

KVLA

**KILLBUCK VALLEY
LANDOWNERS ASSOCIATION**
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April 22, 2013

Dear Killbuck Valley Landowners Association Member:

INTRODUCTION

This monthly newsletter will update Association members on 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 630 members holding approximately 41,800 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 meets at least monthly, and continues to meet with members to answer questions, to collect information, to promote KVLA's acreage, and to seek professional advice on development issues facing the membership.

UPDATE ON THE BOB TROYER AND IRVIN BEACHY WELLS

As reported in prior newsletters, one of the most important wells potentially affecting KVLA acreage is the Troyer Well drilled by CNX Gas Company ("CNX") in Auburn Township, Tuscarawas County. The long-awaited 2012 production records have been released by the Ohio Division of Natural Resources ("ODNR"). According to these records, CNX has reported 10,015 barrels of oil and 9,986 MCF of gas were produced from the Troyer Well in only 50 days of production during 2012. Thus, production from the Troyer Well could be viewed as a favorable well.

CNX is drilling another horizontal well even closer to Holmes County in Bucks Township, Tuscarawas County, known as the Beachy Well. According to ODNR records, the lateral for the Beachy Well extends into Clark Township, Holmes County. This well has been drilled and fracked and is currently in its soaking period. Within the next few months, the well will be completed and production turned on. If this well is favorable, it could easily trigger more leasing in eastern portions of Holmes County. Right now, many folks holding mineral interests in eastern Holmes County are watching the Beachy well carefully.

BROKERS (OR FLIPPERS) HAVE ENTERED HOLMES COUNTY

KVLA has been informed that several flippers have entered Holmes and Coshocton Counties and are attempting to acquire “options” to lease property from unsuspecting landowners. This is not surprising given the results of the Troyer Well and the recent drilling of the Beachy Well.

A flipper is loosely defined as a broker who speculates on oil and gas properties by obtaining options to lease property and then tries to resell (or flip) the options to a Utica producer for a profit. Flippers try to guess where the next expansion of the oil boom will occur and then will try to blanket the area by offering “leases” to innocent landowners before they realize the boom has reached them. In reality, what they are offering are not true oil and gas leases, but mere “options” to obtain a lease, so if the broker is unable to “flip” the acreage before the payment obligation comes due, the broker will allow the option to expire.

Flippers have been promising to pay landowners in Holmes and Coshocton Counties signing bonuses of \$3,100 per acre. To our knowledge no one has been paid by any of the flippers on a lease in Holmes County. In addition, no consideration is paid for the lease at the time the lease is signed. The lease terms they offer are often less favorable to landowners than could be negotiated by a group. More importantly, the terms of the lease often require the flipper to pay the landowner within 120 business days. The flipper will then use this time period to try to resell the lease to producers who are interested in acreage at a higher price per acre than the lease option price. Only then will the option be exercised, the lease assigned to the producer and then the landowner paid.

There are several problems with this arrangement from the landowner’s prospective. First, flippers are usually unsuccessful in reselling (or flipping) the lease options they take from landowners. Nevertheless, flippers often record the lease in the county records. These leases have a cloud on the title to the minerals without the landowner receiving any compensation whatsoever. Flippers often fail to release these recorded leases, even though they have expired due to nonpayment. Undeterred, flippers will then continue to try to sell the expired leases to a producer and, if successful, will attempt to negotiate a lease extension from the landowner, even though the lease should have been released, and the landowner would otherwise be free to lease directly to a producer.

If the flipper is successful in reselling the lease option, the landowner has just lost the difference between the price paid for the lease option by the flipper and the market value of the lease. In other words, had the landowner simply waited for a legitimate lease offer to arrive, the landowner would have been able to realize the true market value of its lease instead of signing with the flipper for much less. The flipper has then been able to pocket the difference between the price paid to the landowner for the lease option and the price paid by the producer.

For these reasons, KVLA urges that landowners be patient. We continue to believe that there is strength in numbers and that if the area is developed our time will come. Remember that the lease you sign may last for generations and it deserves thoughtful and careful consideration. When in doubt, contact one of the Board members.

DOUG CORE PRESENTATION

On Wednesday, April 6th, local geologist Doug Core addressed the KVLA board with updated information released from ODNR in regards to production records from Utica Wells produced in 2012. With the exception of CNX's Troyer Well, all of the production reports from wells close to KVLA's acreage were disappointing. The Devon Energy wells drilled in Medina, Ashland, Knox, and Wayne County show insufficient gas and oil production to justify further development. Also, Anadarko's Pink Pig Well just south of Clark had very poor production results reported to ODNR.

In Doug's opinion, the Utica Shale in the western portions of KVLA's area is too immature to produce paying quantities with current fracking technology. It may very well be a matter of technology catching up with the type of shallow Utica Shale in this area. Doug also went on to mention that in his opinion it could take up to ten years for the Utica play east of us to be fully developed, and then maybe there will be an interest by companies there to develop the technology to develop our shallow Utica Shale, if it can be developed at all.

With current data released by ODNR, and the fact that several major oil and gas companies were here but now have their acreage in our area up for sale, it is not a good sign that KVLA will receive any kind of offer in the foreseeable future. Make no mistake; the board still remains committed to our principles of signing a fair lease with a Utica driller (oil and gas company) that will someday be producing the oil and gas under our association's acreage.

Thank you for your continued participation in the Association.

If you have questions, please call:

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Sincerely,

Bob Hunter
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