

KVLA

KILLBUCK VALLEY
LANDOWNERS ASSOCIATION
12061 T.R. 252
Glenmont, OH 44628

Website: www.kvla.org

E-mail: kvla.info@gmail.com

Board of Trustees

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June 22, 2012

Dear Killbuck Valley Landowners Association Member:

INTRODUCTION

This monthly newsletter will update Association members of recent developments in the Utica Shale in Ohio and the efforts on behalf of the Association to market your acreage.

UPDATE ON KVLA MEMBERSHIP AND ACREAGE

The Association currently consists of about 609 members holding approximately 38,607 acres in western Holmes and Coshocton Counties. One of the guiding principles of this Association is that landowners do not commit their acreage until a lease is signed, and the decision to sign a lease is the individual landowner's decision alone. Our volunteer board holds two meetings per month, and continues to meet with members, to answer questions, to collect information and to seek professional advice on development issues facing the membership. Board meetings are held on the first and third Wednesday of each month, starting at 7:00 PM, at the old Glenmont Elementary School. ***There will be no Board meeting on July 4, 2012.*** Please check the KVLA website for further updates and information.

UPDATE ON EAST HOLMES

In late April, a majority of the East Holmes Landowners Group, the Farmerstown Landowners Group and KVLA members in Salt Creek, Paint, Berlin, Walnut Creek and Clark Townships signed leases with Endeavor, with the assistance of our legal counsel, Critchfield, Critchfield & Johnston, Ltd. ("CCJ"). Under the terms of these leases, Endeavor has 90 days, or until late July, to complete its title work and tender the bonus payment.

On June 19, 2012, CCJ received a letter from Endeavor, requesting: 1) a 90-day extension of the July deadline by which Endeavor must complete its title work and pay landowners, 2) to sell the East Holmes leases on or before October 15, 2012, and 3) a release of liability from all landowners in the event they are unable to fund the leases. Endeavor lists a number of reasons why it does not intend to drill this acreage. The next day CCJ sent a letter to everyone who signed leases with Endeavor, scheduling a meeting

on *Tuesday, June 26, 2012, at 7:00 PM at the Mt. Hope Auction Barn*. Endeavor representatives will be present to explain their position and then CCJ will answer questions and advise group members of other options.

UPDATE ON OHIO SHALE PLAY IN OHIO

Over the last several weeks there has been a shift in shale development in Ohio. The first stage of development consisted of leasing as much acreage as possible on terms acceptable to the producers. It is estimated that more than 3 million acres in Ohio have been leased. This fact, coupled with the recent announcements of Anadarko and Devon that they will substantially limit leasing for the time being and with Chesapeake trying to sell more than 300,000 acres, will negatively impact new large block leasing in the short term. With all of this acreage overhanging the market, there will be hot spots for leasing but the “come one come all” approach has, at least for the moment, abated.

In addition, producers who leased Utica acreage are drilling wells to determine what reserves are recoverable. There are over 70 horizontal wells being drilled in Ohio, and more than 300 wells have been permitted. Some producers will likely unitize as large a unit as possible, drill one lateral and move to the next location to do the same in order to hold by production as much acreage as possible. The producers will then return to the more successful wells and drill additional laterals at a later time.

This does not mean that groups are dead and the leasing is over. It will take some time to digest the current acreage position and evaluate the more productive areas. In particular, the producers will be prospecting to try to locate the “wet gas” and oil windows. Also, you can expect to see increased activity in the midstream development such as installation of pipelines, compressor facilities, and other development in order to market the product.

Once a number of wells have been drilled this summer, we expect leasing activity to increase in the fall and over the winter, depending, of course, on the results of these wells. We recommend patience because the leasing activity in the more productive areas will pick up. Accordingly, the reasons for being in a group will be even more important. Within the next several months, the results of the wells currently being drilled in our area will be learned, and this information will help determine the level of likely leasing activity in our area. A few very productive wells or a few dry holes could dramatically change the landscape.

We also recommend thinking carefully before leasing your property to speculators who may be coming in now, when the market is low, and seeking to lease for a relatively low dollar amount and with potentially unfavorable lease terms. Of course, you have every right to dispose of your mineral rights as you see fit, but any decision will bear consequences for years to come, so we encourage caution.

UPDATE ON CNX WELL IN RAGERSVILLE & DEVON'S BAILEY LAKES WELL

These two wells are the closest wells to KVLA acreage and their success may have an impact on the shale development in our area. Initially, CNX pumped oil and drilling fluids out with a temporary pump jack due to lack of gas pressure. The well is now shut in, but reports are that permanent production facilities will be installed in the near future. The production from this well will not have to be reported until March 2013.

The Devon well in Bailey Lakes, Ashland County, has been fracked and drilling fluids have been removed. Early reports are that the well is productive. As with the Ragersville Well, production will not have to be reported until March of 2013. However, since this Utica well is shallower than much of the KVLA acreage, its success may have a bearing on the viability of the shale development in our area.

Devon expressed some interest in looking at the maps for the KVLA acreage. A standard confidentiality agreement was provided to Devon and Devon indicated it would not sign such an agreement at this time. It has been reported that Devon is considering potential well locations in Mill Creek Township, Coshocton County, and Knox, Washington and Salt Creek Townships in Holmes County. Eclipse and Grenadier have also expressed interest in KVLA's map and have recently signed the same confidentiality agreement.

MONTHLY REMINDER

In closing, leasing activity in Holmes and Coshocton Counties has slowed. However, chances are still good that an oil and gas company will approach you individually about leasing your property. We have heard that companies may be trying to influence you to sign their leases by telling you that CCJ has already approved the lease and offer they are presenting. **These statements, if made, are not true.** CCJ will not approve any offer or lease without first obtaining KVLA Board approval and then communicating with the Association. When the time comes for you to sign a lease, CCJ will be present when you sign in order to answer any questions or concerns you may have.

Our primary advice to you is to be patient. Things here are continuing to progress and we want each of you to receive the best possible lease terms. There is strength in numbers, and it is important for the Association's members to stick together. The companies that may approach you directly are not interested in getting the best deal for you; they are interested in getting the best deal for themselves. Do not be misled. When in doubt, contact one of us or one of the CCJ attorneys, Dave Wigham or Garrett Roach.

Thank you for your continued participation in the Association.

If you have questions, please call:

Board of Trustees:

Bob Hunter, President
Larry Coldwell, Vice President
Marcella Hawkins, Secretary
Casey Wagner, Treasurer

Phone:

330.763.3992
330.276.4151
330.465.6987
330.763.1172

Bill Grassbaugh
Curt Mathie
Dave Noble
Matt Rohr
Wes Starker
Rick Weatherwax
Andy Weaver

330.377.4176
330.377.4223
330.264.8066
330.763.4010
330.231.0272
330.377.4412
740.824.5577

Sincerely,

Bob Hunter
Bob Hunter