



KANSAS CORPORATION COMMISSION 1037934
 OIL & GAS CONSERVATION DIVISION
APPLICATION FOR SURFACE PIT

Form GDP-1
 April 2004
 Form must be Typed

Submit in Duplicate

Operator Name: Val Energy, Inc.		License Number: 5822	
Operator Address: 200 W DOUGLAS AVE STE 520		WICHITA KS 67202	
Contact Person: K TODD ALLAM		Phone Number: 316-263-6688	
Lease Name & Well No.: GIBSON UNIT 1-19		Pit Location (QQQQ): NW SE SE SE	
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: 3,000 (bbls)	
Is the pit located in a Sensitive Ground Water Area? <input type="checkbox"/> Yes <input checked="" 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? CLAY BOTTOM			
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 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: FRESH MUD Number of working pits to be utilized: 1 Abandonment procedure: REMOVE FLUIDS, LET DRY, COVER _____ Drill pits must be closed within 365 days of spud date.	
Submitted Electronically			

KCC OFFICE USE ONLY		Steel Pit <input type="checkbox"/>	RFAC <input checked="" type="checkbox"/>	RFAS <input checked="" type="checkbox"/>
Date Received: 05/21/2010	Permit Number: 15-007-23542-00-00	Permit Date: 05/21/2010	Lease Inspection: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	

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



*Kathleen Sebelius, Governor
Thomas E. Wright, Chairman
Michael C. Moffet, Commissioner
Joseph F. Harkins, Commissioner*

**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 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.

OIL AND GAS LEASE

AGREEMENT, made and entered into this 14th day of August, 2008 by and between

Carrol W. Gibson (a/k/a Carrol Gibson) and Anita Gibson (a/k/a Anita Y. Gibson), husband and wife, 605 N. Cherry, Medicine Lodge, KS 67104

hereinafter called "Lessor," and

**VAL Energy, Inc.
200 W. Douglas, Suite 520
Wichita, Kansas 67202**

hereinafter called "Lessee."

Lessor, in consideration of the sum of Ten Dollars (\$10.00) paid by Lessee, the receipt and sufficiency of which is hereby acknowledged, and in further consideration of the royalties herein provided and the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of exploring, by geophysical or other means, prospecting, drilling, mining, operating for and producing oil, liquid hydrocarbons, all gases, and their respective constituent products, including gas, water, other fluids and air into subsurface strata, laying pipe lines, storing oil, installing tanks, power stations, and other structures and things thereon, and to produce, save, take care of, treat, manufacture, store and transport oil, liquid hydrocarbons, gases and their respective constituent products and other products manufactured therefrom, the following-described land, together with any reversionary rights, after-acquired interest therein and all accretions thereto, situated in the County of **Barber** State of Kansas:

**Township 20 South, Range 15 West
Section 17: SE/4
Section 18: S/2 lying North and East of the railroad right-of-way
Section 19: All lying North and East of the railroad right-of-way
Section 20: NE/4, S/2NW/4, NW/4SE/4**

containing 938.009 acres, more or less.

This lease shall remain in force for a term of **Two (2)** years from the date hereof (hereinafter called the "primary term") and as long thereafter as Lessee shall fulfill the test well drilling obligations hereinafter set forth, and upon completion of said drilling and development obligations, so long thereafter as oil, liquid hydrocarbons, gas or other respective constituent products, or any of them, is produced from said land.

In consideration of the foregoing, Lessee covenants and agrees as follows:

1. Lessee shall deliver to Lessor, or to the credit of Lessor free of cost into the pipe line to which Lessee may connect wells on said land, as royalty, the equal one-eighth (1/8) part of all oil produced and saved from the lease premises; or at Lessee's option, Lessee may pay Lessor for such royalty monthly one-eighth (1/8) of the market price at the wellhead for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or storage tanks.
2. Lessee shall pay Lessor, as royalty for gas, gas condensate, gas distillate, casinghead gas, gas used in the manufacture of gasoline or any other product, and all other gas of whatever nature or kind, including its constituent parts, produced and sold or used off the premises, one-eighth (1/8) of the market price at the wellhead, as it is sold by Lessee, in no event more than one-eighth (1/8) of the proceeds received by Lessee from such sales, said payments to be made monthly. Where gas from a well producing gas only is not sold or used, Lessee may pay or tender annually at or before the end of each year during which gas is not sold or used, as shut-in royalty, whether one or more wells, the sum of One Dollar (\$1.00) per net mineral acre retained hereunder per year, and if such payment or tender is made it will be considered that gas is being produced within the meaning of this lease.
3. This lease may be maintained during the primary term without further payment or drilling operations. In order to extend the term of this lease, Lessee shall commence the drilling of a test well for oil or gas at a location of its choice upon the lease premises during the primary term. Within nine (9) months following completion of drilling the first well drilled hereunder and production casing is set or the well is plugged and abandoned, Lessee shall commence operations for drilling a second well, and shall drill an additional test well for oil or gas on the lease premises every nine (9) months after drilling of the preceding well thereafter until this lease has been fully developed on the basis of forty (40) acre drilling units or spacing. Lessee shall be deemed to comply with the requirements of this paragraph if it shall commence to drill a well within the term of this lease or any extension thereof, or prior to the expiration of nine (9) months following the completion of drilling of any preceding well, and drills such well to completion with reasonable diligence and dispatch until it is determined to be a producer or dry hole. In the event that Lessee shall fail to fulfill its drilling commitment as to any well to be drilled hereunder, this lease shall be released as to all but forty (40) acres surrounding each well theretofore drilled by Lessee, but shall remain in full force and effect as to all lands retained by Lessee.
4. If Lessor owns the interest in the above-described land then the entire and undivided fee simple estate therein, then the royalties herein provided for shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.
5. 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 such party's heirs, executors, administrators, successors or assigns, but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee, and no change of ownership in the land or in the royalties or any sum due under this lease shall be binding upon the Lessee until it has been furnished with either the original recorded instrument of conveyance or a duly certified copy thereof, or a certified copy of the will of any deceased owner and of the probate thereof, or certified copy of the proceedings showing the appointment of an administrator for the estate of any deceased owner, whichever is appropriate, together with all original recorded instruments of conveyance or duly certified copies thereof necessary to show the complete chain of title back to Lessor of the full interest claimed.
6. If the lease premises are now or shall hereafter be owned in severally or in separate tracts, the premises may nonetheless be developed and operated as one lease, and all royalties accruing hereunder shall be divided among and paid to such separate owners in the proportion that the acreage owned by each separate owner bears to the entire leased acreage. There shall be no obligation on the part of the Lessee to offset wells on separate tracts into which land covered by this lease may now or hereafter be divided by sale, devise, descent or otherwise, or to furnish separate measuring or receiving tanks.
7. 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.
8. When requested by Lessor, Lessee shall bury Lessee's pipe lines below plow depth. No well shall be drilled nearer than 200 feet from the house or barn now on said premises without written consent of Lessor. Lessee shall pay for damages caused by its operations to growing crops on said land.
9. If, after expiration of the primary term, production of oil or gas should cease from any cause, this lease shall not terminate if: (a) Lessee continues development of this lease in the manner prescribed by Paragraph 3 hereof; or (b) following completion of the drilling and development obligations set forth in Paragraph 3, Lessee commences additional drilling or reworking operations within one hundred twenty (120) days thereafter, and this lease shall remain in force so long as such operations are prosecuted either on the same well or any other well thereafter commenced with no cessation of more than one hundred twenty (120) consecutive days, and if such operations result in production of oil or gas, this lease shall remain in effect so long thereafter as there is production of oil or gas under any provision of this lease.
10. 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 surrender this lease as to such portion or portions, and thereby be relieved of all obligations as to the acreage surrendered. Lessee shall have the right at any time to remove all machinery and fixtures placed on the lease premises, including the right to draw and remove casing.
11. All express or implied covenants of this lease shall be subject to all federal, state and local laws, orders, rules, regulations and ordinances, and this lease shall not be terminated 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, regulation or ordinance.
12. Lessor hereby warrants and agrees to defend title to the land herein described, and agrees that the Lessee, at its option, may pay and discharge, in whole or in part, any taxes, mortgages, or other liens existing, levied or assessed on or against the above-described lands and, in the event Lessee exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any



VAL ENERGY, INC.

200 W. Douglas, Suite 520

Wichita, Kansas 67202-3005

Office: (316) 263-6688 Fax: (316) 262-2512

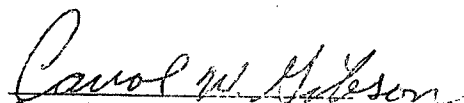
April 12, 2010

Kansas Corporation Commission
130 S. Market Room 2078
Wichita, Kansas 67202-3802

To Whom It May Concern;

VAL Energy Inc is preparing a drilling location in the SW NE NE of Sec. 19-30S-15W on my land. Due to the surface terrain the Kansas Corporation Commission Field Supervisor will not allow VAL to have a drilling reserve pit at this site. He granted verbal approval to locate the pit in the approximate SW SE SE of Sec. 18, directly to the north on the next plateau which remains on my land and is on the same VAL leased acreage. I hereby grant VAL Energy Inc. the right to use this location for the proposed drilling reserve pit. Should you have any questions, please feel free to call me 620-886-3102.

Sincerely,


Carroll W. Gibson, landowner


Anita Gibson, landowner



Mark Parkinson, Governor
Thomas E. Wright, Chairman
Joseph F. Harkins, Commissioner
Ward Loyd, Commissioner

May 21, 2010

K TODD ALLAM
Val Energy, Inc.
200 W DOUGLAS AVE STE 520
WICHITA, KS 67202-3005

Re: Drilling Pit Application
GIBSON UNIT 1-19
Sec.18-30S-15W
Barber County, Kansas

Dear K TODD ALLAM:

District staff has inspected the above referenced 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 with bentonite or native clay, 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 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.