

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.



CASTELLI EXPLORATION, INC.

6908 N.W. 112th Street
Oklahoma City, Oklahoma 73162

(405) 722-5571

FACSIMILE (405) 722-9871

SURFACE DAMAGE AND WATER USAGE AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

THAT the undersigned, Walter Don Thompson of 500 East Cottonwood, Coldwater, KS 67029 (hereinafter known as Landowner, whether one or more), and Castelli Exploration, Inc. (hereinafter known as The Company), for and in consideration of Ten and More dollars, cash in hand paid, and other good and valuable consideration the receipt of which is hereby acknowledged, do hereby enter into the Damage Agreement for the complete and entire compensation for damages caused by The Company's ordinary and reasonable operations pursuant to the drilling, completing and operating of the Thompson #1-30 well located at or near:

W/2 SW NW of Section 30, Township 30 South, Range 18 West
Kiowa County, Kansas

The Landowner hereby agrees that the consideration paid hereinabove stated shall serve as complete compensation for ordinary and reasonable damages arising out of and caused by the aforesaid operations on the said premises to the surface and growing crops thereon, water from a well designated by Landowner, said water to be used for drilling operations, for the road and location including all earth pits necessary for said operations and including, but not limited to, any damages which may be caused by the drilling operation.

Notwithstanding other provisions herein to the contrary, this release of damages covers only the drilling of The Company's proposed well and the completion and ordinary and reasonable day to day operation of said well. It does not cover any additional well or wells that may in the future be located on the land.

Furthermore, this release of damages covers only damages reasonably necessary to the operation of the Lease; and excludes any future damages due to negligence of The Company or use of portions of the land not reasonably necessary to operations.

The Landowner hereby grants permission for the removal, or altering of any and all trees, wherever located on the leased premises, which The Company feels necessary or convenient for the construction and/or completion of this project.

The Company hereby agrees that all fences cut or disturbed by its entry on said lands will be repaired and/or replaced to return same to their condition prior to The Company's entry as nearly as practicable. Where The Company has constructed roads, The Company shall install cattle guards and/or other mechanical devices to restrain livestock from crossing said fences.

The Company further agrees that within a reasonable time following completion or abandonment of the aforesaid well and location, the surface of the location will be restored as nearly as practicable to its condition prior to The Company's entry thereon. Such restoration will include allowing the pits to dry, filling same, grading and leveling site, and the removal of all debris from the surface, leaving said land suitable for replanting without further leveling or cleaning on the part of the Landowner. Any terraces broken or otherwise disturbed by the aforesaid operations will be rebuilt according to their original contour and returned to their condition prior to the entry on said premises and nearly as practicable or rebuilt in such a manner as to allow proper water drainage and minimize soil erosion. Any land taken for roads by The Company shall be similarly restored, or at the option of the Landowner may be retained as roads.

Walter Don Thompson also gives Castelli Exploration, Inc. permission to haul mud cuttings from the CK #29-F2 drilling well located in Section 29-31S-16W Comanche County, KS to the pit on the Thompson #1-30 located in Section 30-30S-18W Kiowa County, KS.

This agreement and the expressed provisions, terms and covenants herein stated shall serve as the complete agreement between the parties.

Agreed to and Acknowledged receipt of \$10,000.00 paid in full payment for damages and water usage as set out herein on this 12th day of March, 2012.

LANDOWNER:

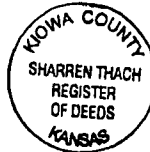
Walter Don Thompson

WITNESS:

BY:

Walter Don Thompson
Walter Don Thompson

[Signature]



STATE OF KANSAS }
KIOWA COUNTY } ss

This instrument was filed for record this
3rd day of March, 2008
at 8:20 o'clock A.M. and recorded
in Book 20 Page 2102 Fees 24.00
Sharren Thach

Register of Deeds
Judith I. Schoenberg
Deputy
Judith I. Schoenberg

OIL AND GAS LEASE

AGREEMENT Made and entered into the 1st day of February, 2008.

by and between Walter Don Thompson, a single man
whose mailing address is HC 72, Box 25A, Coldwater, Kansas 67029, hereinafter called Lessor (whether one or more)
and Castelli Exploration, Inc., 6908 NW 112th Street, Oklahoma City, Oklahoma 73162, hereinafter called Lessee

Lessor, in consideration of Ten and more Dollars (\$ 10.00 and more) 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 thereon, and handling and otherwise caring for its employees, the following described land, together with any reversionary rights and after-acquired interests, located and situated in County of Kiowa State of Kansas described as follows to-wit:

Northwest Quarter (NW/4)

See Exhibit "A" attached hereto

In Section 30 Township 30S Range 18W and containing 160.0 acres, more or less and all accretions thereto

Subject to the provisions herein contained, this lease shall remain in force for a term of five (5) 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 whatever 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, that, 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 to said lessor only in the proportion which lessor's interest bears to the whole and undivided fee

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for lessee's operation thereon, except water from the wells of lessor

When requested by lessor, lessee shall bury lessee's pipe lines below plow depth

No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of lessor

Lessee shall pay for damages caused by lessee's operations to growing crops on said land

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to throw and remove casing

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment

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

All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor, by payment any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof, and the undersigned lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, in so far as said right of dower and homestead bears in any way affect the purposes for which this lease is made, as recited herein.

Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof with other land, lease or leases in the immediate vicinity thereof, when in lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said lease premises so as to promote the conservation of oil, gas or other minerals in and under and that may be produced from said premises, such pooling to be of tracts contiguous to one another and to be into a unit or units not exceeding 40 acres each in the event of an oil well, or into a unit or units not exceeding 640 acres each in the event of a gas well. Lessee shall execute in writing and record in the conveyance records of the county in which the land herein leased is situated an instrument identifying and describing the pooled acreage. The entire acreage so pooled into a tract or unit shall be treated, for all purposes except the payment of royalties on production from the pooled unit, as if it were included in this lease. If production is found on the pooled acreage, it shall be treated as if production is had from this lease, whether the well or wells be located on the premises covered by this lease or not. In lieu of the royalties elsewhere herein specified, lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein on an acreage basis bears to the total acreage so pooled in the particular unit involved.

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

Witnesses

Walter Don Thompson
Walter Don Thompson

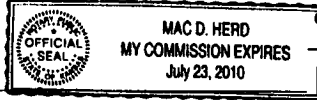
STATE OF Kansas }
COUNTY OF Comanche } ss.

(ACKNOWLEDGMENT FOR INDIVIDUAL)

Before me, the undersigned, a Notary Public, in and for said County and State, on this 12 day of February, 2008, personally appeared Walter Don Thompson, a single man

to me known to be the identical person who executed the within foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed, for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my official seal the day and year first above written.



Mac D. Herd
Notary Public

My commission expires _____

STATE OF _____ }
COUNTY OF _____ } ss.

(ACKNOWLEDGMENT FOR CORPORATION)

On this _____ day of _____, 2004, before me, the undersigned, a Notary Public, in and for the County and State aforesaid personally appeared _____

to me known to be the identical person who subscribed the name of the maker thereof to the 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 such corporation, for the uses and purposes therein set forth.

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

Notary Public

My commission expires _____

Addendum to oil and gas lease dated February 1, 2008, by and between Walter Don Thompson, a single man, hereinafter referred to as Lessor, and CASTELLI EXPLORATION, INC., hereinafter referred to as Lessee. This Addendum is a part of that certain oil and gas lease identified above by date and parties covering the Northwest Quarter (NW/4) of Section 30, Township 30 South, Range 18 West of the 6th P.M., Kiowa County, Kansas, to the same extent as if the provisions hereof had originally been written in said lease. In the event of conflict between the lease provisions and the provisions provided in this Addendum, the provisions of this Addendum shall be binding.

1. a) Lessee shall pay to Lessor a 5/32nd royalty for all gas and/or oil produced and saved from the leased premises.
b) Lessee shall not deduct from royalty payments due to Lessor any costs, including but not limited to compression, dehydration, transportation and gathering, or such other costs to produce gas or oil, and their constituent products, or costs to place such gas or oil in a marketable condition, whether such costs are incurred on or off the leased premises.
2. No right is granted to the Lessee to erect on any part of the leased premises any plant or facility for gasoline extraction or for the processing of gas or petroliferous substances, except the normal and necessary heater treater and separator customarily used. Lessee specifically agrees to build any meter houses, separators, heater treaters and storage tanks, used for the purpose of producing and saving any oil and gas upon the above described premises adjacent to any county, state, or federal road or highway adjoining the above described premises. Lessee shall pay to Lessor the sum of \$1,200.00 per year as rental for the property where the tank battery and pumping unit are placed.
3. Lessor reserves all rights to grant, lease, mine and/or produce any minerals from said lands except interests in gas and oil and their constituent products herein leased to Lessee.
4. Lessor shall have the right to purchase from Lessee gas at the wellhead price from any gas well located on the leased premises, or on any land unitized or pooled therewith, for farming, irrigation, and other agricultural purposes; provided, however, that the amount of gas used by Lessor for such purposes in any given year shall not exceed the amount attributable to Lessor's royalty interest for that year.
5. Lessee shall bury pipelines and utility lines to a depth of not less than sixty (60) inches below the surface. All slush pits shall be filled and leveled within sixty (60) days after well completion or abandonment unless a longer time therefore is granted by Lessor at his option.
6. Lessor reserves the right to designate all routes of ingress and egress. Prior to the construction of any roads, pipelines, tank battery installations, or installation of other equipment on the leased premises, Lessee shall consult and agree with the surface owner as to the location and direction of the same.
7. Lessee shall specifically not have right to use fresh water from the above described premises for the purposes of water flooding or injection in any water flooding program in which the leased premises may, for any reason, be pooled or unitized.
8. The installation of any salt water disposal equipment by Lessee in the operation of the lease shall be subject to the approval of Lessor. Lessee shall not be permitted to use any well drilled on the leased premises as a salt water disposal well without the written permission of the Lessor and without compensating Lessor for the use thereof.
9. Lessee agrees to give Lessor written notice 30 days in advance of their decision to surrender this lease. Upon termination of the lease, Lessee shall promptly put a release of record in the Register of Deeds Office of Comanche County, Kansas. In the event Lessee does not file a release of record with the Register of Deeds Office of Comanche County, Kansas, Lessee shall pay to Lessor the sum of \$1,000.00 plus any attorney fees incurred by Lessor in obtaining a release of the above referenced oil and gas lease.

10. In the event there is no production in paying quantities found by any operations undertaken by Lessee during the primary term of the lease and there is an abandonment of said lease, the Lessee shall fill all pits, ponds, remove all structures and reasonably restore the premises to the condition existing at the time the lease was executed. Within six (6) months after the expiration of the lease by its terms, Lessee shall have the obligation to restore, as nearly as practicable, the leased premises to the same condition as received, natural wear and tear and damages by the elements excepted.
 11. Prior to cutting any fence for entry onto the premises, Lessee shall cause corner posts and braces to be set so the fence will remain strong and as effective as it was prior to cutting.
 12. Lessee shall maintain all roads, well sites and production facilities in a clean and respectable condition, reasonably free of weeds and trash.
 13. Five years after the expiration of the Primary Term hereof, this lease shall thereupon terminate as to the oil and gas rights in all zones and formations of the leased premises which are 100 feet below the stratigraphic equivalent of the deepest zone or formation from which Lessee is producing oil and/or gas in paying quantities. Lessee shall be obligated to file of record in the Comanche County Courthouse a release of the lease covering the depths required to be released within sixty (60) days following written demand thereof after expiration of the primary term of this lease. If such release is not filed within said 60-day period, then Lessee shall be subject to a minimum damage of \$1,000.00, and for any attorney fees incurred by Lessor in obtaining such release.
 14. Should a well drilled on the premises be abandoned for any reason, Lessee shall have 90 days from the date of abandonment to remove all materials, including buried pipelines. Any such materials remaining on the premises after 90 days shall become the property of Lessor.
 15. It is agreed that 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. It is further agreed Lessor shall receive his proportionate royalty share of all monies received by Lessee for any 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 that Lessor would otherwise receive from oil and/or gas production from this lease.
 16. Lessee agrees that it will comply with all regulations and statutes of all governmental entities having jurisdiction over compliance with environmental legislation. Lessee further agrees to accept the leased premises in its "as is" condition. It is acknowledged that Lessee has been advised to inspect the property to determine that it is suitable for the purpose intended and to ascertain that no environmental hazards or toxins are now present.

Lessee shall indemnify and hold Lessor harmless from any claims, damages, actions or causes of action from any environmental damage or contamination caused or contributed to by Lessee subsequent to the commencement of this lease.
 17. This lease shall not be assigned except in its entirety. Lessee agrees to notify Lessor by written notice of any lease assignment within thirty (30) days following such assignment.
 18. Lessee shall pay for all abstracting charges to bring the Abstracts covering the above referenced property up to date prior to and after drilling operations.
 19. Lessee covenants to pay Lessor as damages a minimum of \$30.00 per rod for any 4 inch or less pipeline or power line crossing or constructed by Lessee whether connected to the well on the leased premises or not. All damages shall be due and payable on or before the construction of said pipeline.
 20. Lessee agrees that at no time during the life of this lease shall the royalty paid to Lessor for a yearly period commencing with first production from the well, be less than \$1,500.00 per year. A deficiency, if any, shall be paid to Lessor by lessee within thirty (30) days after written notice and demand thereof is made by Lessor.
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21. Lessee hereby agrees to pay for any and all damages occasioned to the land by its operations hereunder, including grass, livestock, crops and improvements. Lessee shall pay Lessor a reasonable amount but not less than \$2,500.00 for each new drill site location on the leased premises. Said minimum amount of \$2,500.00 to be paid by Lessee to Lessor prior to drilling activities being commence. Upon completion of Lessee's drilling operations on each well, Lessee agrees to restore the premises to as nearly as practical the same condition as they were prior to commencing of operations hereunder.
22. Lessor, at his sole risk, shall have the ingress and egress to all gas meters and gauges owned or controlled by the Lessee at all times for the sole purpose of checking proper and accurate operations.
23. Lessor and Lessee specifically covenant, stipulate and agree that the unitization clause should be and hereby is amended to provide that Lessee shall have the right to unitize the above referenced property for gas purposes only in 160 acre or less units. Before unitizing this land with any other land, Lessee will obtain Lessor's consent to the formation of the unit in writing and in addition thereto, Lessee shall make every effort to first unitize this lease with other land of Lessor's or other contiguous land that Lessor owns an interest then under lease by Lessee herein.
24. In the event Lessee shall undertake seismic testing operations, such operations shall be conducted in such a manner as to least interfere with farming operations. In no event shall seismic or other testing of similar nature occur; 1) when the ground is wet; 2) within 1,000 feet of any water well (domestic or irrigation), whether such well be located on the leased premises or not; 3) within 1,000 feet of any dwelling; 4) over or within 50 feet of any underground irrigation water pipe. Damages for seismic work shall be \$20.00 per acre.
25. It is understood and agreed that any shut-in royalties due and payable under the terms of this lease shall be computed and paid on the basis of \$10.00 per net mineral acre covered hereby. Notwithstanding any other provisions of this lease, it is expressly understood and agreed that after the primary term, this lease cannot be maintained in force solely by the payment of shut-in gas royalty for any one period in excess of 2 consecutive years.
26. It is agreed between the parties that any royalties that shall be unpaid or withheld for a period of over 60 days for any reason whatsoever shall bear interest at the current prime rate of interest charged by the Peoples Bank of Coldwater, Kansas, from the date they are due until paid in full.
27. Any amounts due and owing from Lessee to Lessor shall be paid by cashier's check.
28. Lessee shall not be entitled to place any gas produced off the above described oil and gas lease in pipelines located on the land in the above described oil and gas lease without first agreeing to a compensation schedule with Lessor with respect to said off-site gas.
29. Lessee shall not remove or use fresh water found on the leased premises without prior written consent of Lessor. In the event fresh water is needed for the drilling of a well located on the above described real property, Lessee agrees to pay to Lessor the sum of \$500.00 for the use of said water.

LESSEE:

Castelli Exploration, Inc.

BY: Tom Castelli
Tom Castelli, President

LESSOR:

Walter Don Thompson
Walter Don Thompson

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

March 20, 2012

Tisha Love
Castelli Exploration, Inc.
6908 NW 112TH
OKLAHOMA CITY, OK 73162-2976

Re: Drilling Pit Application
CK #29-F 2
Sec.30-30S-18W
Kiowa County, Kansas

Dear Tisha Love:

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 within 96 hours of completion of drilling operations.

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 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.