

KVLA

**KILLBUCK VALLEY
LANDOWNERS ASSOCIATION**

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Dear Killbuck Valley Landowners Association Member:

INTRODUCTION

This newsletter will update Association members of recent developments in the Utica Shale in Ohio and efforts on behalf of the Association to market your acreage. We plan to use monthly newsletters to keep everyone informed, and to also help dispel rumors that are spreading across the county. As we obtain lease offers, we will communicate them to you through a newsletter and, when appropriate, schedule Association meetings to discuss them and receive your input.

UPDATE ON KVLA MEMBERSHIP AND ACREAGE

The Association currently consists of about 552 members holding approximately 35,800 acres. Our volunteer board holds two meetings per month, and continues to meet with new members, answer questions, collect information and 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.

Leasing continues to progress westward across Ohio and through Holmes and Coshocton Counties. There still have been no Utica Shale wells permitted in Holmes County, although it has been reported that both Anadarko and Endeavor both plan to drill shale wells in Holmes County this summer. Utica Shale wells have been permitted in the adjoining counties of Tuscarawas (CNX Energy), Coshocton (Anadarko), Stark (Chesapeake) and Ashland (Devon Energy). The well drilled by CNX in Ragersville, Ohio has been fracked, but has not been placed into production for an unknown reason. This is the closest well to KVLA acreage so far. The well that Devon Energy is drilling in the Bailey Lakes area of Ashland County is of particular importance to KVLA, because that well, if successful, will help “prove” that the Utica Shale formation is economically viable at depths more shallow than much of the acreage owned by KVLA members. The well has been drilled and is in the process of being fracked.

EAST HOLMES UPDATE

As you are probably aware, Endeavor Energy has offered to East Holmes Landowners Association, the Farmerstown Landowners Group and KVLA members who own property in Salt Creek, Paint, Berlin, Walnut Creek and/or Clark Townships (the "Affected KVLA Members") the sum of \$3,100 per acre with a 18.00% gross royalty (no landowner expense deductions). Out of the total KVLA membership, there were approximately 125 Affected KVLA Members owning about 2,400 acres. Our legal counsel, Critchfield, Critchfield & Johnston, Ltd. ("CCJ"), held several public meetings at the Mt. Hope Auction Barn to explain the terms of the Endeavor lease to the landowner groups. The deadline to sign an Acceptance Agreement with Endeavor was February 29, 2012.

As of March 15, 2012, CCJ received commitments to Endeavor from 951 landowners owning 15,280 acres. Of this amount, about 76 Affected KVLA Members committed approximately 1,305 acres to Endeavor. CCJ has mapped this acreage and submitted it to Endeavor. ***On March 15, 2012, Endeavor agreed to accept this acreage.*** This means that CCJ will be scheduling dates for lease execution, and Endeavor will proceed thereafter with its due diligence.

If you are an Affected KVLA Member, and have not committed your acreage to Endeavor, it is not too late to submit an Acceptance Agreement. Endeavor has agreed to extend its offer to those Affected KVLA Members who have not signed, and to any other landowners with land next to any group members, until ***April 15, 2012.*** Thereafter, CCJ will begin the process of having leases executed.

NAPE UPDATE

Two attorneys from CCJ, Garrett Roach and Dan Plumly, attended the NAPE (North American Prospect Expo) Conference on February 23 - 24, 2012 in Houston, Texas, to market the Association's acreage to potential buyers of Utica Shale acreage. Garrett and Dan report that interest in the Wayne/Holmes/Coshocton acreage (KVLA acreage included) was high and at least five (5) shale drillers requested Non-Disclosure Agreements and maps from CCJ, including Chevron, Conoco Phillips, Hunt Oil, Rosetta and Noble Energy. Other producers expressed a high level of interest and spent time reviewing KVLA's maps. Devon Energy spent a lot of time at CCJ's booth. Garrett and Dan both believe that the NAPE trip was worthwhile, and may lead to competition for KVLA's acreage.

"DEEP RIGHTS" ISSUE

An issue arose during the discussions with Endeavor over a clause in the proposed Endeavor lease that allowed Endeavor to retain all deep rights below the Utica Shale formation. The concern was that this clause would allow Endeavor to tie up these deep rights for so long as the lease remained valid, and Endeavor could even assign these rights to a third party for development. Endeavor explained, however, that it absolutely needed these deep rights to

prevent another producer from drilling through areas of the Utica Shale formation after they were developed by Endeavor, thereby damaging the shale well.

The Board invited Doug Core, a local petroleum geologist, to its KVL A Board Meeting on March 7, 2012, to seek his input on this issue. Doug indicated that very few of the large shale drillers want anyone drilling through their shale formation for fear that it will damage the oil and gas bearing fractures in the formation. For this reason, few shale leases contain clauses that allow for a severance of the deep rights below the Utica Shale formation back to the landowner once the primary term is concluded. Doug went on to say that the deeper formations below the Utica Shale consist of erosional remnants that lie in smaller pockets consisting of anywhere from 40 to perhaps 80 acres. These remnants are very scattered and make up less than 10 percent of the possible Utica Shale acreage and are reduced even further by boundary line and other spacing and development issues.

MONTHLY REMINDER

In closing, leasing activity in Holmes and Coshocton Counties continues to build. Each day the chances are greater that you will be approached individually by an oil and gas company 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 KVL A 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. Everyone has heard stories of incredible lease bonuses and royalty payments from the lease activity and early wells drilled to the east of Holmes and Coshocton Counties. These stories have made everyone anxious to get on board. 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 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.

Thank you for your continued participation in the Association.

Sincerely,

Bob Hunter

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