



KANSAS CORPORATION COMMISSION 1031815
OIL & GAS CONSERVATION DIVISION

Form CDP-1
April 2004
Form must be Typed

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) _____ N/A: Steel Pits Depth from ground level to deepest point: _____ (feet) _____ No Pit			
If the pit is lined give a brief description of the liner material, thickness and installation procedure.		Describe procedures for periodic maintenance and determining liner integrity, including any special monitoring.	
Distance to nearest water well within one-mile of pit _____ feet Depth of water well _____ feet		Depth to shallowest fresh water _____ feet. Source of information: _____ measured _____ well owner _____ electric log _____ KDWR	
Emergency, Settling and Burn Pits ONLY: Producing Formation: _____ Number of producing wells on lease: _____ Barrels of fluid produced daily: _____ Does the slope from the tank battery allow all spilled fluids to flow into the pit? <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.	
<p>Submitted Electronically</p>			

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

**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 landowner 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 landowner 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.

July 15, 2009

Kathleen Paxton and Kenneth Paxton
Co-Trustees of the Kathleen Paxton Revocable Trust
dated November 17, 1999; as amended
6402 E. 11th
Wichita, Kansas 67206

Christine Kubik and J. F. Kubik
8315 E. Tamarac St.
Wichita, Kansas 67206-2337

Re: Oil and Gas Leases
SW/4 Section 21 & N/2 Section 28-T34S-R11W
Barber County, Kansas

Dear Lessors:

This letter will serve as a written memorandum of our agreement with respect to the following matters concerning the Oil and Gas Leases now owned by VAL Energy, Inc. ("VAL") listed below:

1. Oil and Gas Lease dated December 31, 2005 from Kathleen Paxton, aka Kathleen W. Paxton, and Kenneth Paxton, aka Kenneth E. Paxton, Co-Trustees of the Kathleen Paxton Revocable Trust UAD November 17, 1999; and Christine Kubik, aka Christine W. Kubik, and J. F. Kubik, her husband, as lessor, to Lotus Operating Co., LLC, as lessee, covering the Southwest Quarter (SW/4) of Section 21, Township 34 South, Range 11 West, Barber County, Kansas, recorded in the office of the Register of Deeds, Barber County, Kansas in O&G Book 309 at Page 349;
2. Oil and Gas Lease dated December 31, 2005 from Kathleen Paxton, aka Kathleen W. Paxton, and Kenneth Paxton, aka Kenneth E. Paxton, Co-Trustees of the Kathleen Paxton Revocable Trust UAD November 17, 1999; and Christine Kubik, aka Christine W. Kubik, and J. F. Kubik, her husband, as lessor, to Lotus Operating Co., LLC, as lessee, covering the Northwest Quarter (NW/4) of Section 28, Township 34 South, Range 11 West, Barber County, Kansas, recorded in the office of the Register of Deeds, Barber County, Kansas in O&G Book 309 at Page 346; and
3. Oil and Gas Lease dated December 31, 2005 from Kathleen Paxton, aka Kathleen W. Paxton,

and Kenneth Paxton, aka Kenneth E. Paxton, Co-Trustees of the Kathleen Paxton Revocable Trust UAD November 17, 1999; and Christine Kubik, aka Christine W. Kubik, and J. F. Kubik, her husband, as lessor, to Lotus Operating Co., LLC, as lessee, covering the Northeast Quarter (NE/4) of Section 28, Township 34 South, Range 11 West, Barber County, Kansas, except two tracts more fully described therein, recorded in the office of the Register of Deeds, Barber County, Kansas in O&G Book 309 at Page 352.

First, the parties acknowledge that VAL has heretofore drilled three (3) wells capable of producing commercial quantities of gas in the Southwest Quarter (SW/4) of Section 21, Township 34 South, Range 11 West, Barber County, Kansas, which wells are sufficient to extend the terms of the above-described Oil and Gas Leases pursuant to the recorded Declaration of Unitization consolidating the same. VAL shall further explore said leases by drilling up to thirteen (13) additional wells at locations of its choice thereon, and testing all prospective oil and gas formations encountered in each well, by December 31, 2010. It is agreed that, upon the completion of said additional wells, VAL shall have fully complied with all obligations to develop and explore the above-described Oil and Gas Leases implied by the terms thereof. Should the production of gas from existing wells cease at any time and for any reason prior to December 31, 2010, you agree to execute, without additional consideration, extensions of the Oil and Gas Leases as necessary to permit their further exploration and development.

Second, if any well drilled by VAL pursuant to the preceding paragraph is incapable of producing oil or gas in commercial quantities, VAL shall be permitted to convert said well to salt water injection and operate the same under terms consistent with those previously agreed to for the abandoned NCRA Wiley No. 1 well located in the Northwest Quarter of the Northwest Quarter of the Northwest Quarter (NW/4 NW/4 NW/4) of Section 28, Township 34 South, Range 11 West, Barber County, Kansas under the Saltwater Disposal Facility Agreement dated June 16, 2008.

Third, VAL shall be permitted to construct and maintain hard-surfaced roads on the lease premises using oil and gas production by-products, following such routes and directions as you and/or your surface tenant in possession may agree.

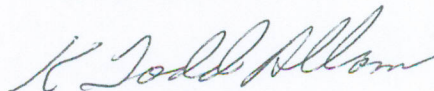
Fourth, all damages payable pursuant to the terms of the above-described Oil and Gas Leases arising out of its operations hereunder shall be remitted by VAL to you, and you agree to bear full responsibility for settlement of damages claimed by your tenant in possession.

This letter supplements and amends our prior letter agreement dated June 12, 2008, sets forth our entire agreement with respect to the subject matter hereof, and supercedes and replaces any and all prior oral or written representations or agreements with respect to the same. The terms of the agreement stated in this letter shall be binding upon, and inure to the benefit of, the parties hereto, and their respective heirs, successors, administrators, agents, representatives and assigns, and shall be considered to run with the lands and Oil and Gas Leases subject hereto.

If the foregoing accurately states the terms of our agreement, please so indicate by executing a copy of this letter in the spaces provided below and returning it to us. Thank you for your consideration.

Sincerely,

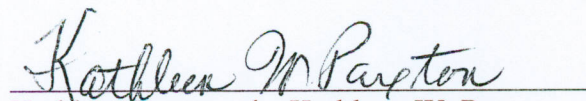
VAL ENERGY, INC.



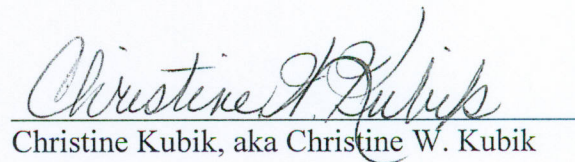
K. Todd Allam, President

The foregoing is accepted and approved as our agreement this 15 day of July, 2009.

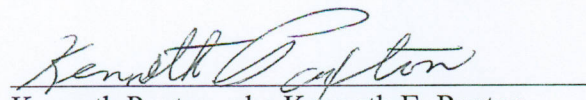
The Kathleen Paxton Revocable Trust
dated November 17, 1999, as amended



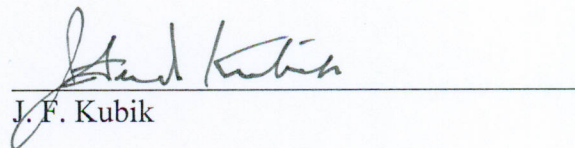
Kathleen Paxton, aka Kathleen W. Paxton,
Co-Trustee



Christine Kubik, aka Christine W. Kubik



Kenneth Paxton, aka Kenneth E. Paxton,
Co-Trustee



J. F. Kubik



*Mark Parkinson, Governor
Thomas E. Wright, Chairman
Michael C. Moffet, Commissioner
Joseph F. Harkins, Commissioner*

October 09, 2009

K. TODD ALLAM
Val Energy, Inc.
200 W DOUGLAS AVE STE 520
WICHITA, KS67202-3005

Re: Drilling Pit Application
PAXTON KUBIK 7-28
Sec.21-34S-11W
Barber County, Kansas

Dear K. TODD ALLAM:

District staff has inspected the above referenced location and has determined that the Haul-Off 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 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 as soon as practical after drilling operations have ceased.

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