

COAL AND NATURAL GAS
ROYALTY STREAM AND
RESERVE POSITION
FOR SALE

CASTANOLI JULIAN PROPERTY
BOONE COUNTY, WEST
VIRGINIA

Henkle and Assoc.
1Q - 2020

10 YR LEASE EXTENSION

- Old Lease - The Castanoli Property has been leased to Penn Virginia Operating Co., LLC since Jan., 2000 under a 20 year agreement.
- Extension - On 12/11/2019, the lease was extended by amendment, for an additional 10 years – new expiry on 1/14/2030.

10 YR LEASE EXT - DETAILS

- Surface Rights - Lessor reserves right to use the surface for installation of temporary structures and to use surface for agricultural purposes.
- Annual rentals (recoupable) re-set at \$ 10,000/yr (2020 – 2024) and \$ 11,000/yr (2025 – 2029) – reverts to mining royalty upon start up of mining.

10 YR LEASE EXT - DETAILS

- Wheelage Fees – Adverse Coal – set at 9 cents / ton for adverse coal wheeled across property.
- Spoil Placement Fee – Adverse spoils placed on property – 3 cents / cubic yard.
- Royalty – Tonnage Royalty on Surfaced mined coal reduced to 6% from 7%

10 YR LEASE EXT - DETAILS

- Option to Purchase – Lessee has option, but not the obligation to purchase fee simple absolute ownership of the property for an agreed upon price with Lessor. Price not to exceed - \$ 1,500,000.
- Option expires Jan. 14, 2022.

Natural Gas, Coal and Surface Rights For Sale

- The A.F. Castanoli Sr. Trust is the owner of a ~ 100 acre tract of land located in South Central West Virginia.
- The tract is owned in Fee; both surface and mineral rights are owned by the trust.
- There is both an oil and gas lease (producing) and a coal lease (permitted for surface mine production) associated with the property package – sale is subject to both leases.

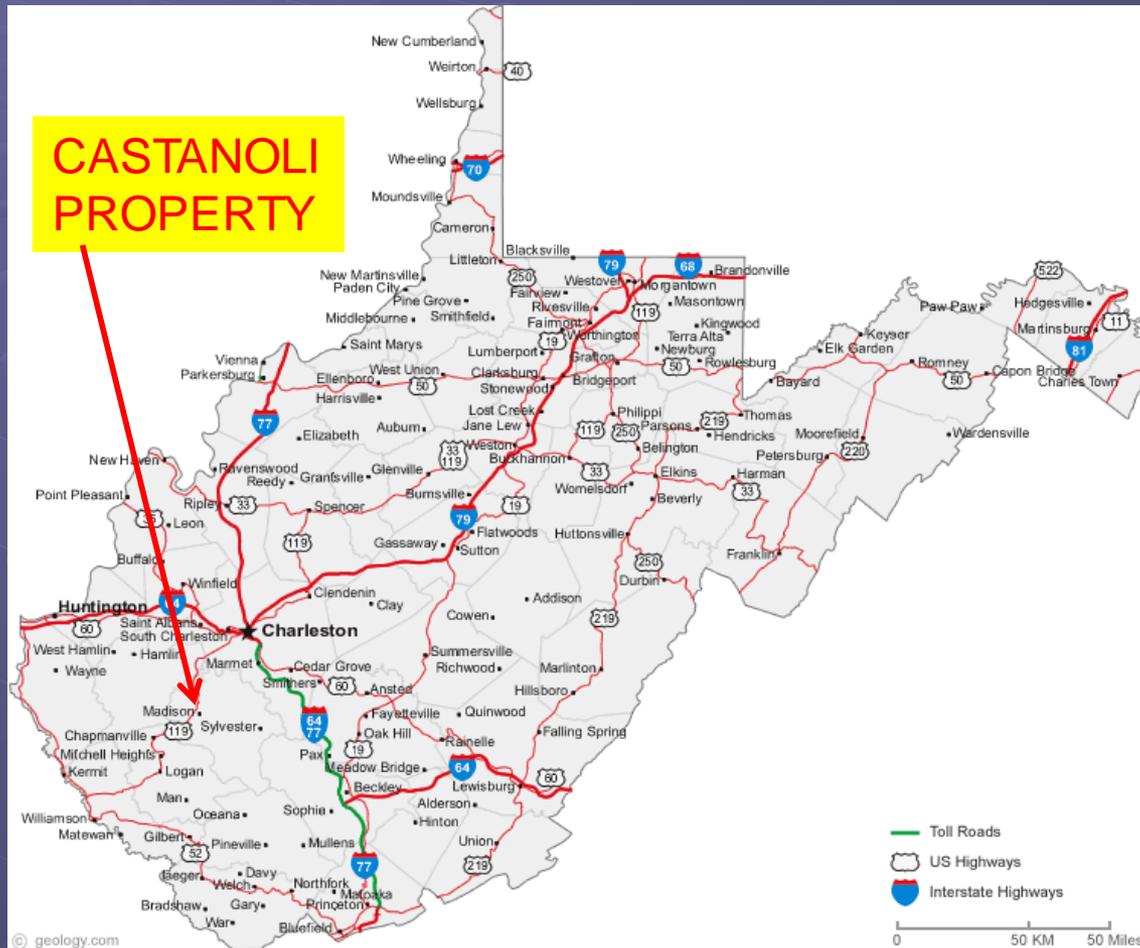
Mineral and Surface Rights For Sale

- Since most of the original heirs to the trust are deceased, the A.F. Castanoli Sr. Trust wishes to sell its mineral ownership and surface ownership rights to an ~ 100 acre tract located in Boone Co., WV.
- The tract contains substantial coal and natural gas resources. These rights will be sold subject to existing coal and oil and gas leases which are currently active and in good standing.
- Both the coal lease and the oil and gas lease provide a royalty income stream to the Trust.

LOCATION

- In the heart of West Virginia's Low Sulfur Coal Field and the Appalachian Basin Gas Field
- Scott District of Boone County, WV
- ~ 30 miles S of Charleston, along HWY 119, near the town of Julian, WV

PROPERTY LOCATION



Disclosure

The author is President / Chief Geologist of Henkle and Associates, Inc., a Nevada based economic geologic consulting firm.

In 2010, the author was appointed the trustee of the Castanoli Estate Trust, and is also a 1/16 th interest owner of the property. The author acquired his interest from inheritance. Well records shown in this presentation are since the author took control of the trust.

Gas Resources

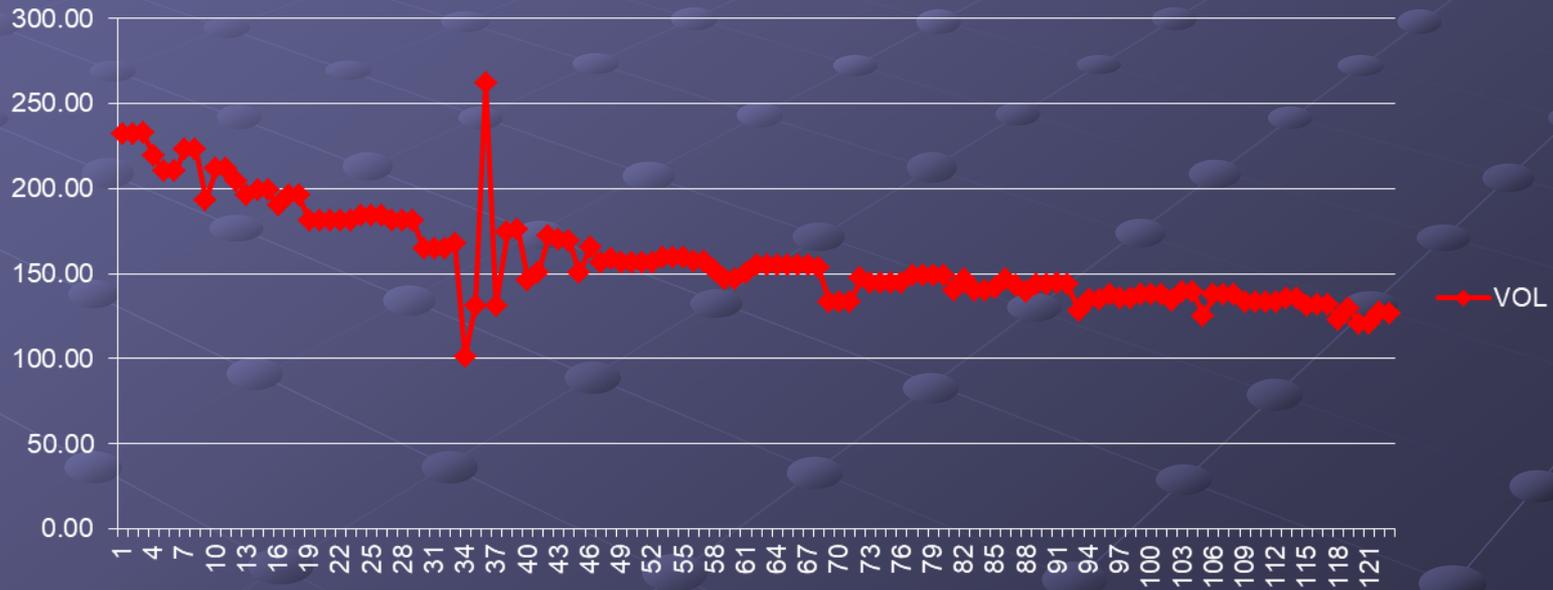
In 2001, the Trust leased out the oil and gas rights to the property. In 2004 - 5, the Castanoli #1 gas well was drilled and connected to a pipeline. In 2008, the Castanoli #2 gas well was drilled and connected to the same pipeline. The 2 wells are producing at ~ 35 MCFD (Q1 – 2019).

The Trust receives a 12.5% net royalty on gas sales from the property. The royalty position is for sale under this offering, as well as the coal and surface rights to the property.

Net Monthly Gas Sales AFC Trust

AFC TRUST – MONTHLY VOL. IN MCF
WELLS #1 + #2
7/15/2010 – 11/15/2019

VOL - PER MONTH

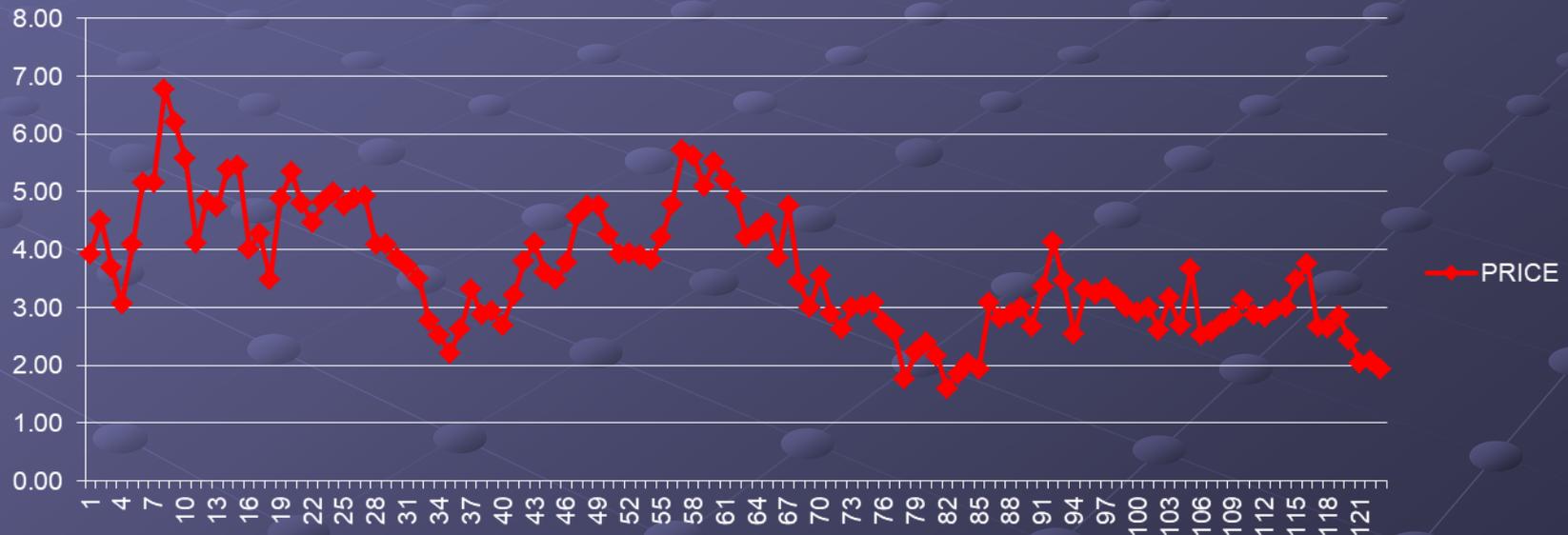


**NOTE: Gas Production Started in 2005 - ~ 14 Years Ago
Nearby Wells Have Been Producing For 50 – 75 Years**

Gas Sales Price Castanoli # 1 + #2

AFC TRUST – MONTHLY SALES PRICE
WELLS #1 + #2
7/15/2010 – 2/15/2019

PRICE / MONTH

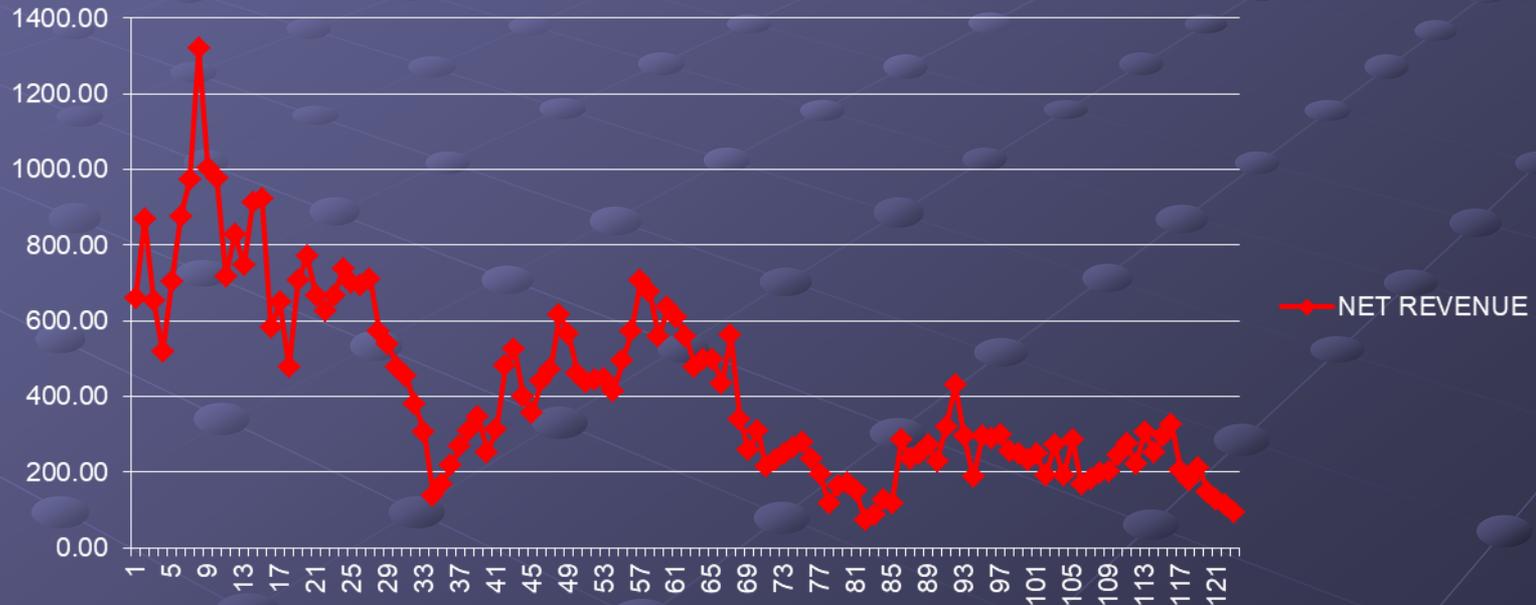


**NOTE: Gas Production Started in 2005 - ~ 14Years Ago
Nearby Wells Have Been Producing For 50 – 75 Years**

Net Revenue – Gas Sales Castanoli #1 + #2

AFC TRUST – MONTHLY REVENUE / MONTH
WELLS #1 + #2
7/15/2010 – 2/15/2019

NET REVENUE

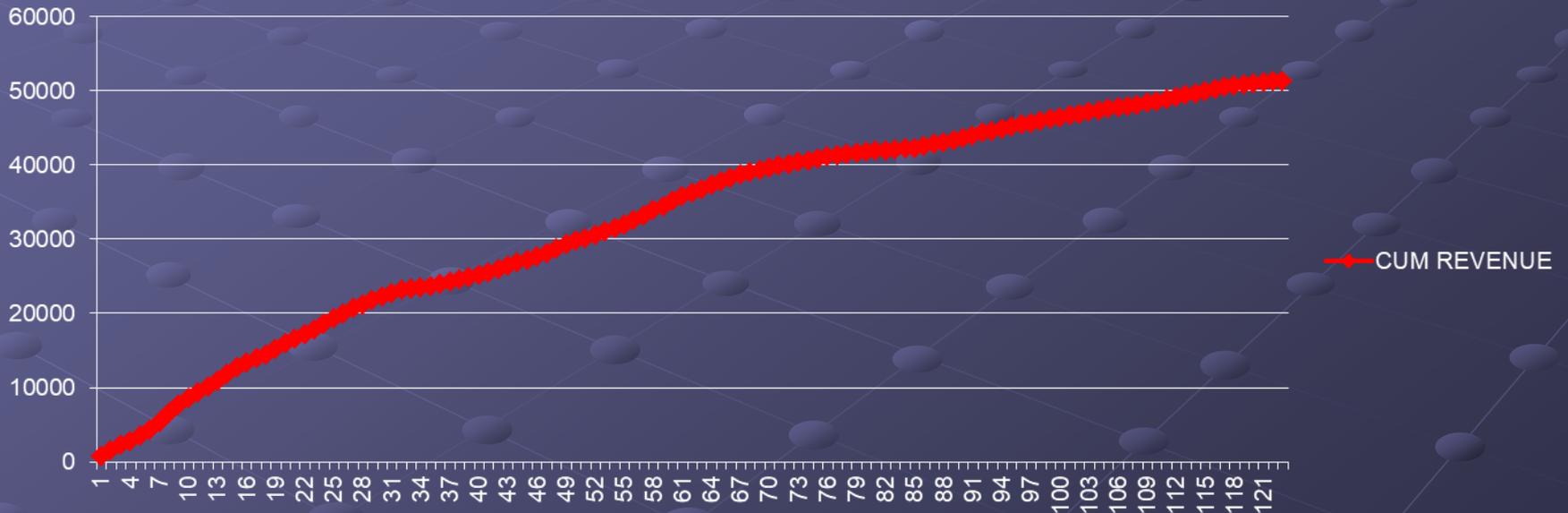


**NOTE: Gas Production Started in 2005 - ~ 14 Years Ago
Nearby Wells Have Been Producing For 50 – 75 Years**

Cumulative Revenue Castanoli #1 + #2

AFC TRUST – GUMULATIVE REVENUE
WELLS #1 + #2
7/15/2010 – 2/15/2019

CUM REVENUE - 123 MONTHS



**NOTE: Gas Production Started in 2005 - ~ 14 Years Ago
Nearby Wells Have Been Producing For 50 – 75 Years**

Cumulative Revenue Castanoli #1 + #2

- Natural Gas Royalties Paid to Castanoli Trust From 2005 – 1Q 2019 Exceed \$ 69,174.00
 - Note Records are Incomplete for 2008, 2009 and H1 2010, Prior to Appointment of Current Trustee

Producing Horizons

Castanoli #1 + #2

- The geology of the two wells is very similar, both produce from similar horizons (#2 is deeper than #1)
 - Injun Gas Sand - both
 - Berea Gas Sand - both
 - Big Lime - #2 only
 - Devonian Shale - both
 - Marcellus Shale - #2 only

Additional Production Potential

- The author wishes to point out that there is a possibility of additional nat gas/oil production from currently untested horizons beneath the Castanoli Lease.

These are:

- Marcellus Shale – possible candidate for horizontal drilling – fracking
- Ordovician Limestones – the Trenton and other limestones are productive in the general area of the lease.

Coal Lease / Production History

In 1978, the Castanoli Estate leased the coal mining rights to the property to S. Appalachian Coal Co.(SACCO), a subsidiary of American Electric Power Co.

In 1981-1982, SACCO strip mined the Stockton Seam coals on the property. SACCO mined ~ 100,000 tons of coal from the property; this generated ~ \$ 350,000 in royalty payments to the estate.

Coal Lease History (cont.)

By the early 1990's the property had been reclaimed, and the lease with SACCO was terminated. In the late 1990's, the Castanoli Trust leased the coal mining rights to the property to Fork Creek Mining Co.

The Fork Creek lease was eventually assigned to Penn Virginia Operating Co., LLC a successor of which is the current coal lessee.

Coal Lease History (cont.)

- Over the twenty year life of the lease, Penn Virginia has subleased the surface coal rights at the property to various coal companies. The current operator of the property is:
 - Lexington Coal, which operates as a sub-sub-sub lessee

Coal Lease History (cont.)

Lexington Coal operates several surface coal mines in the vicinity and cleans the coal at the Fork Creek Preparation Plant (3 mtpy clean coal output)

The northern $\frac{3}{4}$ of the Castanoli Property is permitted for surface mining under the Mine #9 permit – S – 5008 – 12 by WV Dept. of Environ. Protection

Coal Lease History (cont.)

- Lexington Coal recently began operations at the #9 Surface Mine (a mountain top removal mine), about 1 mile to the north of the property.
- #9 Mine mines ~ 350,000 tons of surface coal per year – the coal is cleaned at the Fork Creek Prep Plant.
- Current mine plans anticipate start of mining on the Castanoli property around 2021 - 2024

Coal Lease History (cont.)

- Once mining starts, it should take ~1.5 to 2 years to mine the property.
- Coal from the #9 Mine is currently being sold to both the domestic and export coal markets.

Coal Lease History (cont.)

- The southern $\frac{1}{4}$ of the property is operated under a sublease to Patriot Coal Corp.
- This part of the property is permitted for surface mining under the Buck Fork Surface Mine permit - # S – 5005 – 11 by the WV Dept. of Environ. Protection
- The Buck Fork Surface Mine is currently (Q1 – 2019) inactive but the mining permit is on active status.

PERTINENT COAL LEASE TERMS

- Lease Rentals = \$ 10,000 / yr (2020 on) – recoupable from production royalties
- Lessee reimburses owner for property taxes – currently ~\$ 2500.00/yr
- 6% royalty on surface mined coal
- 5% royalty on underground mined coal
- \$ 0.09/ton wheelage fee for adverse coal
\$ 0.03/cyd adverse spoil

ESTIMATE – RESERVES & RESOURCES

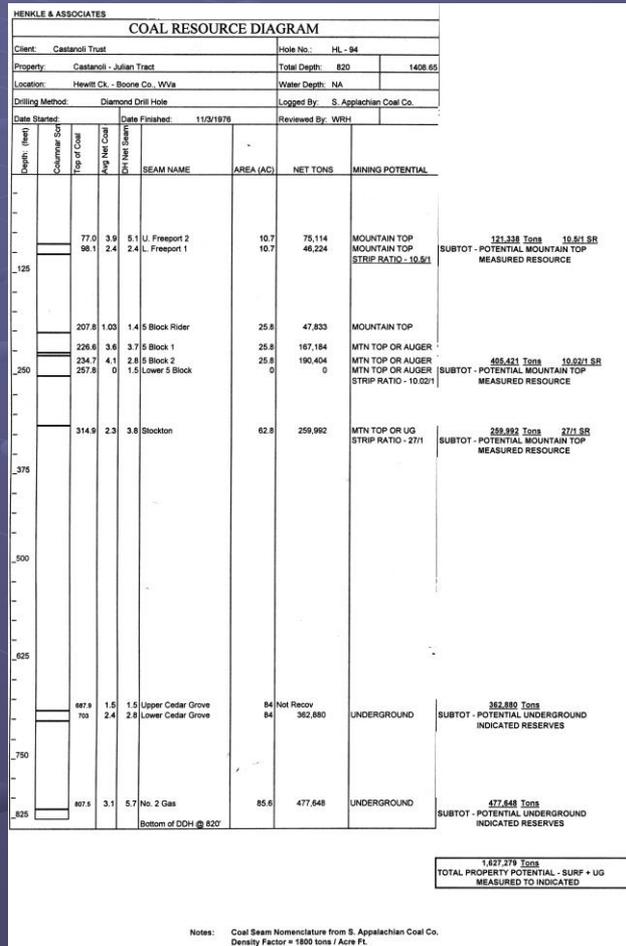
● SURFACE MINEABLE RESERVES

787,916 TONS CLEAN COAL – IN PLACE

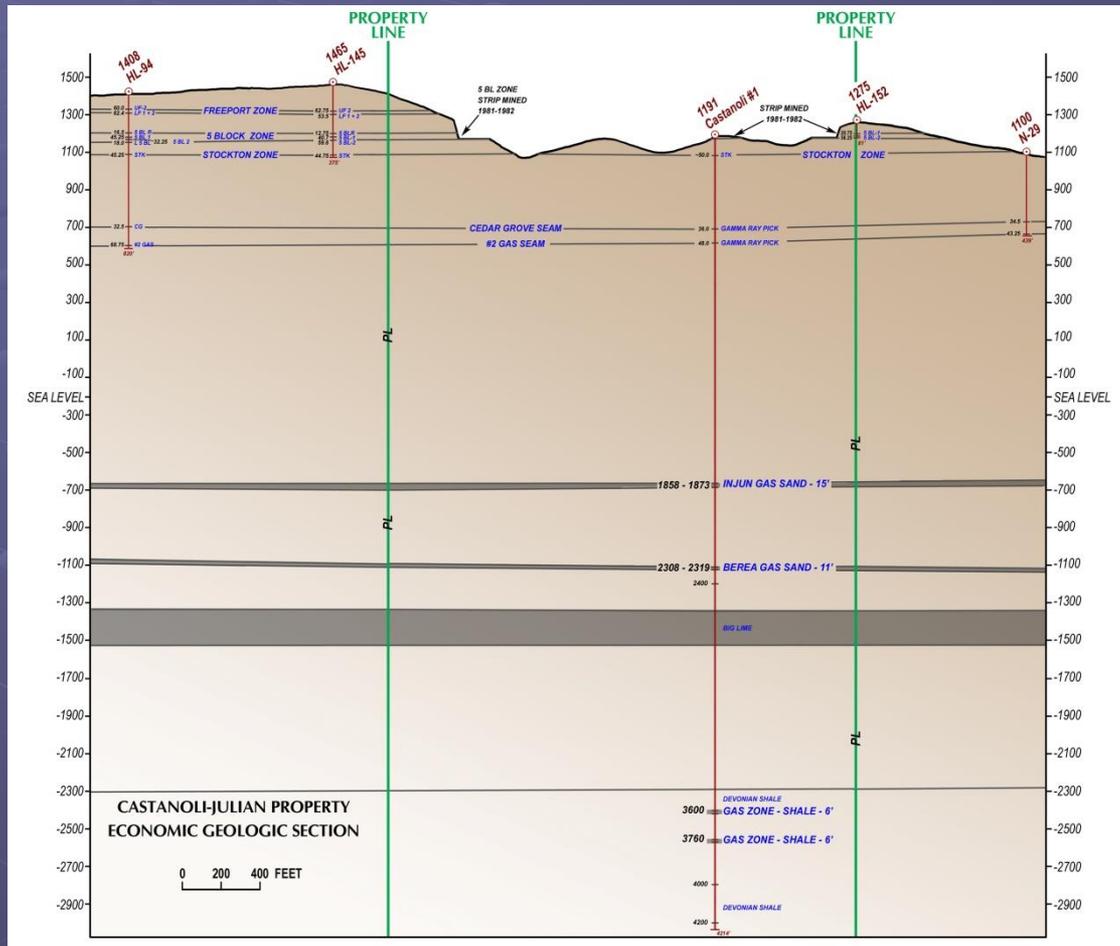
● POSS. UNDERGROUND RESOURCES

836,902 TONS CLEAN COAL – IN PLACE

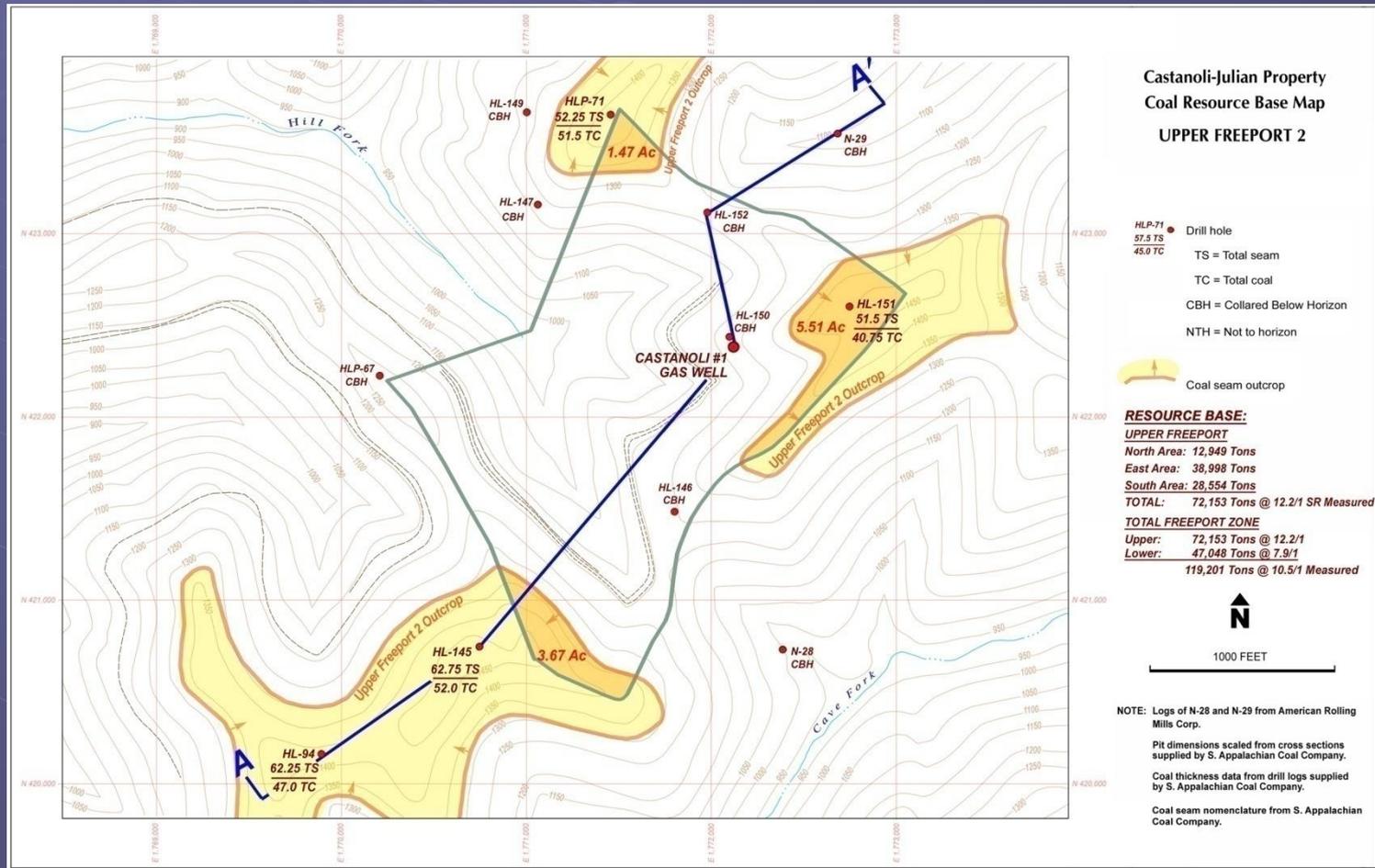
Coal Resource Diagram



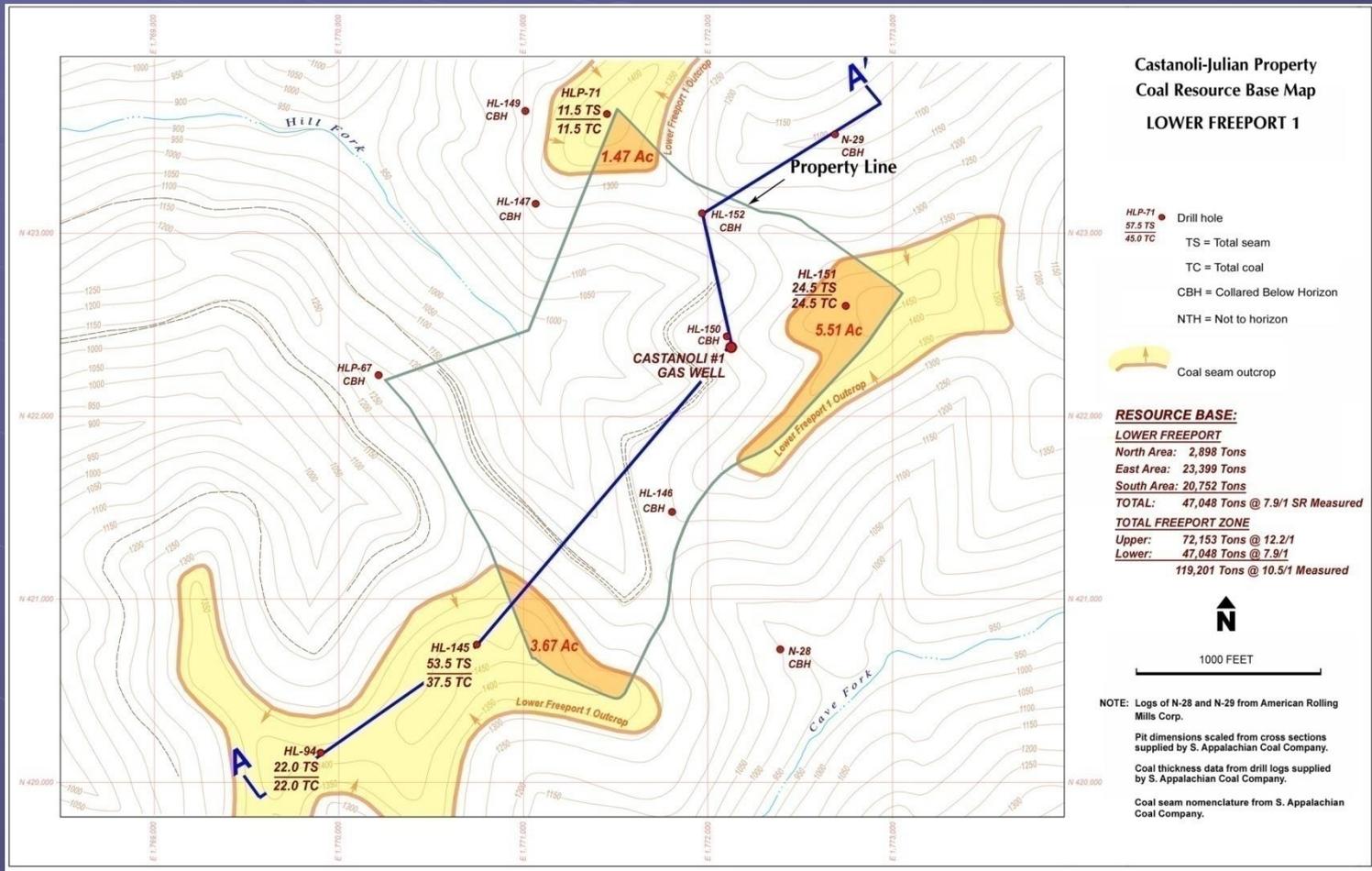
Economic Geologic Section



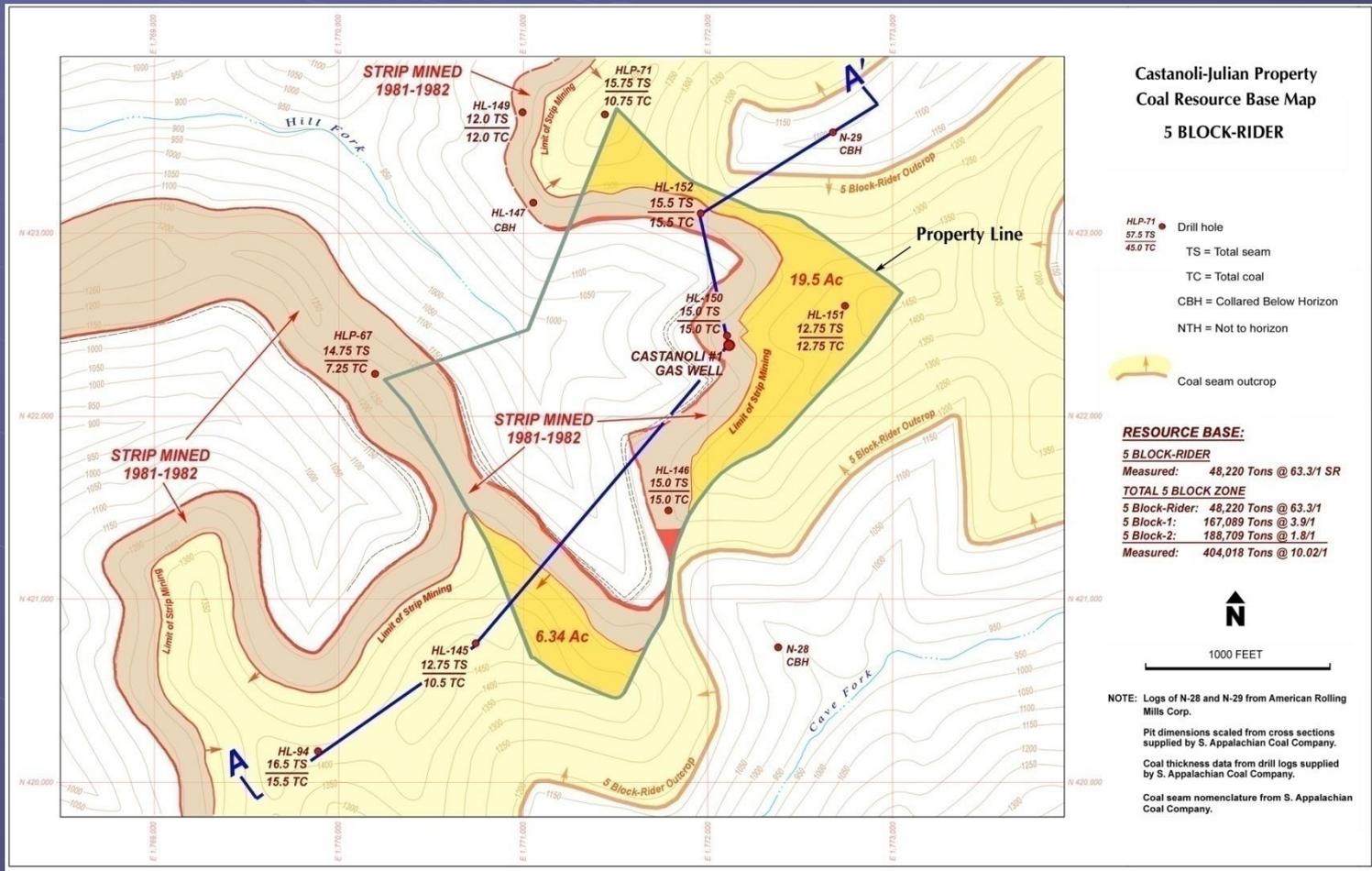
Middle Kittanning Seam Reserve



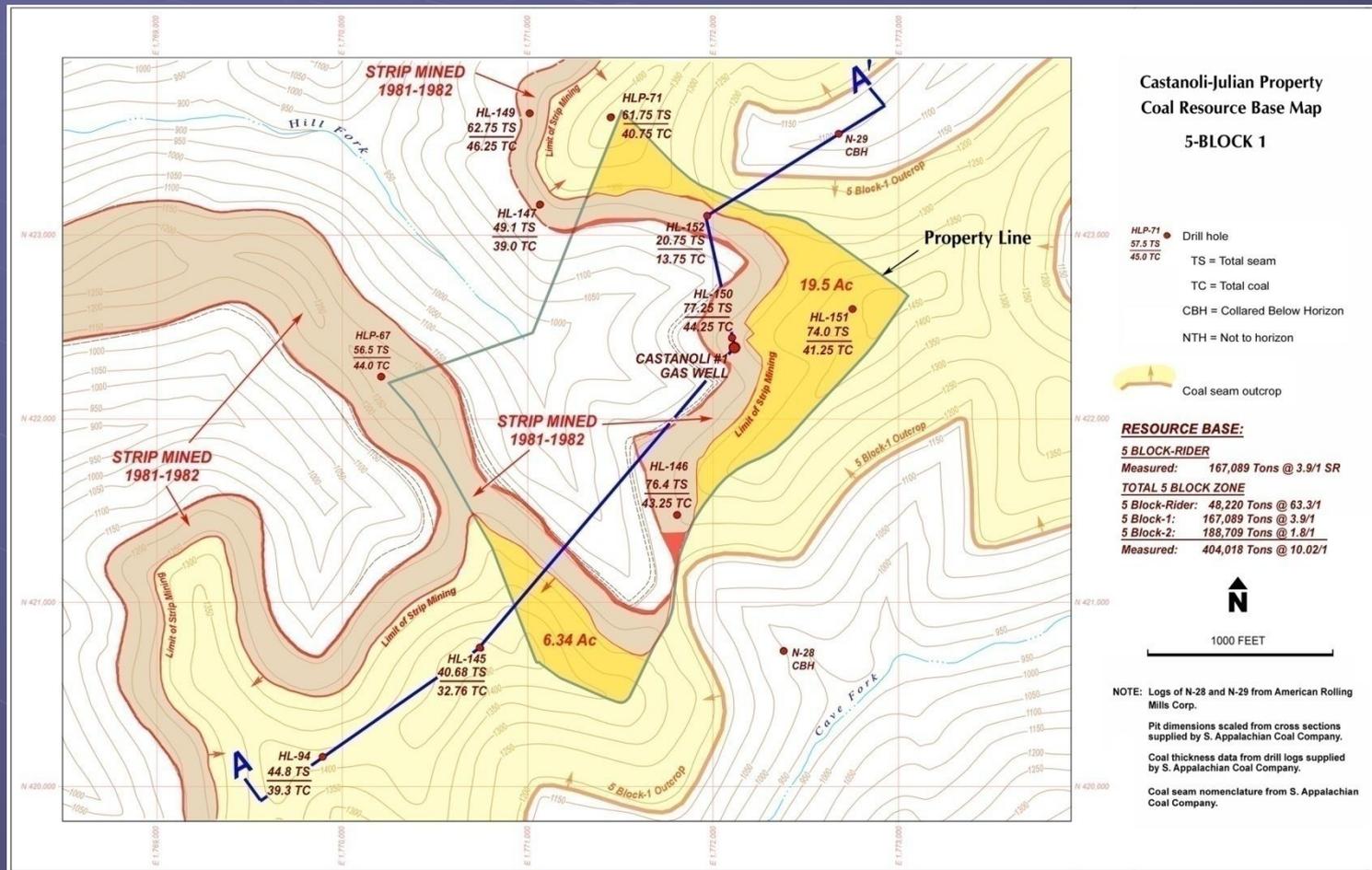
5 Block Seam Reserve



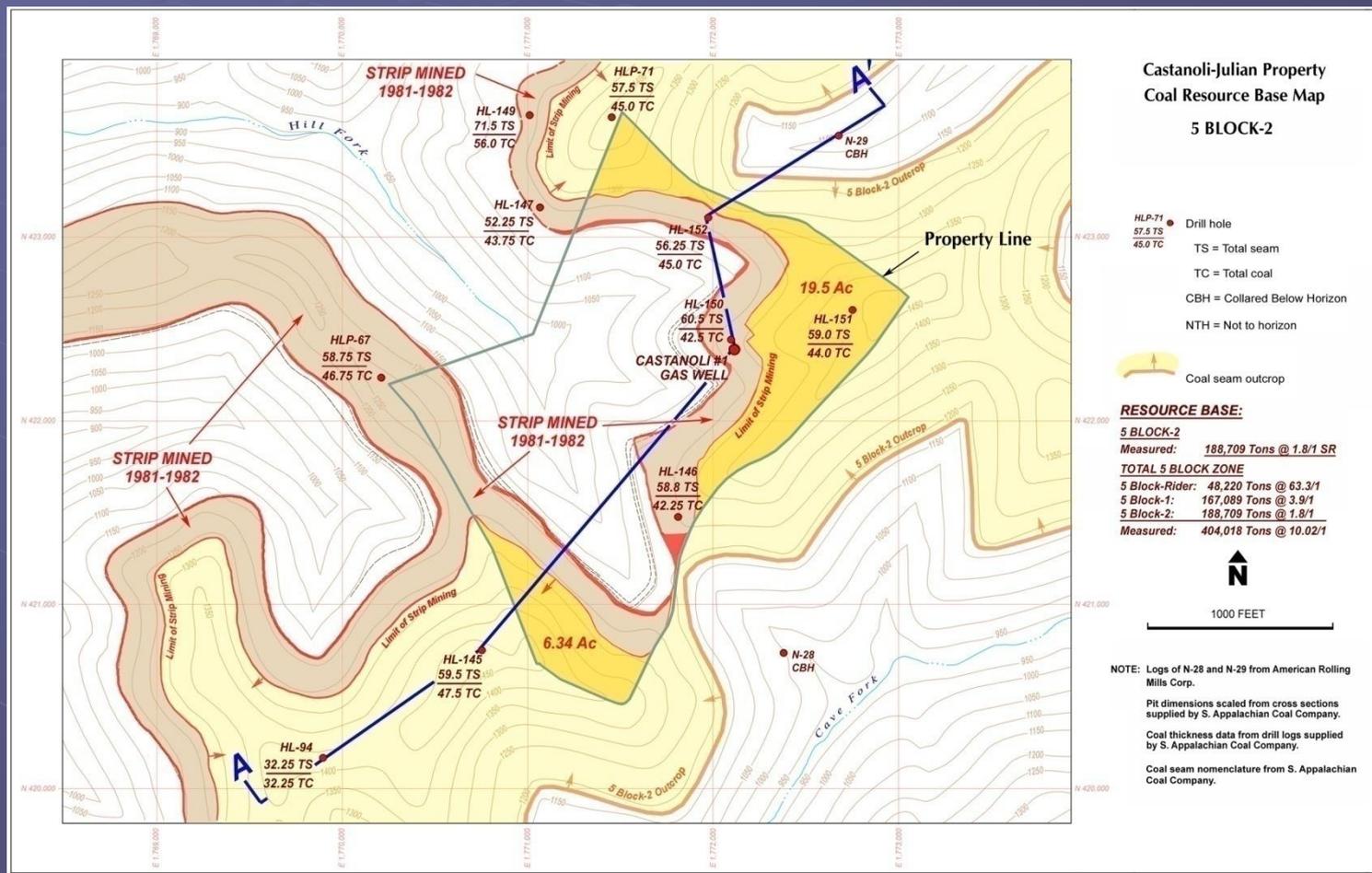
Upper Stockton Rider Seam Reserve



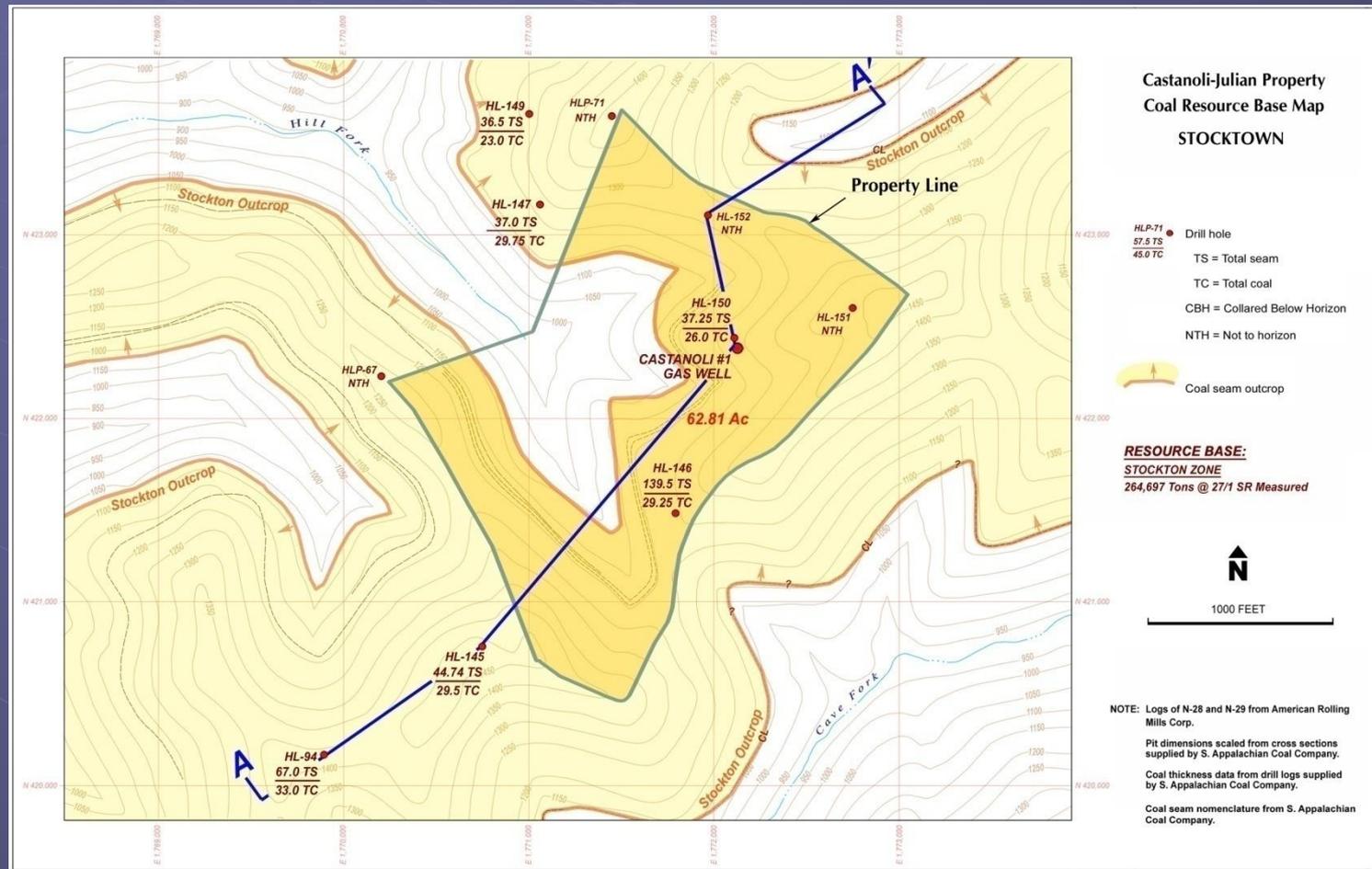
Upper Stockton Seam Reserve



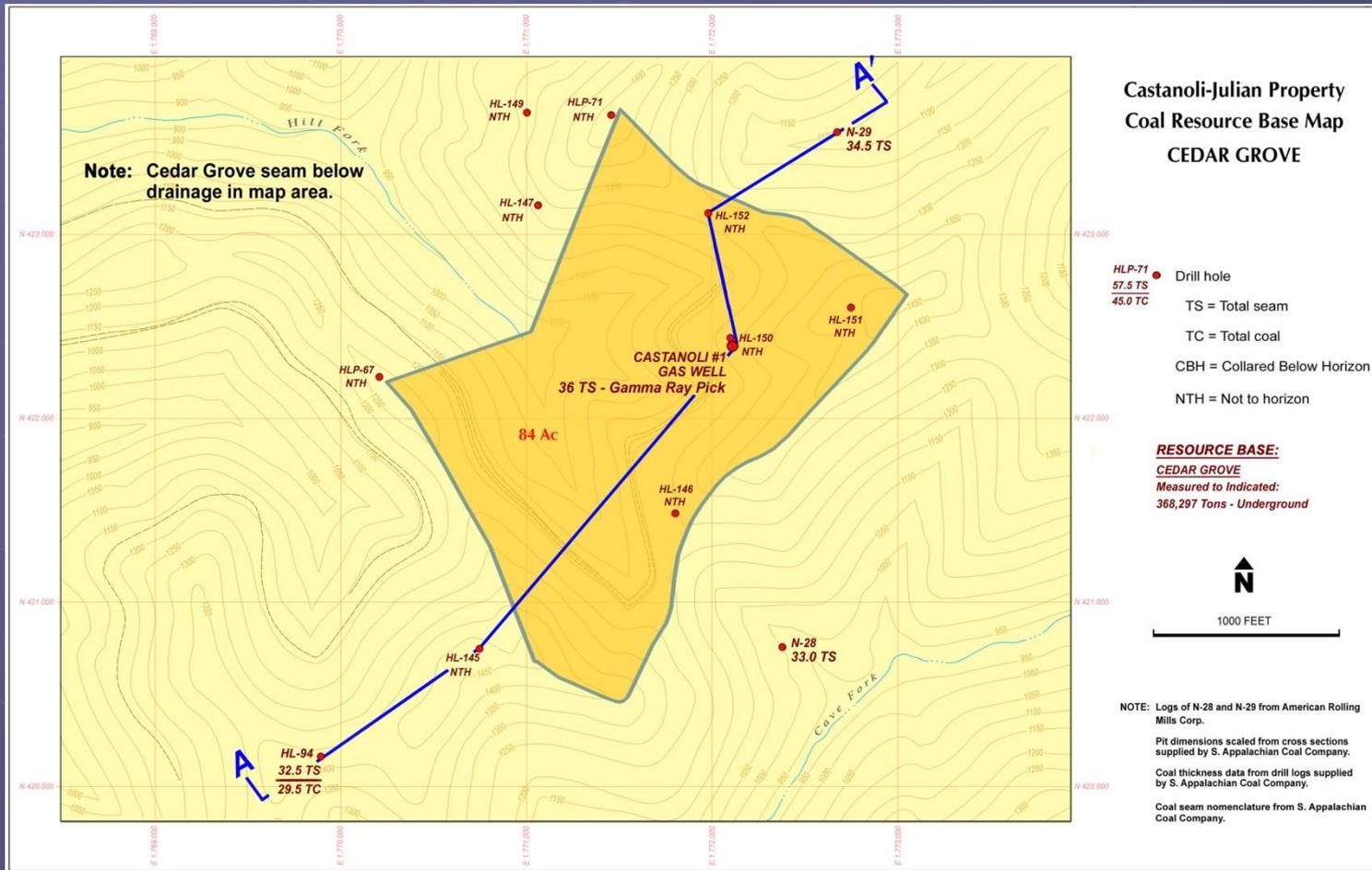
Middle Stockton Seam Reserve



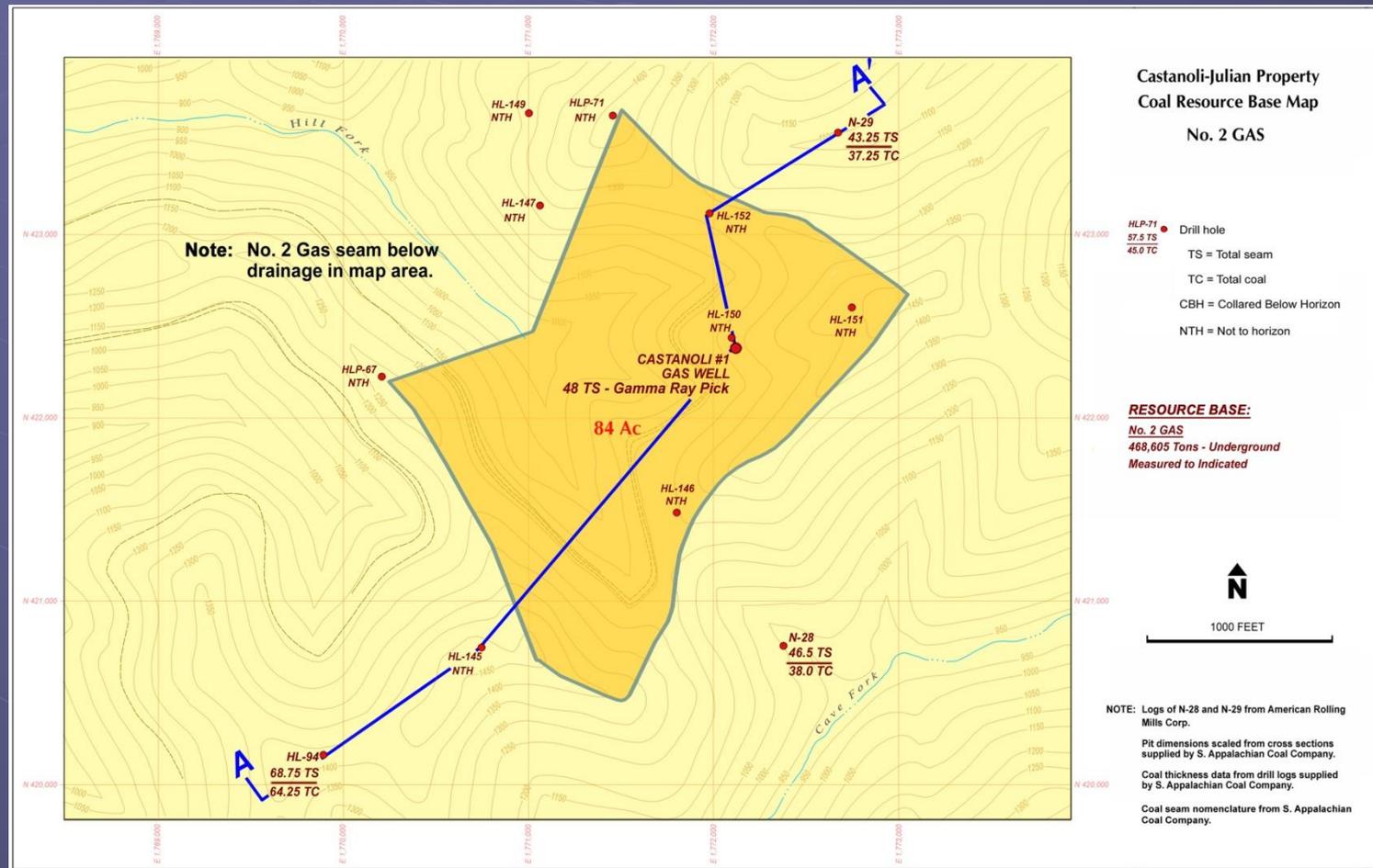
Coalburg Seam Reserve



Cedar Grove Seam UG Resource



No. 2 Gas Seam UG Resource



Surface Mineable Coal

PERMITTED – IN MINING PLAN

● Tonnage Tabulation

Clean - In Place Tons

Mid Kitt & 5 BI	119,201 tons
Stockton Seams	404,018 tons
Coalburg Seam	<u>264,697 tons</u>
	787,916 tons

Note - Reserves Accented Red

Potentially Underground Mineable Coal - Resource

● Tonnage Tabulation

	<u>In Place Tons</u>
Cedar Grove Seam	368,297 tons
No. 2 Gas Seam	<u>468,605</u> tons
Total UG	836,902

Average Coal Analyses From WV Geol Survey

<u>Seam</u>	<u>Ash</u>	<u>Sulfur</u>	<u>BTU/lb</u>
Kittaning	5.28%	0.75%	13,670
Stockton	4.64%	0.85%	14,210
Coalburg	5.38%	1.08%	14,557
Cedar Grove	3.93%	1.36%	14,610
# 2 Gas	4.83%	0.95%	14,325

Detailed analytical data available to serious bidders

Average Coal Analyses

From Drill Holes Adj. to Property

<u>Seam</u>	<u>Ash</u>	<u>Sulfur</u>	<u>BTU/lb</u>
Kittaning	9.88%	1.19%	13,319
Stockton rider	2.72%	0.73%	14,493
U Stockton	7.69%	0.83%	13,790
M Stockton	9.47%	0.83%	13,441
Coalburg	7.75%	0.76%	13,830
# 2 Gas	4.69%	0.82%	14,370

Washed – Dry Basis

Detailed analytical data available to serious bidders

Expected Revenue From Surface Mining

- Reserve – 787,916 tons clean @ 90%
Recov. = 709,124 tons saleable
- Total Sales Price – 709,124 tons salable
@ \$ 55/ton = \$ 39,001,820 (2018 prices)
- Royalty - \$ 39,001,820 x 6% = \$ 2,340,109

SURFACE RIGHTS

- Surface Rights come with the property, once coal mining is completed (+10 yrs. or so in the future), the property will be reclaimed and returned to the owner.
- The gas wells will probably still be producing (75 yr well life is common in this gas field)
- The surface could then be used for farming, subdivided for housing, etc.

COAL, NAT GAS AND SURFACE RIGHTS FOR SALE

- Rights Subject to Existing Leases

 - \$ 10,000 / yr Adv. Royalty – recoupable - coal

 - 6% Royalty – Surface coal

 - 5% Royalty UG coal

 - 12.5% Royalty – Natural Gas

Detailed geological data available to serious bidders