7; thence on an assumed bearing of North 90 degrees 00 minutes 00 seconds East, along the North line of the Northeast Quarter of said section, a distance of 725.25 feet to a point on the South right-of-way line of the Kansas and Oklahoma Railroad, said point being the point of beginning of the land to be described; thence continuing on a bearing of North 90 degrees 00 minutes 00 seconds East, along the North line of the Northeast Quarter of said section, a distance of 183.03 feet; thence on a bearing of South 02 degrees 10 minutes 37 seconds East a distance of 627.53 feet; thence on a bearing of North 88 degrees 15 minutes 00 seconds West a distance of 383.83 feet; thence on a bearing of North 00 degrees 18 minutes 22 seconds West a distance of 459.09 feet to the South right-of-way line of said Kansas and Oklahoma Railroad; thence on a bearing of North 48 degrees 54 minutes 58 seconds East, along the South right-of-way line of said Kansas and Oklahoma Railroad, a distance of 237.79 feet to the point of beginning.

SEE EXHIBIT 'A' ATTACHED HERETO AND MADE A PART HEREOF:

containing 152.56 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 (1/8th) 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 (1/8th), at the market price at the well, (but, as to gas sold by Lessee, in no event more than one-eighth (1/8th) 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 operations 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 300 feet to the house or barn or any other structure on said premises without written consent of Lessor.

Lessee shall pay for damages caused by Lessee's operations 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 and upon termination of this lease, Lessee shall remove all machinery and fixtures.

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EXHIBIT 'A'

- 1) The provisions of this lease are hereby amended to include in the granting clause, helium and other extractions.
- 2) The royalty clause is hereby amended to include a royalty payment on helium and other extractions at the mouth of the well.
- 3) It is agreed that if the Lessee owns any interest in the pipeline to which is delivered the gas produced from this premises, the Lessor shall bear no costs of gas treatment, dehydration, compression, transportation or water hauling charged to this lease by Lessee in its operations thereon after the point of diversion. It is further agreed that Lessor shall receive their proportionate royalty share of all monies received by Lessee for oil and/or gas production attributable to this lease, including any premiums, rebates and refunds of any kind or nature paid to Lessee and any take or pay payments, production payments, contract buy outs or contract buy downs, which directly reduce the amount of royalty revenue Lessor would otherwise receive from oil and/or gas production from his lease.
- 4) Lessee agrees to return the land as nearly as possible to its present condition after any drilling operations.
- 5) Any tanks or gunbarrels shall be placed by mutual agreement of Lessor and Lessee.
- 6) Before building any roads, Lessee and Lessor shall mutually agree as to the site for the roads. No road ditches shall be constructed and roads shall not obstruct the natural or established flow of water.
- 7) The Lessee shall not, notwithstanding the provisions of paragraph 1 of this Oil and gas Lease, inject any gas, water or other fluid and air into any subsurface stratum which contains water suitable for irrigation purposes or for domestic consumption or livestock consumption.
- 8) Lessee shall not drill any salt water disposal well upon the above-described real estate without the express written consent of the Lessor being first obtained, provided Lessee shall have the right to drill a salt water disposal well for disposition of salt water from wells drilled on the real estate described in paragraph 1 of this lease.
- 9) At the option of Lessors, surface pipe will be set below the fresh water formation.
- 10) In the event of gas production hereunder in commercial quantities and said well is not shut-in, Lessor is to receive a minimum of five dollars (\$5.00) per net mineral acre per year royalty for entire acreage covered by this lease in order to perpetuate this lease. Lessee shall have thirty (30) days after notification by Lessor of insufficient royalty to tender said deficiency or said lease shall terminate.
- 11) If the primary term of this lease is perpetuated by production of oil or gas, notwithstanding anything to the contrary contained in this lease, it is expressly agreed that this lease shall terminate as of two (2) years after expiration of the primary term hereof, insofar, and only insofar, as to all of the formations lying below 100 feet below the total depth of the deepest test drilled by the lessee or its assigns on the above-described premises or on any lands unitized or pooled therewith. Upon written request of the Lessor the Lessee shall be obligated to file of record in the applicable office of the Register of Deeds a release of lower zones or formations within sixty (60) days after the expiration of the two-year period following the primary term hereof. If such release is not filed within said sixty (60) day period, Lessee shall be subject to damages and for any attorney's fees incurred by Lessors in obtaining such release.
- 12) Lessee shall bury all pipelines at least forty (40) inches below the surface of the above-described real estate.
- 13) Lessee shall haul trash to the landfill and shall dump no trash in any pits.
- 14) The Lessee shall not have the right to use fresh water produced from the above-described real estate for the purpose of secondary recovery by water flood, pressure maintenance or other similar operations.
- 15) Before commencing any drilling operations upon the portions of the above-described real estate, the Lessee shall pay the sum of one thousand dollars (\$1,000.00) to the Lessor as a deposit to be applied against damages to land and crops caused by the operations of the Lessee. If the described real estate, is damaged (physical and/or loss to crop production capability or loss to grazing rights) to an amount greater than the amount paid prior to drilling operations, then Lessee shall promptly pay Lessor such additional damages.

- 16) In the event of production of only gas in commercial quantities and in the further event said gas well is shut-in, the Lessee shall pay shut-in gas royalties of three hundred (\$320.00) per year for the three (3) year period after such gas well is completed and thereafter, the shut-in royalty payments shall be one thousand dollars (\$1,000.00) per year. If gas has not been sold from the said premises within six (6) years from completion of said gas well, this lease shall expire six (6) years from the date of completion of said gas well.
- 17) The Lessee agrees that in connection with its operations upon the above-described real estate, the shale and reserve pits shall be dug in such a manner as to remove and preserve the Lessor's topsoil and to segregate the topsoil from the subsoil and after use, said pits will be backfilled by Lessee pursuant to this lease at such time as the Lessor shall direct.
- 18) The Lessee agrees to comply with all rules and regulations of the United States Department of Agriculture, Natural Resources Conservation Services and appropriate Farm Service Agency with respect to any Conservation Reserve Program covering the above-described real estate. In particular, when drilling and operations have terminated, the Lessee shall restore the surface to its present condition, including the reseeded of grass acceptable to the Natural Resources Conservation Services and Farm Service Agency.
- 19) Lessee not enter or attempt to enter onto the lease land during muddy conditions, except as may be agreed by Lessor. In the event Lessee shall already be on and conducting drilling operations when muddy conditions develop, then Lessee shall use reasonable efforts to minimize damage to land, but Lessee shall not be required to stop operations due to muddy conditions.
- 20) The Lessee agrees that no geo-physical seismic testing shall be conducted on the described real estate, except by separate written agreement and for such consideration as shall be agreed to by Lessor.
- 21) Notwithstanding any other provision of this lease, the Lessor and Lessee agrees that this lease does not provide Lessee with a pipeline right of way and/or easement for carrying or transporting gas, oil, or other oil and gas related materials that are solely produced from locations not originating on the leased land or on land to which the leased land is unitized.
- 22) After twelve (12) months from the completion of a well, the Lessee upon request shall allow Lessor or Lessor's representative(s) to view copies of any logs in its possession or under its control relative to the geologic structure of the above-described real estate. Such information shall be kept strictly confidential by the Lessor.
- 23) Notwithstanding anything herein contained to the contrary, Lessee shall be responsible for restoring the surface as near as possible to its original condition within one hundred eighty (180) days after completion of a dry hole or within one hundred eighty (180) days after oil or gas ceases to be produced from a producing well. The obligation of Lessee to restore the surface shall continue even if this lease is assigned by Lessee to any other person or entities.
- 24) Lessor and Lessee have participated jointly in the negotiation and drafting of this lease. In the event an ambiguity or question of intent or interpretation arises, this lease shall be construed as if drafted jointly by both parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this lease.
- 25) Lessor reserves the right to purchase gas for farm purposes, dredging operations, shop, home, concrete plant, and irrigation purposes from wells located on the above-described real estate or from any real estate unitized with the above-described real estate. Lessor shall make all connections for these purposes at their sole cost, expense and liability, and Lessor shall conform to the engineering specifications of Lessee's production department. Lessor shall pay Lessee for any gas purchased in the amount per MCF equal to the price then in effect under any contract under which Lessee is selling gas from the gas well on the above-described real estate or any unitized real estate to a third party. The amount of gas which the Lessor may purchase hereunder shall be limited to one-eighth (1/8) of the entire amount of gas produced from wells located upon the above-described real estate or from the real estate unitized therewith.

SIGNED FOR IDENTIFICATION ONLY:

x Chad T. Eakin
Chad T. Eakin

x Jamie M. Eakin
Jamie M. Eakin



Dec 17, 2008 10:10 AM Fees \$20.00

Jaquie Schulze
Jaquie Schulze, Register of Deeds

FORM 88 - (PRODUCERS SPECIAL)(PAID-UP W/OPT)
63U (Rev. 2004 CRI)

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OIL & GAS LEASE

AGREEMENT, Made and entered into the 12th day of August, 2008, by and between **Chad T. Eakin and Janice M. Eakin, husband and wife**, whose mailing address is 4501 Prairie Rose Drive, Great Bend, KS 67530, hereinafter called Lessor (whether one or more), and **Captiva II, LLC**, 1658 Cole Boulevard, Suite 205, Lakewood, CO 80401, hereinafter called Lessee:

Lessor, in consideration of Ten and more Dollars (\$10.00) in hand paid, receipt of which is hereby 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 Pawnee, State of Kansas described as follows, to-wit:

TOWNSHIP 22 SOUTH, RANGE 16 WEST OF THE 6TH PRINCIPAL MERIDIAN
Section 7: Lots Five (5), Six (6) and "B", and the NW/4SE/4 (also described as SE/4)

SEE EXHIBIT 'A' ATTACHED HERETO AND MADE A PART HEREOF:

containing 121.00 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 (1/8th) 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 (1/8th), at the market price at the well, (but, as to gas sold by Lessee, in no event more than one-eighth (1/8th) 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 operations 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 300 feet to the house or barn or any other structure on said premises without written consent of Lessor.

Lessee shall pay for damages caused by Lessee's operations 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 and upon termination of this lease, Lessee shall remove all machinery and fixtures.

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.

EXHIBIT 'A'

- 1) The provisions of this lease are hereby amended to include in the granting clause, helium and other extractions.
- 2) The royalty clause is hereby amended to include a royalty payment on helium and other extractions at the mouth of the well.
- 3) It is agreed that if the Lessee owns any interest in the pipeline to which is delivered the gas produced from this premises, the Lessor shall bear no costs of gas treatment, dehydration, compression, transportation or water hauling charged to this lease by Lessee in its operations thereon after the point of diversion. It is further agreed that Lessor shall receive their proportionate royalty share of all monies received by Lessee for oil and/or gas production attributable to this lease, including any premiums, rebates and refunds of any kind or nature paid to Lessee and any take or pay payments, production payments, contract buy outs or contract buy downs, which directly reduce the amount of royalty revenue Lessor would otherwise receive from oil and/or gas production from his lease.
- 4) Lessee agrees to return the land as nearly as possible to its present condition after any drilling operations.
- 5) Any tanks or gunbarrels shall be placed by mutual agreement of Lessor and Lessee.
- 6) Before building any roads, Lessee and Lessor shall mutually agree as to the site for the roads. No road ditches shall be constructed and roads shall not obstruct the natural or established flow of water.
- 7) The Lessee shall not, notwithstanding the provisions of paragraph 1 of this Oil and gas Lease, inject any gas, water or other fluid and air into any subsurface stratum which contains water suitable for irrigation purposes or for domestic consumption or livestock consumption.
- 8) Lessee shall not drill any salt water disposal well upon the above-described real estate without the express written consent of the Lessor being first obtained, provided Lessee shall have the right to drill a salt water disposal well for disposition of salt water from wells drilled on the real estate described in paragraph 1 of this lease.
- 9) At the option of Lessors, surface pipe will be set below the fresh water formation.
- 10) In the event of gas production hereunder in commercial quantities and said well is not shut-in, Lessor is to receive a minimum of five dollars (\$5.00) per net mineral acre per year royalty for entire acreage covered by this lease in order to perpetuate this lease. Lessee shall have thirty (30) days after notification by Lessor of insufficient royalty to tender said deficiency or said lease shall terminate.
- 11) If the primary term of this lease is perpetuated by production of oil or gas, notwithstanding anything to the contrary contained in this lease, it is expressly agreed that this lease shall terminate as of two (2) years after expiration of the primary term hereof, insofar, and only insofar, as to all of the formations lying below 100 feet below the total depth of the deepest test drilled by the lessee or its assigns on the above-described premises or on any lands unitized or pooled therewith. Upon written request of the Lessor the Lessee shall be obligated to file of record in the applicable office of the Register of Deeds a release of lower zones or formations within sixty (60) days after the expiration of the two-year period following the primary term hereof. If such release is not filed within said sixty (60) day period, Lessee shall be subject to damages and for any attorney's fees incurred by Lessors in obtaining such release.
- 12) Lessee shall bury all pipelines at least forty (40) inches below the surface of the above-described real estate.
- 13) Lessee shall haul trash to the landfill and shall dump no trash in any pits.
- 14) The Lessee shall not have the right to use fresh water produced from the above-described real estate for the purpose of secondary recovery by water flood, pressure maintenance or other similar operations.
- 15) Before commencing any drilling operations upon the portions of the above-described real estate, the Lessee shall pay the sum of one thousand dollars (\$1,000.00) to the Lessor as a deposit to be applied against damages to land and crops caused by the operations of the Lessee. If the described real estate, is damaged (physical and/or loss to crop production capability or loss to grazing rights) to an amount greater than the amount paid prior to drilling operations, then Lessee shall promptly pay Lessor such additional damages.

- 16) In the event of production of only gas in commercial quantities and in the further event said gas well is shut-in, the Lessee shall pay shut-in gas royalties of three hundred (\$320.00) per year for the three (3) year period after such gas well is completed and thereafter, the shut-in royalty payments shall be one thousand dollars (\$1,000.00) per year. If gas has not been sold from the said premises within six (6) years from completion of said gas well, this lease shall expire six (6) years from the date of completion of said gas well.
- 17) The Lessee agrees that in connection with its operations upon the above-described real estate, the shale and reserve pits shall be dug in such a manner as to remove and preserve the Lessor's topsoil and to segregate the topsoil from the subsoil and after use, said pits will be backfilled by Lessee pursuant to this lease at such time as the Lessor shall direct.
- 18) The Lessee agrees to comply with all rules and regulations of the United States Department of Agriculture, Natural Resources Conservation Services and appropriate Farm Service Agency with respect to any Conservation Reserve Program covering the above-described real estate. In particular, when drilling and operations have terminated, the Lessee shall restore the surface to its present condition, including the reseeded of grass acceptable to the Natural Resources Conservation Services and Farm Service Agency.
- 19) Lessee not enter or attempt to enter onto the lease land during muddy conditions, except as may be agreed by Lessor. In the event Lessee shall already be on and conducting drilling operations when muddy conditions develop, then Lessee shall use reasonable efforts to minimize damage to land, but Lessee shall not be required to stop operations due to muddy conditions.
- 20) The Lessee agrees that no geo-physical seismic testing shall be conducted on the described real estate, except by separate written agreement and for such consideration as shall be agreed to by Lessor.
- 21) Notwithstanding any other provision of this lease, the Lessor and Lessee agrees that this lease does not provide Lessee with a pipeline right of way and/or easement for carrying or transporting gas, oil, or other oil and gas related materials that are solely produced from locations not originating on the leased land or on land to which the leased land is unitized.
- 22) After twelve (12) months from the completion of a well, the Lessee upon request shall allow Lessor or Lessor's representative(s) to view copies of any logs in its possession or under its control relative to the geologic structure of the above-described real estate. Such information shall be kept strictly confidential by the Lessor.
- 23) Notwithstanding anything herein contained to the contrary, Lessee shall be responsible for restoring the surface as near as possible to its original condition within one hundred eighty (180) days after completion of a dry hole or within one hundred eighty (180) days after oil or gas ceases to be produced from a producing well. The obligation of Lessee to restore the surface shall continue even if this lease is assigned by Lessee to any other person or entities.
- 24) Lessor and Lessee have participated jointly in the negotiation and drafting of this lease. In the event an ambiguity or question of intent or interpretation arises, this lease shall be construed as if drafted jointly by both parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this lease.
- 25) Lessor reserves the right to purchase gas for farm purposes, dredging operations, shop, home, concrete plant, and irrigation purposes from wells located on the above-described real estate or from any real estate unitized with the above-described real estate. Lessor shall make all connections for these purposes at their sole cost, expense and liability, and Lessor shall conform to the engineering specifications of Lessee's production department. Lessor shall pay Lessee for any gas purchased in the amount per MCF equal to the price then in effect under any contract under which Lessee is selling gas from the gas well on the above-described real estate or any unitized real estate to a third party. The amount of gas which the Lessor may purchase hereunder shall be limited to one-eighth (1/8) of the entire amount of gas produced from wells located upon the above-described real estate or from the real estate unitized therewith.

SIGNED FOR IDENTIFICATION ONLY:

x Chad T. Eakin
Chad T. Eakin

x Janice M. Eakin
Janice M. Eakin

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
Ward Loyd, Commissioner
Thomas E. Wright, Commissioner

Sam Brownback, Governor

November 21, 2011

Chris Gottschalk
Shelby Resources LLC
445 Union Boulevard
Suite 208
LAKEWOOD, CO 80228

Re: Drilling Pit Application
Eakin 5-7
Sec.07-22S-16W
Pawnee County, Kansas

Dear Chris Gottschalk:

District staff has inspected the location and has determined that an unsealed condition will present a pollution threat to water resources.

District staff has recommended that the Haul-Off pit be lined. If a plastic liner is to be used it must have a minimum thickness of 10 mil. Integrity of the liner must be maintained at all times. The free fluids must be removed. The fluids are to be removed from the Haul-Off pit as soon as the Hutchinson Salt section has been drilled through and displacement of the fluids into the Haul-Off pit has occurred. The fluids should be removed again within 96 hours after drilling operations have ceased.

NO completion fluids or non-exempt wastes shall be placed in the Haul-Off pit.

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.

If you have any questions or concerns please feel free to contact the District Office at (620) 225-8888.