

KVLA

**KILLBUCK VALLEY
LANDOWNERS ASSOCIATION**

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September 28, 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 621 members holding approximately 40,308 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, to promote KVLA's acreage, 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. Please check the KVLA website for further updates and information.

UPDATE ON EAST HOLMES/ENDEAVOR

Very 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 groups, 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 little activity with regard to the marketing of KVLA's acreage. CCJ has received numerous calls from a few 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.

ADDITIONAL REASON FOR THE SLOWDOWN IN LEASING

Prior editions of this newsletter have discussed why leasing has slowed in Ohio. Specifically, low gas prices, large blocks of lease acreage on the market and producers focusing on summer drilling programs have all contributed to the slowdown. Last year, only about five Utica Shale wells were drilled. This year, more than 144 such wells have been drilled. Thus, there has been a large increase in drilling activity.

This upstream activity however creates another problem: the lack of mid-stream facilities to process the oil and gas once it is taken out of the ground. These facilities include pipelines, compressor stations, processing plants and cryogenic and fractionation plants. Construction of this infrastructure is now under way, but many facilities will not be up and running until the third quarter of 2013 and into 2014. Until these facilities are constructed and completed, it is more difficult for shale producers to get their product to market, and without these midstream facilities, the Utica Shale does not get developed.

Now that producers know that vast quantities of oil and gas exist in the Utica Shale, they will be more willing to invest in midstream facilities. While the midstream project will cost billions of dollars and will create thousands of new jobs, they must be completed before companies can fully develop the Utica Shale formation.

The following is a brief list of reported midstream projects:

- Natural gas processing plant in Kensington, Columbiana County, Ohio.
- Cryogenic and fractionation plant in Cadiz, Ohio.
- Large pipeline project and processing network in Mahoning County, Ohio.
- Interstate pipeline project from eastern Ohio into Michigan.
- Various pipeline projects to complete a network throughout eastern Ohio.

RECENT DRILLING ACTIVITY IN THE AREA

As reported last month, Devon is currently drilling three horizontal wells in the following areas: Apple Creek (East Union Township, Wayne County), Holmesville (Holmes County) and Clark, Ohio (Mill Creek Township, Coshocton County). Anadarko is also completing a well in the Mill Creek Township area. The well in Apple Creek is known as the Hershberger 1H, the Holmesville well is referred to as the Crilow Farms 1H. These wells will attempt to test the western edge of the Utica Shale play in Ohio, and are probably the most significant wells to KVL A thus far.

Devon has already been stage fracking the Hershberger 1H well, using Halliburton. Thus, there should be well results by the end of the year. The drilling rig used on the Hershberger well is now in Guernsey County before it heads back to Holmes County.

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,

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