

KVLA

**KILLBUCK VALLEY
LANDOWNERS ASSOCIATION**
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October 31, 2012

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 623 members holding approximately 40,559 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.

IMPORTANT UPDATE ON KVLA MEETINGS

At the Board meeting held on October 17, 2012, the KVLA Board voted to temporarily reduce the frequency of the Board meetings to one per month, instead of two per month, over this year's holiday season. Accordingly, Board meetings will be held on the first Wednesday of each month only, starting on November 7, 2012. Meetings will still start at 7:00 PM, and will be held at the old Glenmont Elementary School. If leasing activity increases, the Board reserves the right to revert to two meetings per month. Please check the KVLA website for further updates and information.

UPDATE ON EAST HOLMES/ENDEAVOR

Recently, Endeavor sent a letter to Critchfield, Critchfield & Johnston, Ltd. ("CCJ"), counsel for the East Holmes, KVLA and Farmerstown groups, in which Endeavor expressed its intent to surrender all the leases that were signed by members of the East Holmes groups earlier this year. CCJ will send a newsletter directly to affected members of the KVLA, East Holmes, and Farmerstown group, explaining the consequences of this letter. KVLA members who signed leases with Endeavor are now free to lease their acreage to another producer.

UPDATE ON MARKETING OF KVLA ACREAGE

Since July 2012, there has been a little activity with regard to the marketing of KVLA's

acreage. CCJ has received numerous calls from producers and brokers, but there have been no serious discussions. The KVLA Board and CCJ will continue to market the group's acreage to other interested producers. One of the Board's key concerns is to avoid dealing with middlemen who are only interested in immediately attempting to re-sell (or flipping) the acreage before the payment obligation becomes due, for a profit. The Board strongly prefers to deal directly with the producer who will be developing the group's acreage. As reported in earlier newsletters, the success of the Hershberger #1H well outside of Apple Creek will have a significant impact on economic viability of KVLA's acreage.

USGS REPORT

In September 2012, the United States Geological Survey ("USGS") published a report in which it assessed the recoverable oil and gas reserves in the Utica Shale formation. A copy of this report is available at <http://pubs.usgs.gov/fs/2012/3116/FS12-3116.pdf>.

In its report, the USGS explained that this Shale formation has generated oil in significant quantities that has absorbed into the shale and which is recoverable using current horizontal drilling and hydrofracturing technology.

USGS defined "sweet spots" for both oil and gas bearing areas within the Utica Shale formation. These sweet spots are depicted in the Table attached hereto. As you can see, the oil sweet spot extends well into central Ohio and includes the entire KVLA acreage. From this table, it appears that Devon Energy was testing the outside limits of this area with its wells in Ashland, Medina and Knox Counties.

The USGS report goes on to provide estimates of the recoverable reserves. There are roughly 940 million barrels of oil, 38.2 trillion cubic feet of gas and 208 million barrels of natural gas liquids. Recovery of these estimated gas reserves in the Utica Shale Gas area would require 48,000 wells in the sweet spot and another 62,000 wells in the nonsweet spot area. In the Utica Shale Oil area, 7,000 wells would be required in the sweet spot and another 10,500 in the nonsweet spot.

OHIO'S RESTRICTIVE ENERGY REPORTING STATUTE

According to a recent Reuter's article, one of the reasons it is so difficult to gauge the success of the Utica Shale oil boom is Ohio's restrictive statute on the reporting of energy data. Virtually every other energy-producing state requires producers to report production data on a monthly basis. Ohio law mandates only annual reporting. Thus, data from only five Utica Shale wells is available from the ODNR, when more than 145 have been drilled. A recent energy bill that was proposed in the Ohio legislature contained a quarterly reporting requirement, but the clause was struck from the bill, presumably because more frequent reporting would provide an advantage to competing producers. This statute makes it difficult to accurately assess the viability of the Utica Shale play, because information is so infrequently published. This issue could eventually impact the pricing of KVLA's acreage and limit potential royalty estimates. The next reporting deadline for 2012 production is March 31, 2013. A complete version of the Reuter's article can be found at <http://www.reuters.com/article/2012/10/22/us-ohio-shale-idUSBRE89L04H20121022>.

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. Do not be misled and do not sign anything without the assistance of counsel. 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:

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Sincerely,

Bob Hunter
Bob Hunter

Table 1. Key assessment input data for shale oil and shale gas assessment units for the Utica Shale in the Appalachian Basin.

[EUR (estimated ultimate recovery per well), well drainage area, and success ratios are from U.S. shale oil and shale gas analogs. MMBO, million barrels of oil; BCFG, billion cubic feet of gas; AU, assessment unit; %, percent. The average EUR input is the minimum, median, maximum, and calculated mean]

Assessment input data	Utica Shale Oil AU				Utica Shale Gas AU			
	Minimum	Mode	Maximum	Calculated mean	Minimum	Mode	Maximum	Calculated mean
Potential production area of AU (acres)	13,500,000	15,000,000	16,500,000	15,000,000	25,800,000	31,600,000	37,400,000	31,600,000
Average drainage area of wells (acres)	150	250	350	250	120	150	180	150
Percentage of AU in sweet spots (%)	7	14	22	14	9	21	50	27
Input data for sweet spots								
Average EUR (MMBO, oil; BCFG, gas)	0.04	0.08	0.2	0.086	0.2	0.6	1.1	0.619
Success ratios (%)	70	80	90	80	75	85	95	85
Input data for nonsweet spots								
Average EUR (MMBO, oil; BCFG, gas)	0.01	0.03	0.1	0.034	0.04	0.10	0.60	0.128
Success ratios (%)	5	20	35	20	10	40	70	40

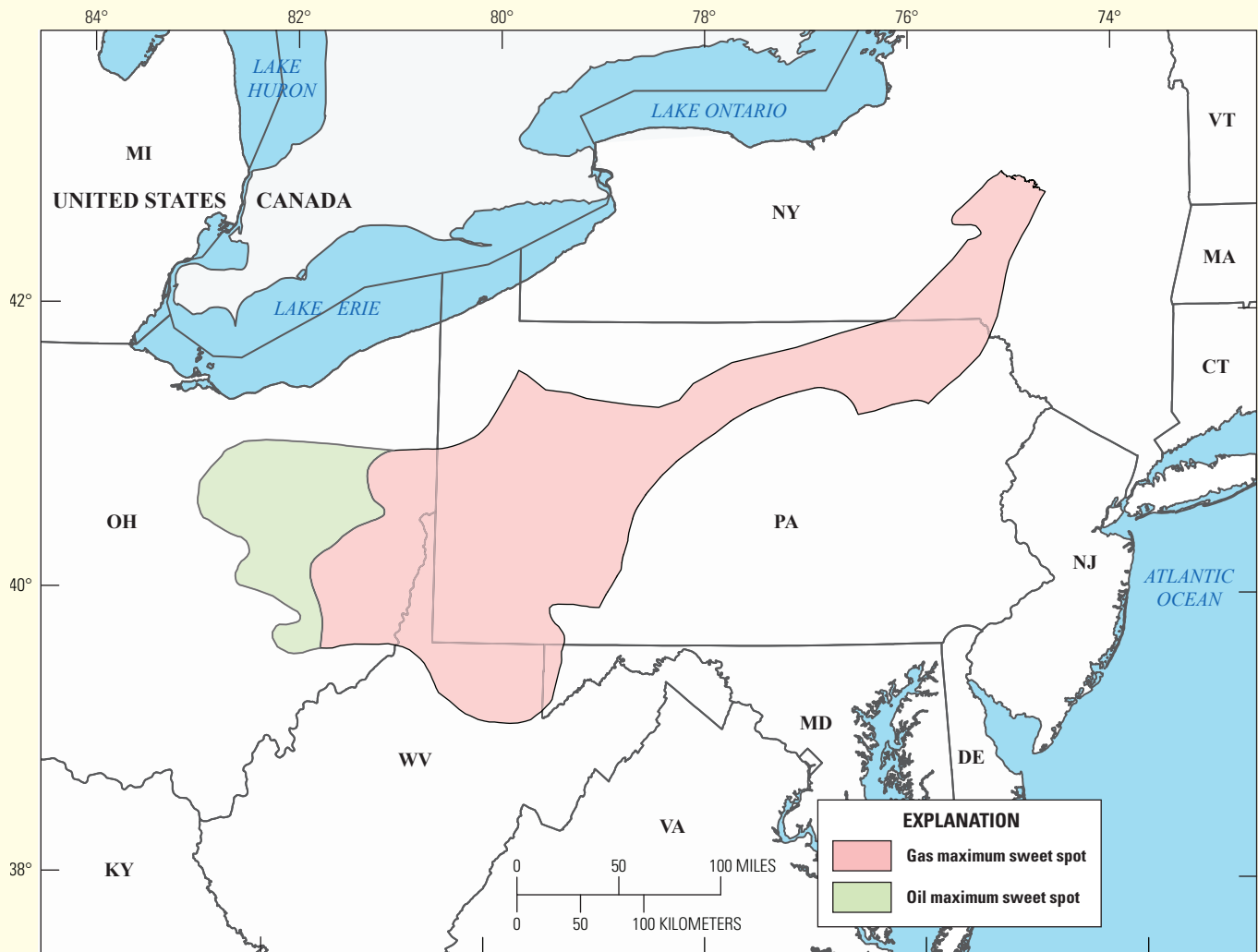


Figure 4. Map of maximum extent of the oil and gas sweet spots. The boundaries are based on total organic carbon, extent of Point Pleasant Formation, and current (2012) understanding of well completions. See table 1 for percentages.