

REPORT OF THE MINERAL RIGHTS LEASING COMMITTEE

AUGUST, 2011

DEVELOPMENTS SINCE 2010 ANNUAL MEMBERSHIP MEETING

It was reported at the 2010 Annual Membership Meeting held in August of 2010 that the Club was discussing a Mineral Rights lease with Williams Companies. Subsequent to that Meeting the Mineral Rights Leasing Committee (MRLC) prepared revisions to the relatively standard lease presented to EMCC by Williams' land agent. The hope was that Williams would respond to MRLC's suggested changes before year end and that a proposed lease could be presented to the EMCC Board for its consideration by year end 2010. The changes suggested by MRLC were consistent with verbal discussions between the parties and included elimination of the free 90 day option period, a clearer and more limited right to renew provision, insertion in the body of the lease items usually only covered by an Addendum (in case the Addendum and lease ever got separated), and included other minor points.

Williams did not respond in time for a lease to be presented to the Board and when they did respond it became clear that Williams had undergone a re-evaluation of their future interest in Sullivan County. In fact, Williams has announced major changes in their corporate structure. They announced their intention to separate their exploration and production activities from their pipeline activities and will effect this change by spinning off their exploration and production activities by forming a separate company and offering 20% of that new company in an IPO (Initial Public Offering) in the third quarter of 2011. The new independent company is called WPX Energy Incorporated. A Form S-1 filing has been submitted to the Securities and Exchange Commission describing the new company and the IPO will be jointly handled by Barclay's Capital, Citi and J.P.Morgan. The remaining 80% of WPX will be distributed to Williams existing shareholders in 2012. The new company will set its own direction. Additionally, Williams is currently bidding to buy another major pipeline company, Southern Energy Company, in a \$9.4billion all cash transaction .

In July of 2011 the Chairman of the MRLC spoke to Mr. Terry Hester, the Williams employee in charge of their land and leasing activities for all of Appalachia (not a land agent but a Williams' employee). The purpose of the call was to ascertain Williams' potential interest in resurrecting discussions with mineral rights owners in Shrewsbury Township. Williams responded by saying they were not going to pursue activity in Sullivan County because they did not have sufficient acreage under lease to make the pursuit of drilling worthwhile and that they would likely be divesting themselves of the leases they currently held. Alternatively, they hoped their acreage might be included in drilling units formed by other gas companies. It is clear that Williams Companies is not now a potential negotiating candidate for EMCC. This is unfortunate because Williams offered terms that may not be repeated by others.

A year ago, Chief Oil and Gas appeared to be another company with a likely interest in EMCC's mineral rights. After all, they were very active in Sullivan County as evidenced by their operations on Beaver Lake Road and the Marquadt well on Rines Road off of route 42 and the Wistar-Shaefer well near

the Craft preserve. This activity remains the closest to EMCC. Moreover, Chief was negotiating with Sullivan County landowners when Williams contacted EMCC. When Chief was contacted by the Chairman of MRLC about their interest in EMCC, they said they had none.

Much has happened regarding Chief's activities in the last year. To begin with, Chief sold many of its interests in much of Lycoming, Columbia and Sullivan Counties to Exco Corporation for \$459 million. The properties sold included 15 producing wells, 11 wells waiting to be completed and nearly 55,000 acres under lease. The entrance signs signifying the ownership of the properties noted in the previous paragraph now read Exco instead of Chief. (The transaction was more complicated than noted because while Exco is managing the purchased assets, the assets are actually owned in partnership with BG Group, a British company .)

In October of 2010, Mr. Douglas Miller, the CEO of Exco, made an offer to Exco to buy the company for \$4.35 billion. Mr. Miller's financial partners were reported to include Oaktree Capital Management, Ares Management and T. Boone Pickens. This caused the Exco Board of Directors to form a special committee to investigate Mr. Miller's offer and to examine other strategic possibilities to enhance shareholder value. Recently, Mr. Miller's financial backing has deteriorated and his offer was withdrawn so Exco, for the moment, seems not to be "in play".

Exco was contacted in May of 2011 about their potential interest in Shrewsbury Township leases. The company's land agent responded that they currently were not pursuing leases in Sullivan County. Local rumor has it that Exco is focusing on developing their existing leaseholds in order to recoup some of what they paid Chief for the properties. This includes drilling multiple wells on existing well pads.

LIKELY NEAR-TERM ACTIVITY

The MRLC believes that the current period represents a dead zone for EMCC lease negotiations. While there always will be "opportunists" who will attempt to take advantage of mineral rights owners it is likely that signing new leases in Shrewsbury Township will not be a high priority for major gas companies. There are several reasons for this. First, necessary infrastructure for getting gas to market still does not exist. Second, the price of natural gas per mmbtu (million metric british thermal units) is still at the low end of the profitable range for most producers. The supply of natural gas far exceeds current demand for the product. In fact, some companies, like Chesapeake, have announced that they are diverting a portion of their drilling budget to natural gas demand creation. Much of this money will be devoted to the building of compressed natural gas fueling stations. Also in the works is the construction of liquefied natural gas (LNG) export facilities on the East coast. Two such plants are planned. This would allow the transport of LNG to Asia where the current price is about \$14 per mmbtu – a more profitable option even with the added cost of liquefying. No such export facilities currently operate in the USA. Third, since July 1st, when the executive order that prohibited fracking expired in New York State and the Governor was given permitting guidelines for natural gas development by New York environmental regulators, gas companies and land agents have directed their attention to that part of the Marcellus play. Fourth, many existing leases, with terms very favorable to the gas companies, are nearing expiration. These companies are keen on holding on to these leases – a tactic called "holding

land by production". (Production is defined very broadly by the gas companies). Thus, company focus will be directed at leases nearing the end of term.

There are two items which the MRLC will be watching closely. The first is the Williams disposition of their nearby lease holdings. EMCC's likely best chance to negotiate a lease with favorable terms would be with the gas company who ultimately acquires the Kettle Creek lease. Second, we will monitor closely activity within and proximate to the Borough.

GOING FORWARD

EMCC is fortunate that it owns the mineral rights on substantially all of its property. This permits the Club to have influence over any potential drilling activities on its land. At the same time, the pursuit of a possible lease has become a polarizing issue for the Club's membership. It is ironic that this polarization likely would not exist if some previous owners of the Club's property had retained the mineral rights leaving the Club with little or no influence over drilling activities.

The MRLC will continue to explore the potential for leasing. If this exploration results in something the MRLC believes is attractive – all things considered – it will be presented to the EMCC Board for its consideration. The Committee has a responsibility to EMCC's membership. This is interpreted as taking action to preserve the attributes of our private Club. As reported last year, the Club's membership and financial operating results have deteriorated over the past several years. This trend is still apparent. While the Club is not in imminent financial danger, a continuation of current trends is foreboding. It is increasingly difficult to offset the revenue decline resulting from a 25% drop in voting membership. The Club provides substantial enjoyment for hundreds of area families, has one of the largest private payrolls in Sullivan County, pays substantial property taxes and adds to area property values among other things.

The Committee is grateful for the thoughtful comments on both sides of the issue it has received from its members and nonmembers alike. The diversity of opinions received make it abundantly clear that the Committee has multiple interests to consider.

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