

MV Oil Trust  
Form 10-K  
March 15, 2013

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-33219

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**MV OIL TRUST**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**06-6554331**

(I.R.S. Employer  
Identification No.)

**The Bank of New York Mellon  
Trust Company, N.A., Trustee  
Global Corporate Trust**

**919 Congress  
Austin, Texas**

(Address of principal executive offices)

**78701**

(Zip Code)

Registrant's telephone number, including area code: **(855) 802-1094**

Securities registered pursuant to Section 12(b) of the Act:

**Title of Each Class**  
Units of Beneficial Interest

**Name of Each Exchange on which Registered**  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the 8,625,000 Units of Beneficial Interest in MV Oil Trust held by non-affiliates of the registrant, computed using the closing sales price of \$33.72 on June 29, 2012, was approximately \$290,835,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of March 12, 2013, 11,500,000 Units of Beneficial Interest in MV Oil Trust were outstanding.

**Documents Incorporated By Reference:** None

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**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K, which we refer to as the "Form 10-K," contains forward-looking statements about MV Partners, LLC, which we refer to herein as "MV Partners," and MV Oil Trust, which we refer to herein as the "trust," that are subject to risks and uncertainties and that are intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the "Exchange Act". All statements other than statements of historical fact included in this document, including, without limitation, statements under "Business" and "Risk Factors" regarding the financial position, business strategy, production and reserve growth, and other plans and objectives for the future operations of MV Partners and the trust, are forward-looking statements. Such statements may be influenced by factors that could cause actual outcomes and results to differ materially from those projected. Forward-looking statements are subject to risks and uncertainties and include statements pertaining to future development activities and costs and other statements in this Form 10-K that are prospective and constitute forward-looking statements.

When used in this document, the words "believes," "expects," "anticipates," "intends" or similar expressions are intended to identify such forward-looking statements. The following important factors, in addition to those discussed elsewhere in this Form 10-K, could affect the future results of the energy industry in general, and MV Partners and the trust in particular, and could cause actual results to differ materially from those expressed in such forward-looking statements:

- risks incident to the drilling and operation of oil and natural gas wells;
- future production and development costs and plans;
- the effect of existing and future laws and regulatory actions;
- the effect of changes in commodity prices and conditions in the capital markets;
- competition from others in the energy industry;
- economic uncertainty and the credit markets generally;
- ability of commodity purchasers to make payment;
- weather conditions or force majeure events;
- uncertainty of estimates of oil and natural gas reserves and production; and
- inflation.

This Form 10-K describes other important factors that could cause actual results to differ materially from expectations of MV Partners and the trust, including under the heading "Risk Factors." All written and oral forward-looking statements attributable to MV Partners or the trust or persons acting on behalf of MV Partners or the trust are expressly qualified in their entirety by such factors.

**GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS**

In this Form 10-K the following terms have the meanings specified below.

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*Bbl* One stock tank barrel, or 42 U.S. gallons liquid volume, of crude oil or other liquid hydrocarbons.

*Boe* One stock tank barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals six Mcf of natural gas and one Bbl of crude oil equals 1.54 Bbls of natural gas liquids.

*Btu or British Thermal Unit* The quantity of heat required to raise the temperature of one pound of water one degree Fahrenheit.

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*Developed Acreage* The number of acres that are allocated or assignable to productive wells or wells capable of production.

*Development Well* A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

*Estimated Future Net Revenues* Also referred to as "estimated future net cash flows." The result of applying current prices of oil, natural gas and natural gas liquids to estimated future production from oil, natural gas and natural gas liquids proved reserves, reduced by estimated future expenditures, based on current costs to be incurred, in developing and producing the proved reserves.

*Field* An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious, strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms *structural feature* and *stratigraphic condition* are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

*Gross Acres or Gross Wells* The total acres or wells, as the case may be, in which a working interest is owned.

*MBbl* One thousand barrels of crude oil or other liquid hydrocarbons.

*MBoe* One thousand barrels of oil equivalent.

*Mcf* One thousand standard cubic feet of natural gas.

*MMBbls* One million barrels of crude oil or other liquid hydrocarbons.

*MMSBoe* One million barrels of oil equivalent.

*MMcf* One million standard cubic feet of natural gas.

*Net Acres or Net Wells* The sum of the fractional working interests owned in gross acres or wells, respectively.

*Net Profits Interest* A nonoperating interest that creates a share in gross production from an operating or working interest in oil and natural gas properties. The share is measured by net profits from the sale of production after deducting costs associated with that production.

*Net Revenue Interest* An interest in all oil, natural gas and natural gas liquids produced and saved from, or attributable to, a particular property, net of all royalties, overriding royalties, net profits interests, carried interests, reversionary interests and any other burdens to which the person's interest is subject.

*NGLs* Natural gas liquids.

*Plugging and Abandonment* Activities to remove production equipment and seal off a well at the end of a well's economic life.

*Proved Developed Non-Producing Reserves* Proved developed reserves expected to be recovered from zones behind casing in existing wells.

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*Proved Developed Oil and Gas Reserves* Proved Oil and Gas Reserves that can be expected to be recovered:

- (A) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
- (B) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

*Proved Developed Producing Reserves* Proved developed reserves that are expected to be recovered from completion intervals currently open in existing wells and capable of production to market.

*Proved Oil and Gas Reserves* Those quantities of oil and gas that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

- (A) The area of a reservoir considered as proved includes: (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.
- (B) In the absence of data on fluid contacts, proved quantities in the reservoir are limited by the lowest known hydrocarbons, as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
- (C) Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
- (D) Reserves that can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when (i) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based and (ii) the project has been approved for development by all necessary parties and entities, including governmental entities.
- (E) Existing economic conditions include prices and costs at which economic producibility from a reservoir is determined. The price is the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

*Proved Undeveloped Oil and Gas Reserves* Proved Oil and Gas Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

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- (A) Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
- (B) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.
- (C) Under no circumstances are estimates for undeveloped reserves to be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.

*Recompletion* The process of re-entering an existing wellbore that is either producing or not producing and completing new reservoirs in an attempt to establish or increase existing production.

*Reservoir* A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

*Standardized Measure of Discounted Future Net Cash Flows* Also referred to herein as "standardized measure." It is the present value of estimated future net revenues computed by discounting estimated future net revenues at a rate of 10% annually.

The Financial Accounting Standards Board requires disclosure of standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities per accounting literature for extractive activities oil and gas, as follows: A standardized measure of discounted future net cash flows relating to an enterprise's interests in (a) proved oil and gas reserves and (b) oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the enterprise participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of those reserves shall be disclosed as of the end of the year. The standardized measure of discounted future net cash flows relating to those two types of interests in reserves may be combined for reporting purposes. The following information shall be disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed:

- a. Future cash inflows. These shall be computed by the average of the first-day-of-the-month prices during the 12-month period preceding the end of the year for 2010, 2011 and 2012 of oil and gas relating to the enterprise's proved reserves to the year-end quantities of those reserves. Future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end.
- b. Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.
- c. Future income tax expenses. These expenses shall be computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to the enterprise's proved oil and gas reserves, less the tax basis of the properties involved. The future income tax expenses shall give effect to tax deductions, tax credits and allowances relating to the enterprise's proved oil and gas reserves.



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- d. Future net cash flows. These amounts are the result of subtracting future development and production costs and future income tax expenses from future cash inflows.
- e. Discount. This amount shall be derived from using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.
- f. Standardized measure of discounted future net cash flows. This amount is the future net cash flows less the computed discount.

*Working Interest* Also called an operating interest. The right granted to the lessee of a property to explore for and to produce and own oil, gas or other minerals. The working interest owner bears the exploration, development and operating costs on either a cash, penalty or carried basis.

*Workover* Operations on a producing well to restore or increase production.

## **PART I**

### **Item 1. Business.**

#### **General**

MV Oil Trust, which we refer to as the "trust," was formed in August 2006, by MV Partners, LLC, which we refer to as "MV Partners." Much of the information disclosed herein has been provided to the trust by MV Partners, including information associated with the underlying properties such as production and well counts, major producing areas, customer relationships, competition, marketing and post-production services, and certain information on which reserve data is based.

The trust is a statutory trust created under the Delaware Statutory Trust Act. The business and affairs of the trust are managed by The Bank of New York Mellon Trust Company, N.A., as trustee. The trust maintains its offices at the office of the trustee, at 919 Congress Avenue, Austin, Texas 78701. The telephone number of the trustee is 1-855-802-1094. In addition, Wilmington Trust Company acts as the Delaware trustee of the trust. The Delaware trustee has only minimal rights and duties as are necessary to satisfy the requirements of the Delaware Statutory Trust Act. The trust does not have any employees, and the business and affairs of the trust are managed by the trustee.

The trustee does not maintain a website for filings by the trust with the Securities and Exchange Commission, which we refer to as the "SEC." Electronic filings by the trust with the SEC are available free of charge through the SEC's website at [www.sec.gov](http://www.sec.gov) and at <http://mvo.investorhq.businesswire.com>.

On January 24, 2007, MV Partners and the trust completed an initial public offering of units of beneficial interest in the trust, which we refer to as the "trust units." In connection with the completion of the initial public offering of trust units, on January 24, 2007, MV Partners conveyed a term net profits interest to the trust that represents the right to receive 80% of the net proceeds (calculated as described below) from all of MV Partners' interests in oil and natural gas properties as of January 24, 2007, which is referred to herein as the "net profits interest." These properties are located in the Mid-Continent region in the States of Kansas and Colorado. MV Partners' net interests in such properties, after deduction of all royalties and other burdens on production thereon as of January 24, 2007, is referred to herein as the "underlying properties." As of December 31, 2012, the underlying properties produced predominantly oil from approximately 1,000 wells, and the projected reserve life of the underlying properties was over 50 years. Based on the summary prepared by Cawley, Gillespie & Associates, Inc., independent petroleum and geological engineers, who we refer to as "CG&A", of its reserve report as of December 31, 2012 for the trust, which is summarized herein under "Description of the Underlying Properties Reserves" and is referred to herein as the "reserve report," the net profits interest would entitle the trust to receive net proceeds from the sale of production of not less than 11.5 MMBoe of proved reserves during the term of the trust, calculated as 80% of the proved reserves attributable to the underlying properties expected to be produced during the term of the trust.

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Of these reserves, approximately 87% were classified as proved developed producing reserves as of December 31, 2012. Production volumes from the underlying properties for the year ended December 31, 2012 were approximately 98% oil and approximately 2% natural gas and natural gas liquids. The underlying properties are all located in mature fields that are characterized by long production histories and numerous additional development opportunities to help reduce the natural decline in production from the underlying properties.

The net profits interest will terminate on the later to occur of (1) June 30, 2026, or (2) the time when 14.4 MMBoe have been produced from the underlying properties and sold (which amount is the equivalent of 11.5 MMBoe in respect of the trust's right to receive 80% of the net proceeds from the underlying properties pursuant to the net profits interest), and the trust will soon thereafter wind up its affairs and terminate. As of December 31, 2012, cumulatively, since inception, the trust has received payment for approximately 4.8 MMBoe of the trust's 11.5 MMBoe interest. The gross proceeds used to calculate the net profits interest is based on prices realized for oil, natural gas and natural gas liquids attributable to the underlying properties for each calendar quarter during the term of the net profits interest. MV Partners deducts from the gross proceeds all hedge payments made by MV Partners to hedge contract counterparties upon monthly settlements of existing hedge contracts to which MV Partners was a party as of January 24, 2007, which is referred to as the "hedge contracts." The last hedge contract expired in December 2010. In addition, in connection with the conveyance of the net profits interest, on January 24, 2007, MV Partners also assigned to the trust the right to receive 80% of all amounts payable to MV Partners from hedge contract counterparties upon monthly settlements of the hedge contracts. In calculating the net proceeds used to calculate the net profits interest, MV Partners deducts from the gross proceeds from the underlying properties all lease operating expenses, maintenance expenses and capital expenditures (including the cost of workovers and recompletions, drilling costs and development costs), amounts that may be reserved for future capital expenditures (which reserve amounts may not exceed \$1.0 million in the aggregate at any given time), post-production costs and production and property taxes paid by MV Partners.

Net proceeds payable to the trust depend upon production quantities, sales prices of oil, natural gas and natural gas liquids, and costs to develop and produce the oil, natural gas and natural gas liquids. If at any time costs should exceed gross proceeds, neither the trust nor the trust unitholders would be liable for the excess costs; the trust, however, would not receive any net proceeds until future net proceeds exceed the total amount of those excess costs, plus interest at the prime rate.

The trust will make quarterly cash distributions of substantially all of its quarterly cash receipts, after deduction of fees and expenses for the administration of the trust, to holders of its trust units during the term of the trust. Because payments to the trust will be generated by depleting assets and the trust has a finite life with the production from the underlying properties diminishing over time, a portion of each distribution will represent a return of the original investment in the trust units.

The trust was created to acquire and hold the net profits interest for the benefit of the trust unitholders. The net profits interest is passive in nature and neither the trust nor the trustee has any control over or responsibility for costs relating to the operation of the underlying properties. The business and affairs of the trust are managed by the trustee, and MV Partners and its affiliates have no ability to manage or influence the operations of the trust. The underlying properties, for which MV Partners is designated as the operator, are currently operated on a contract operator basis by Vess Oil Corporation, which we refer to as "Vess Oil," and Murfin Drilling Company, Inc., which we refer to as "Murfin Drilling," each of which is an affiliate of MV Energy, LLC, which we refer to as "MV Energy," the sole manager of MV Partners. MV Partners does not, as a matter of course, make public projections as to future sales, earnings or other results relating to the underlying properties.

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**Description of the Trust Units**

Each trust unit is a unit of beneficial interest in the trust and is entitled to receive cash distributions from the trust on a pro rata basis. Each trust unitholder has the same rights regarding each of his trust units as every other trust unitholder has regarding his units. The trust units are in book-entry form only and are not represented by certificates. The trust had 11,500,000 trust units outstanding as of March 12, 2013.

**Distributions and Income Computations**

Each quarter, the trustee will determine the amount of funds available for distribution to the trust unitholders. Available funds are the excess cash, if any, received by the trust from the net profits interest, payments from the hedge contracts and other sources (such as interest earned on any amounts reserved by the trustee) in that quarter, over the trust's expenses for that quarter. Available funds will be reduced by any cash the trustee decides to hold as a reserve against future expenses. It is expected that quarterly cash distributions during the term of the trust will be made by the trustee on or before the 25<sup>th</sup> day of the month following the end of each quarter to the trust unitholders of record on the 15<sup>th</sup> day of the month following the end of each quarter (or the next succeeding business day).

Unless otherwise advised by counsel or the Internal Revenue Service, which we refer to as the "IRS," the trustee will treat the income and expenses of the trust for each quarter as belonging to the trust unitholders of record on the quarterly record date. For federal income tax purposes, trust unitholders must take into account items of income, gain, loss, deduction and credit consistent with their methods of accounting and without regard to the taxable year or accounting method employed by the trust and without regard to the quarter the trust makes distributions related to those items to the trust unitholders. Variances between taxable income and cash distributions may occur. For example, the trustee could establish a reserve in one quarter using funds that would be included in income in the quarter in which the reserve is created but may not result in a tax deduction or a distribution until a later quarter or possibly in a later taxable year. Similarly, the trustee could also make a payment in one quarter that would be amortized for income tax purposes over several quarters. See " Federal Income Tax Matters."

**Periodic Reports**

The trustee files all required trust federal and state income tax and information returns. The trustee prepares and provides the tax information that trust unitholders need to correctly report their share of the income and deductions of the trust. The trustee also causes to be prepared and filed reports required to be filed under the Exchange Act and by the rules of any securities exchange or quotation system on which the trust units are listed or admitted to trading, and also causes the trust to comply with the provisions of The Sarbanes-Oxley Act of 2002, including but not limited to, by establishing, evaluating and maintaining a system of internal controls over financial reporting in compliance with the requirements of Section 404 thereof.

Each trust unitholder and his representatives may examine, for any proper purpose, during reasonable business hours, the records of the trust and the trustee.

**Liability of Trust Unitholders**

Under the Delaware Statutory Trust Act, trust unitholders are entitled to the same limitation of personal liability extended to stockholders of private corporations for profit under the General Corporation Law of the State of Delaware. No assurance can be given, however, that the courts in jurisdictions outside of Delaware will give effect to such limitation.

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**Voting Rights of Trust Unitholders**

The trustee or trust unitholders owning at least 10% of the outstanding trust units may call meetings of trust unitholders. The trust is responsible for all costs associated with calling a meeting of trust unitholders unless such meeting is called by the trust unitholders, in which case the trust unitholders are responsible for all costs associated with calling such meeting of trust unitholders. Meetings must be held in such location as is designated by the trustee in the notice of such meeting. The trustee must send written notice of the time and place of the meeting and the matters to be acted upon to all of the trust unitholders at least 20 days and not more than 60 days before the meeting. Trust unitholders representing a majority of trust units outstanding must be present or represented to have a quorum. Each trust unitholder is entitled to one vote for each trust unit owned.

Unless otherwise required by the trust agreement, a matter may be approved or disapproved by the vote of a majority of the trust units held by the trust unitholders at a meeting where there is a quorum. This is true even if a majority of the total trust units did not approve it. The affirmative vote of the holders of a majority of the outstanding trust units is required to:

dissolve the trust;

remove the trustee or the Delaware trustee;

amend the trust agreement (except with respect to certain matters that do not adversely affect the rights of trust unitholders in any material respect);

merge or consolidate the trust with or into another entity; or

approve the sale of all or any material part of the assets of the trust.

In addition, certain amendments to the trust agreement may be made by the trustee without approval of the trust unitholders. The trustee must consent before all or any part of the trust assets can be sold except in connection with the dissolution of the trust or limited sales directed by MV Partners in conjunction with its sale of underlying properties.

**Duration of the Trust; Sale of the Net Profits Interest**

The trust will remain in existence until the later to occur of (1) June 30, 2026, or (2) the time when 14.4 MMBoe have been produced from the underlying properties and sold (which amount is the equivalent of 11.5 MMBoe in respect of the trust's right to receive 80% of the net proceeds from the underlying properties pursuant to the net profits interest). The trust will dissolve prior to its termination if:

the trust sells the net profits interest;

annual gross proceeds attributable to the net profits interest are less than \$1 million for each of two consecutive years;

the holders of a majority of the outstanding trust units vote in favor of dissolution; or

there is a judicial dissolution of the trust.

Upon dissolution, the trustee would then sell all of the trust's assets, either by private sale or public auction, and distribute the net proceeds of the sale to the trust unitholders.



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**Computation of Net Proceeds**

The provisions of the conveyance governing the computation of the net proceeds are detailed and extensive. The following information summarizes the material information contained in the conveyance related to the computation of the net proceeds. For more detailed provisions concerning the net profits interest, please see the conveyance, which is referenced as an exhibit to this Form 10-K.

**Net Profits Interest**

The term net profits interest was conveyed to the trust by MV Partners on January 24, 2007 by means of a conveyance instrument that has been recorded in the appropriate real property records in each county in Kansas and Colorado where the oil and natural gas properties to which the underlying properties relate are located. The net profits interest burdens the net interests owned by MV Partners in the underlying properties in existence as of January 24, 2007.

The amounts paid to the trust for the net profits interest are based on the definitions of "gross proceeds" and "net proceeds" contained in the conveyance and described below. Under the conveyance, net proceeds are computed quarterly, and 80% of the aggregate net proceeds attributable to a computation period will be paid to the trust on or before the 25<sup>th</sup> day of the month following the computation period. MV Partners will not pay to the trust any interest on the net proceeds held by MV Partners prior to payment to the trust. The trustee will make distributions to trust unitholders quarterly, if sufficient funds are available. See " Description of the Trust Units Distributions and Income Computations."

"Gross proceeds" means:

the aggregate amount received by MV Partners from sales of oil, natural gas and natural gas liquids produced from the underlying properties (other than amounts received for certain future non-consent operations), *less*

the aggregate amounts paid by MV Partners upon settlement of the hedge contracts on a quarterly basis, as specified in the hedge contracts.

Gross proceeds does not include consideration for the transfer or sale of any underlying property by MV Partners or any subsequent owner to any new owner unless the net profits interest is released (as is permitted in certain circumstances). Gross proceeds also does not include any amount for oil, natural gas or natural gas liquids lost in production or marketing or used by the owner of the underlying properties in drilling, production and plant operations. Gross proceeds includes payments for future production if they are not subject to repayment in the event of insufficient subsequent production.

"Net proceeds" means gross proceeds less the following:

all payments to mineral owners or landowners, such as royalties or other burdens against production, delay rentals, shut-in oil and natural gas payments, minimum royalty or other payments for drilling or deferring drilling;

any taxes paid by the owner of an underlying property to the extent not deducted in calculating gross proceeds, including estimated and accrued general property (ad valorem), production, severance, sales, gathering, excise and other taxes;

any extraordinary taxes or windfall profits taxes that may be assessed in the future that are based on profits realized or prices received for production from the underlying properties;

costs paid by an owner of a property comprising the underlying properties under any joint operating agreement;

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all other costs and expenses, capital costs and liabilities of exploring for, drilling, recompleting, workovers, operating and producing oil, natural gas and natural gas liquids, including allocated expenses such as labor, vehicle and travel costs and materials and any plugging and abandonment liabilities (net of any capital costs for which a reserve had already been made to the extent such capital costs are incurred during the computation period) other than costs and expenses for certain future non-consent operations;

costs or charges associated with gathering, treating and processing oil, natural gas and natural gas liquids;

any overhead charge incurred pursuant to any operating agreement relating to an underlying property, including the overhead fee payable by MV Partners to Vess Oil and Murfin Drilling as described below;

costs paid to counterparties under the hedge contracts or to the persons that provide credit to maintain any hedge contracts, excluding any hedge settlement amounts;

amounts previously included in gross proceeds but subsequently paid as a refund, interest or penalty;

costs and expenses for renewals or extensions of leases; and

at the option of MV Partners (or any subsequent owner of the underlying properties), amounts reserved for approved capital expenditure projects, including well drilling, recompletion and workover costs, which amounts will at no time exceed \$1.0 million in the aggregate, and will be subject to the limitations described below.

During each twelve-month period beginning on the later to occur of (1) June 30, 2023 and (2) the time when 13.2 MMBoe have been produced from the underlying properties and sold (which is the equivalent of 10.6 MMBoe in respect of the net profits interest), which we refer to, in either case, as the "Capital Expenditure Limitation Date", the sum of the capital expenditures and amounts reserved for approved capital expenditure projects for such twelve-month period may not exceed the Average Annual Capital Expenditure Amount. The "Average Annual Capital Expenditure Amount" means the quotient of (x) the sum of the capital expenditures and amounts reserved for approved capital expenditure projects with respect to the three twelve-month periods ending on the Capital Expenditure Limitation Date, divided by (y) three. Commencing on the Capital Expenditure Limitation Date, and each anniversary of the Capital Expenditure Limitation Date thereafter, the Average Annual Capital Expenditure Amount will be increased by 2.5% to account for expected increased costs due to inflation.

As is customary in the oil and natural gas industry, MV Partners pays an overhead fee to Vess Oil and Murfin Drilling to operate the underlying properties on behalf of MV Partners. The operating activities include various engineering, accounting and administrative functions. The fee is based on a monthly charge per active operated well, which totaled \$2.8 million in 2010, \$2.8 million in 2011 and \$2.9 million in 2012 for all of the underlying properties for which MV Partners was designated as the operator. The fee is adjusted annually and will increase or decrease each year based on changes in the year-end index of average weekly earnings of crude petroleum and natural gas workers.

In the event that the net proceeds for any computation period is a negative amount, the trust will receive no payment for that period, and any such negative amount plus accrued interest at the prime rate will be deducted from gross proceeds in the following computation period for purposes of determining the net proceeds for that following computation period.

Gross proceeds and net proceeds are calculated on a cash receipts and cash disbursements basis.

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**Hedge Contracts**

Prior to the entry of the conveyance, MV Partners had entered into certain hedge contracts related to the oil production from the underlying properties through the year ended December 31, 2010. MV Partners has not entered into hedge contracts relating to oil volumes expected to be produced after December 31, 2010, and the terms of the conveyance of the net profits interest prohibit MV Partners from entering into new hedging arrangements for the benefit of the trust.

**Additional Provisions**

If a controversy arises as to the sales price of any production, then for purposes of determining gross proceeds:

amounts withheld or placed in escrow by a purchaser are not considered to be received by the owner of the underlying property until actually collected;

amounts received by the owner of the underlying property and promptly deposited with a nonaffiliated escrow agent will not be considered to have been received until disbursed to it by the escrow agent; and

amounts received by the owner of the underlying property and not deposited with an escrow agent will be considered to have been received.

The trustee is not obligated to return any cash received from the net profits interest. Any overpayments made to the trust by MV Partners due to adjustments to prior calculations of net proceeds or otherwise will reduce future amounts payable to the trust until MV Partners recovers the overpayments plus interest at the prime rate.

The conveyance generally permits MV Partners to transfer without the consent or approval of the trust unitholders all or any part of its interest in the underlying properties, subject to the net profits interest. The trust unitholders are not entitled to any proceeds of a sale or transfer of MV Partners' interest unless the trust is required to sell the net profits interest as to such interest. Following a sale or transfer, the underlying properties will continue to be subject to the net profits interest, and the net proceeds attributable to the transferred property will be calculated as part of the computation of net proceeds described in this Form 10-K.

In addition, MV Partners may, without the consent of the trust unitholders, require the trust to release the net profits interest associated with any lease that accounts for less than or equal to 0.25% of the total production from the underlying properties in the prior 12 months and provided that the net profits interest covered by such releases cannot exceed, during any 12-month period, an aggregate fair market value to the trust of \$500,000. These releases will be made only in connection with a sale by MV Partners of the relevant underlying properties and are conditioned upon the trust receiving an amount equal to the fair value to the trust of such net profits interest. Any net sales proceeds paid to the trust are distributable to trust unitholders for the quarter in which they are received.

As the designated operator of a property comprising the underlying properties, MV Partners may enter into farm-out, operating, participation and other similar agreements to develop the property. MV Partners may enter into any of these agreements without the consent or approval of the trustee or any trust unitholder.

MV Partners and any transferee of an underlying property will have the right to abandon its interest in any well or property if it reasonably believes the well or property ceases to produce or is not capable of producing in commercially paying quantities. In making such decisions, MV Partners or any transferee of an underlying property is required under the applicable conveyance to act as a reasonably prudent operator in the State of Kansas under the same or similar circumstances would act if it were acting with respect to its own properties, disregarding the existence of the net profits interest as a



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burden on such property. Upon termination of the lease, the portion of the net profits interest relating to the abandoned property will be extinguished.

MV Partners must maintain books and records sufficient to determine the amounts payable for the net profits interest to the trust. Quarterly and annually, MV Partners must deliver to the trustee a statement of the computation of the net proceeds for each computation period. The trustee has the right to inspect and copy the books and records maintained by MV Partners during normal business hours and upon reasonable notice.

**Federal Income Tax Matters**

The following is a summary of certain U.S. federal income tax matters that may be relevant to trust unitholders. This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended, which we refer to as the "Code," existing and proposed Treasury regulations thereunder and current administrative rulings and court decisions, all of which are subject to changes that may or may not be retroactively applied. No attempt has been made in the following summary to comment on all U.S. federal income tax matters affecting the trust or the trust unitholders.

The summary is limited to trust unitholders who are individual citizens or residents of the United States. Accordingly, the following summary has limited application to domestic corporations and persons subject to specialized federal income tax treatment. **Each trust unitholder should consult his own tax advisor with respect to his particular circumstances.**

**Classification and Taxation of the Trust**

Tax counsel to the trust advised the trust at the time of formation that, for federal income tax purposes, in its opinion the trust will be treated as a grantor trust and not as an unincorporated business entity. No ruling has been or will be requested from the IRS with respect to the federal income tax treatment of the trust, including as to the status of the trust as a grantor trust for such purposes. Thus, no assurance can be provided that the tax treatment of the trust would be sustained by a court if contested by the IRS or another taxing authority. The remainder of the discussion below is based on tax counsel's opinion, at the time of formation, that the trust will be classified as a grantor trust for federal income tax purposes. As a grantor trust, the trust will not be subject to federal income tax at the trust level. Rather, each trust unitholder will be considered for federal income tax purposes to own its proportionate share of the trust's assets directly as though no trust were in existence. The income of the trust is deemed to be received or accrued by the trust unitholder at the time such income is received or accrued by the trust, rather than when distributed by the trust. Each trust unitholder will be subject to tax on its proportionate share of the income and gain attributable to the assets of the trust and will be entitled to claim its proportionate share of the deductions and expenses attributable to the assets of the trust, subject to applicable limitations, in accordance with the trust unitholder's tax method of accounting and without regard to the taxable year or accounting method employed by the trust.

The trust will allocate items of income, gain, loss, deductions and credits to trust unitholders based on record ownership at each quarterly record date. It is possible that the IRS or another taxing authority could disagree with this allocation method and could assert that income and deductions of the trust should be determined and allocated on a daily, prorated or other basis, which could require adjustments to the tax returns of the trust unitholders affected by this issue and result in an increase in the administrative expense of the trust in subsequent periods.

**Classification of the Net Profits Interest**

Tax counsel to the trust also advised the trust at the time of formation that, for federal income tax purposes, based upon representations made by MV Partners regarding the expected economic life of

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the underlying properties and the expected duration of the net profits interest, in its opinion the net profits interest should be treated as a "production payment" under Section 636 of the Code or otherwise as a debt instrument. On the basis of that advice, the trust will treat the net profits interest as indebtedness subject to Treasury regulations applicable to contingent payment debt instruments, and by purchasing trust units, a trust unitholder will agree to be bound by the trust's application of those regulations, including the trust's determination of the rate at which interest will be deemed to accrue on the net profits interest. No assurance can be given that the IRS or another taxing authority will not assert that the net profits interest should be treated differently. Any such different treatment could affect the amount, timing and character of income, gain or loss in respect of an investment in trust units and could require a trust unitholder to accrue income at a rate different than that determined by the trust.

Tax counsel to the trust advised the trust at the time of formation that, for federal income tax purposes, in its opinion the net profits interest should not be integrated with the hedge contracts. Although not definitively addressed by existing authorities, the federal income tax treatment of the net profits interest may be affected by the right to receive payments under the hedge contracts. Specifically, the right to receive payments on the hedge contracts could be integrated with the net profits interest and deemed to be a source other than production for repayment of the net profits interest, which characterization could adversely affect the treatment of the net profits interest as a production payment, and thus a debt instrument, for federal income tax purposes.

**Widely Held Fixed Investment Trust Reporting Information**

The trustee assumes that some trust units are held by a middleman, as such term is broadly defined in Treasury regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a custodian in street name). Therefore, the trustee considers the trust to be a non-mortgage widely held fixed investment trust ("WHFIT") for U.S. federal income tax purposes. The Bank of New York Mellon Trust Company, N.A., 919 Congress Avenue, Austin, Texas 78701, telephone number 1-855-802-1094, is the representative of the trust that will provide tax information in accordance with applicable Treasury regulations governing the information reporting requirements of the trust as a WHFIT. Notwithstanding the foregoing, the middlemen holding trust units on behalf of trust unitholders, and not the trustee of the trust, are solely responsible for complying with the information reporting requirements under the Treasury regulations with respect to such trust units, including the issuance of IRS Forms 1099 and certain written tax statements. Trust unitholders whose trust units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the trust units. Any generic tax information provided by the trustee of the trust is intended to be used only to assist trust unitholders in the preparation of their federal and state income tax returns.

**Available Trust Tax Information**

In compliance with the reporting requirements for WHFITs and the dissemination of trust tax reporting information, the trustee provides a generic tax information reporting booklet that is intended to be used only to assist unitholders in the preparation of their 2012 federal and state income tax returns. The projected payment schedule for the net profits interest is included with the tax information booklet. This tax information booklet can be obtained at <http://mvo.investorhq.businesswire.com>.

**Description of the Underlying Properties**

The underlying properties consist of MV Partners' net interests in all of its oil and natural gas properties as of January 24, 2007, which properties are located in the Mid-Continent region in the States of Kansas and Colorado. Affiliates of MV Partners are the contract operators of substantially all of the underlying properties.

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MV Partners' interests in the underlying properties require MV Partners to bear its proportionate share, along with the other working interest owners, of the costs of development and operation of such properties. The underlying properties are burdened by non-working interests owned by third parties, consisting primarily of royalty interests retained by the owners of the land subject to the working interests. These landowners' royalty interests typically entitle the landowner to receive 12.5% of the revenue derived from oil and natural gas production resulting from wells drilled on their land, without any deduction for drilling costs or other costs related to production of oil and natural gas. A working interest percentage represents a working interest owner's proportionate ownership interest in a property in relation to all other working interest owners in that property, whereas a net revenue interest percentage is a working interest owner's percentage of production after reducing such percentage by the percentage of burdens on such production such as royalties and overriding royalties.

Based on the reserve report, the net profits interest would entitle the trust to receive net proceeds from the sale of production of not less than 11.5 MMBoe of proved reserves attributable to the underlying properties expected to be produced during the term of the net profits interest, calculated as 80% of the proved reserves attributable to the underlying properties expected to be produced during the term of the net profits interest. The reserves attributable to the underlying properties include all reserves expected to be economically produced during the life of the properties, whereas the trust is entitled to only receive 80% of the net proceeds from the sale of production of oil, natural gas and natural gas liquids attributable to the underlying properties during the term of the net profits interest.

The Mid-Continent region is a mature producing region with well-known geologic characteristics. Most of the production from the underlying properties consists of desirable crude oil of a quality level between sweet and sour with 33 to 34 gravity averages. Most of the producing wells to which the underlying properties relate are relatively shallow, ranging from 600 to 4,500 feet, and many are completed to multiple producing zones. In general, the producing wells to which the underlying properties relate have stable production profiles and their production is generally long-lived, often with total projected economic lives over 50 years.

### **Reserves**

The engineering departments of each of Vess Oil and Murfin Drilling, who together manage MV Partners and operate the underlying properties on behalf of MV Partners, maintain oversight and compliance responsibility for the internal reserve estimate process and, in accordance with internal policies and procedures, provide appropriate data to independent third party engineers for the annual estimation of year-end reserves. These engineering departments accumulate historical production data for the underlying properties, calculate historical lease operating expenses and differentials, update working interests and net revenue interests, and obtain logs, 3-D seismic and other geological and geophysical information. This data is forwarded to CG&A, thereby allowing CG&A to prepare estimated proved reserves in their entirety based on such data.

Estimates of the proved oil and gas reserves attributable to the trust as of December 31, 2010, 2011 and 2012 are based on reports prepared by CG&A. CG&A has been in business since 1961 and serves many organizations and individuals in the petroleum industry, including owners and operators of oil and gas properties, exploration groups, planners, and professionals in investment and finance. One of the principal businesses of CG&A is providing detailed assessment of producing reservoirs. CG&A is an independent firm of petroleum engineers, geologists, geophysicists and petrophysicists and does not own an interest in the underlying properties and is not employed on a contingent basis. Mr. W. Todd Brooker, Senior Vice President, is the technical person at CG&A who is primarily responsible for overseeing CG&A's preparation of the reserve estimates. Mr. Brooker is a graduate of the University of Texas at Austin with a Bachelor of Science degree in Petroleum Engineering and has 21 years of experience in petroleum engineering. He is a licensed professional engineer in the State of Texas (License #83462).

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Oil and gas proved reserves are disclosed by significant geographic area, using the 12-month average beginning-of-month price for the year, based on the use of reliable technologies to estimate proved oil and gas reserves, if those technologies have been demonstrated to result in reliable conclusions about reserves volumes. Reserve and related information for 2010, 2011 and 2012 is presented consistent with these requirements.

*Proved Reserves of MV Oil Trust.* The following table sets forth, as of December 31, 2012, estimated proved reserves attributable to the trust derived from the reserve report. A summary of the reserve report is included below.

	Oil (MBbls)	Natural gas (MMcf)	Natural gas liquids (MBbls)	Oil equivalents (MBoe)
<b>Proved Developed</b>	6,270	482	23	6,365
<b>Proved Undeveloped</b>	836			836
<b>Total Proved</b>	7,106	482	23	7,201

Information concerning historical changes in net proved reserves attributable to the trust, and the calculation of the standardized measure of discounted future net revenues related thereto, is contained in Note J to the financial statements of the trust included in this Form 10-K. MV Partners has not filed reserve estimates covering the underlying properties with any other federal authority or agency.

The following table summarizes the changes in estimated proved reserves of the trust for the periods indicated.

	MV Oil Trust			
	Oil (MBbl)	Natural Gas (MMcf)	Natural Gas Liquids (MBbl)	Oil Equivalents (MBoe)
<b>Proved Reserves:</b>				
Balance, December 31, 2009	8,683	582	31	8,800
Revisions, extensions, discoveries and additions	305	22	8	315
Production	(756)	(62)	(3)	(769)
Balance, December 31, 2010	8,232	542	36	8,346
Revisions, extensions, discoveries and additions	247	115	(1)	264
Production	(729)	(56)	(3)	(740)
Balance, December 31, 2011	7,750	601	32	7,870
Revisions, extensions, discoveries and additions	67	(63)	(6)	53
Production	(711)	(56)	(3)	(722)
Balance, December 31, 2012	7,106	482	23	7,201
<b>Proved Developed Reserves:</b>				
Balance, December 31, 2009	7,397	582	31	7,514
Balance, December 31, 2010	7,282	542	36	7,396
Balance, December 31, 2011	6,814	601	32	6,934
Balance, December 31, 2012	6,270	482	23	6,365
<b>Proved Undeveloped Reserves:</b>				
Balance, December 31, 2009	1,286			1,286
Balance, December 31, 2010	950			950
Balance, December 31, 2011	936			936
Balance, December 31, 2012	836			836

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The reserves above represent the trust's 80% net profits interest in the underlying properties for the remainder of the term of the trust.

The following table sets forth the estimates of total proved reserves and forecasts of economics attributable to the underlying properties as of December 31, 2012 for the remainder of the term of the trust, as presented in the summary prepared by CG&A of its reserve report as of December 31, 2012 for the trust. The estimates of proved reserves have not been filed with or included in reports to any federal authority or agency. The discounted cash flow value shown in the table is not intended to represent the current market value of the trust's estimated oil and natural gas reserves.

	<b>Proved Developed Producing</b>	<b>Proved Developed Non-Producing</b>	<b>Proved Undeveloped</b>	<b>Total Proved</b>
	(dollars in thousands)			
<b>Net Reserves</b>				
Oil (MBbl)	7,757.9	79.6	1,045.5	8,882.9
Gas (MMcf)	456.7	145.8	0.0	602.5
NGL (MBbl)	28.4	0.0	0.0	28.4
<b>Revenue</b>				
Oil	\$ 679,667.4	\$ 6,970.2	\$ 91,592.0	\$ 778,229.6
Gas	1,202.7	389.1	0.0	1,591.8
NGL	1,194.7	0.0	0.0	1,194.7
Severance Taxes	3,134.1	327.8	3,938.5	7,400.4
Ad Valorem Taxes	20,426.1	214.2	2,724.8	23,365.1
Operating Expenses	179,150.3	1,144.2	8,274.2	188,568.7
Workover Expenses	10,946.7	0.0	0.0	10,946.7
COPAS	33,952.3	117.2	809.9	34,879.3
Investments	0.0	1,139.0	11,054.5	12,193.5
80% NPI Net Operating Income(1)	\$ 347,564.3	\$ 3,533.5	\$ 51,832.1	\$ 402,929.9
80% Net Profits Interest (NPI)(2)	\$ 218,087.3	\$ 2,063.6	\$ 32,287.4	\$ 252,438.3

(1) Before interest and taxes.

(2) Discounted at 10%.

The net profits interest entitles the trust to receive 80% of the net proceeds attributable to MV Partners' interest from the sale of production from the underlying properties. The net profits interest will terminate on the later to occur of (1) June 30, 2026, or (2) the time when 14.4 MMBoe have been produced from the underlying properties and sold, and the trust will soon thereafter wind up its affairs and terminate. Based on the reserve report, CG&A estimated that the trust would terminate June 30, 2026 based on the calculation that 14.4 MMBoe would have been produced from the underlying properties and sold (which amount is the equivalent of 11.5 MMBoe in respect of the trust's right to receive 80% of the net proceeds from the underlying properties pursuant to the net profits interest) prior to this date.

Oil and gas prices were adjusted to a WTI Cushing oil price of \$94.71 per Bbl and a Henry Hub natural gas price of \$2.757 per MMBtu. As specified by the SEC, these prices are 12-month averages based upon the price on the first day of each month during 2012. The price adjustments were based on oil price differentials forecast at -\$7.10 per Bbl for all properties. Oil price differentials were not escalated. Gas and NGL price differentials were forecast on a per property basis as provided by MV Partners and were also not escalated. Price differentials include adjustments for transportation and basis differential. Gas prices were further adjusted with a heating value (Btu content) applied on a per-property basis. Operating expenses, workover expenses, COPAS overhead charges and investments were forecast on a per property basis as furnished by MV Partners. Expenses and investments were

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held constant in accordance with SEC rules and guidelines. Severance tax rates were applied at normal state percentages of oil and gas revenue, except for those Kansas producing properties that are severance tax exempt. Ad valorem taxes of 3.0% of total revenue were applied to each property as provided by MV Partners. Oil and gas conservation tax rates were applied to all Kansas properties at the applicable rates.

The estimates of proved oil and natural gas reserves attributable to the underlying properties are based on estimates prepared by CG&A. Rules and guidelines established by the SEC regarding the present value of future net revenues were used to prepare these reserve estimates. Oil and natural gas reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner, and estimates of other engineers might differ materially from those included in the report. The accuracy of any reserve estimate is a function of the quality of available data and engineering, and estimates may justify revisions based on the results of drilling, testing, and production activities. Accordingly, reserve estimates are inherently imprecise and should not be construed as representing the actual quantities of future production or cash flows to be realized from oil and natural gas properties or the fair market value of such properties.

### **Producing Acreage and Well Counts**

For the following data, "gross" refers to the total wells or acres in which MV Partners owns a working interest and "net" refers to gross wells or acres multiplied by the percentage working interest owned by MV Partners. Although many of MV Partners' wells produce both oil and natural gas, a well is categorized as an oil well or a natural gas well based upon the ratio of oil to natural gas production.

The underlying properties are interests in developed properties located in oil and natural gas producing regions of Kansas and eastern Colorado. The following is a summary of the approximate acreage of the underlying properties at December 31, 2012.

	Gross	Net
	(acres)	
<b>Developed Acreage:</b>		
El Dorado Area	15,365	15,353
Northwest Kansas Area	11,885	11,840
Other	20,350	16,649
<b>Total</b>	<b>47,640</b>	<b>43,882</b>

### **Undeveloped Acreage:**

The following is a summary of the producing wells on the underlying properties as of December 31, 2012:

	Operated Wells		Non-Operated Wells		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	924	907	64	9	988	916
Natural gas	5	4	1		6	4
<b>Total</b>	<b>929</b>	<b>911</b>	<b>65</b>	<b>9</b>	<b>994</b>	<b>920</b>

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The following is a summary of the number of developmental wells drilled by MV Partners on the underlying properties during the last three years. MV Partners did not drill any exploratory wells during the periods presented.

	Year Ended December 31,					
	2010		2011		2012	
	Gross	Net	Gross	Net	Gross	Net
Completed:						
Oil wells	8	8	8	8	7	7
Natural gas wells						
Non-productive	1	1	0	0	3	3
<b>Total</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>10</b>	<b>10</b>

During the years ended December 31, 2010, 2011 and 2012, MV Partners drilled, completed and commenced production with respect to 8, 8 and 7 wells, respectively, on the underlying properties. As of December 31, 2012, no wells were being drilled. Capital expenditures associated with proved undeveloped reserves for the year ended December 31, 2012, were \$2.14 million. MV Partners continues to develop further proved undeveloped reserves pursuant to its planned development and workover program. See "Trustee's Discussion and Analysis of Financial Condition and Results of Operations Planned Development and Workover Program."

The following table shows the average sales prices per Bbl of oil and Mcf of natural gas produced and the production costs and production and property taxes per Boe for the underlying properties. Sales volumes for natural gas liquids during the periods presented were not significant. Average prices do not include the effect of hedge activity.

	Year Ended December 31,		
	2010	2011	2012
Sales prices:			
Oil (per Bbl)	\$ 72.61	\$ 88.31	\$ 87.68
Natural gas (per Mcf)	\$ 3.72	\$ 3.56	\$ 2.55
Lease operating expense (per Boe)	\$ 15.28	\$ 16.82	\$ 17.70
Lease maintenance (per Boe)	\$ 1.72	\$ 2.10	\$ 2.67
Lease overhead (per Boe)	\$ 2.98	\$ 3.09	\$ 3.30
Production and property taxes (per Boe)	\$ 3.09	\$ 3.56	\$ 3.93

### **Major Producing Areas**

Approximately 62% of the net acres included in the underlying properties are located in the El Dorado Area, which is located in southeastern Kansas, and in the Northwest Kansas Area. The underlying properties are all located in mature fields that are characterized by long production histories. The properties provide continual workover and developmental opportunities which MV Partners has pursued to reduce the natural decline in production from the underlying properties.

#### *El Dorado Area*

The underlying properties located in the El Dorado Area are operated on behalf of MV Partners by Vess Oil and are located in the El Dorado, Augusta and Valley Center Fields. Vess Oil has actively pursued infill drilling, well re-entries, plugback and deepening recompletion operations, various types of restimulation work and equipment optimization programs to reduce the natural decline in production from these fields.

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*El Dorado Field.* The El Dorado Field is located atop the Nemaha Ridge in Central Butler County, Kansas and was first discovered in 1915. Up to 15 horizons have been reported to contain hydrocarbons, ranging from the Admire Sands, at a depth of 650 feet, to the Arbuckle Dolomite, at a depth of 2,500 feet. The primary producing intervals are the Admire, Lansing-Kansas City, Viola, Simpson and Arbuckle. Cumulative production of all producers from the El Dorado Field has exceeded 300 MMBbls of oil with production peaking between 1916 and 1918 at 116,000 Bbls per day in 1918.

*Augusta Field.* The Augusta Field is on a trend similar to the nearby El Dorado Field and strikes northeast parallel to the Nemaha Ridge. The field was first discovered in 1914 and covers approximately 10 square miles of Butler County, Kansas. The primary producing interval has been the Arbuckle with additional production coming from the Simpson and Lansing-Kansas City intervals. Cumulative production of all producers from the Augusta Field has exceeded 48 MMBbls of oil. The Augusta Field is largely an extension of the El Dorado Field and has very similar geological characteristics.

Vess Oil has maintained constant activity in these fields to increase production. Vess Oil plans to drill additional infill developmental wells in the Arbuckle, Lansing-Kansas City, Simpson and Whitecloud intervals in the El Dorado area during the next five years. Vess Oil also plans to maintain its annual recompletion and workover program over the next five years. Vess Oil has commenced a waterflood program to enhance production from the Whitecloud formation. Vess Oil plans to convert wells as the infill developmental drilling program proceeds.

*Valley Center Field.* The Valley Center Field was first discovered in 1928 and covers approximately 60 square miles of Sedgwick County, Kansas. Production is primarily from the Viola interval, which is located at an average depth of 2,500 feet. Cumulative production of all producers from the Valley Center Field has exceeded 25 MMBbls of oil. The Valley Center Field has similar geological characteristics as the El Dorado Field.

### *Northwest Kansas Area*

Each of Vess Oil and Murfin Drilling operate leases on behalf of MV Partners included in the underlying properties that are located in the Northwest Kansas Area. The primary fields in this area are the Bemis-Shutts, Trapp, Ray and Hansen Fields. Vess Oil and Murfin Drilling have actively pursued polymer treatments, stimulation workovers and recompletion operations to reduce the natural decline in production from these fields.

*Bemis-Shutts Field.* The Bemis-Shutts Field is located on the Fairport Anticline within the Central Kansas Uplift and was first discovered in 1928. The field consists of 17,080 acres in northeastern Ellis and southeastern Rooks Counties, Kansas. Production has been from multiple pay zones with the primary formation being the Arbuckle interval at a depth of 3,300 feet and the Lansing- Kansas City interval at a depth of 2,800 feet. Cumulative production of all producers from the Bemis-Shutts Field has exceeded 248 MMBbls of oil.

Both Vess Oil and Murfin Drilling have pursued polymer treatment programs with success in the Bemis-Shutts Field and plan to continue these workovers. MV Partners has continued to acquire 3-D seismic surveys over portions of the field to further define the boundaries of the Arbuckle structure in the field and to evaluate undrilled infill locations. This data is processed as received and currently there are over 17 potential infill drilling locations that have been identified. MV Partners plans to drill these locations over the next five years.

*Trapp Field.* The Trapp Field consists of 35,900 acres in Russell and Barton Counties, Kansas and was first discovered in 1929. Production has primarily been from the Lansing-Kansas City and Shawnee limestones and the Arbuckle dolomite. Cumulative production of all producers from the Trapp Field has exceeded 239 MMBbls of oil.



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*Hansen and Ray Fields.* The Hansen Field is located along the crest of the Stuttgart-Huffstutor Anticline and was first discovered in 1943. Production from this field has primarily come from the Lansing-Kansas City limestone. Cumulative production of all producers from the Hansen Field has exceeded 9.2 MMBbls of oil.

The Ray Field is located on the eastern flank of the Central Kansas Uplift and was first discovered in 1940. Production has primarily been from the Arbuckle dolomite and the Gorham sands with additional production from the Lansing-Kansas City interval along the eastern flank of the field. Cumulative production of all producers from the Ray Field has exceeded 18 MMBbls of oil.

The Hansen and Ray Fields consist of over 7,000 acres in Philips and Norton Counties, Kansas.

Murfin Drilling operates the leases held by MV Partners in the Trapp, Hansen and Ray Fields. Murfin Drilling has informed the trustee that it plans to drill and workover and recomplete additional wells, including acid stimulations, over the next five years.

**Marketing and Post-Production Services**

Pursuant to the terms of the conveyance that created the net profits interest, MV Partners has the responsibility to market, or cause to be marketed, the oil, natural gas and natural gas liquid production attributable to the underlying properties. The terms of the conveyance that created the net profits interest do not permit MV Partners to charge any marketing fee when determining the net proceeds upon which the net profits interest is calculated. As a result, the net proceeds to the trust from the sales of oil, natural gas and natural gas liquid production from the underlying properties are determined based on the same price that MV Partners receives for oil, natural gas and natural gas liquid production attributable to MV Partners' remaining interest in the underlying properties.

Vess Oil and Murfin Drilling, as contract operators, generally sell production from the underlying properties to several purchasers, including MV Purchasing, LLC, which we refer to as "MV Purchasing," under short-term arrangements using market sensitive pricing. MV Purchasing is majority owned by the indirect equity owners of MV Partners. These sales to purchasers are under terms ranging from one month to six months, using market sensitive pricing. Two purchasers, including MV Purchasing, have been purchasing substantially all of the crude oil production, and a substantial portion of the crude oil production may continue be acquired by one or more single purchasers. For the years ended December 31, 2010, 2011 and 2012, MV Purchasing purchased 72%, 74% and 76%, respectively, of the production sold from the underlying properties. MV Partners does not believe that loss of any of these parties as a purchaser would have a material adverse impact on the business of MV Partners, as substitute purchasers are generally available; however, a purchaser's failure to pay for purchased crude oil could have a significant adverse impact on MV Partners' business.

Oil production is typically transported by truck from the field to the closest gathering facility or refinery. MV Partners sells the majority of the oil production from the underlying properties under short-term arrangements using market sensitive pricing. The price received by MV Partners for the oil production from the underlying properties is usually based on the NYMEX price applied to equal daily quantities on the month of delivery, which price is then reduced for differentials based upon delivery location and oil quality. The average differential for oil production during the years ended December 31, 2010, 2011 and 2012 were \$7.10, \$6.91 and \$6.60 per barrel, respectively.

All natural gas produced by MV Partners is marketed and sold to third-party purchasers. The natural gas is sold on a contract basis and, in all but one case, the contracts are in their secondary terms and are on a month-to-month basis. In all cases, the contract price is based on a percentage of a published regional index price, after adjustments for Btu content, transportation and related charges.

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**Sale and Abandonment of Underlying Properties**

MV Partners and any transferee of any of the underlying properties will have the right to abandon its interest in any well or property comprising a portion of the underlying properties if, in its opinion, such well or property ceases to produce or is not capable of producing in commercially paying quantities. To reduce or eliminate the potential conflict of interest between MV Partners and the trust in determining whether a well is capable of producing in commercially paying quantities, MV Partners is required under the conveyance to act as a reasonably prudent operator in the State of Kansas under the same or similar circumstances would act if it were acting with respect to its own properties, disregarding the existence of the net profits interest as a burden on such property. For the years ended December 31, 2010, 2011 and 2012, MV Partners plugged and abandoned two, 13 and 15 wells, respectively, based on its determination that such wells were no longer economical to operate or restore to production.

MV Partners generally may sell all or a portion of its interests in the underlying properties, subject to and burdened by the net profits interest, without the consent of the trust unitholders. In addition, MV Partners may, without the consent of the trust unitholders, require the trust to release the net profits interest associated with any lease that accounts for less than or equal to 0.25% of the total production from the underlying properties in the prior 12 months and provided that the net profits interest covered by such releases cannot exceed, during any 12-month period, an aggregate fair market value to the trust of \$500,000. These releases will be made only in connection with a sale by MV Partners of the relevant underlying properties and are conditioned upon the trust receiving an amount equal to the fair value to the trust of such net profits interest. Any net sales proceeds paid to the trust are distributable to trust unitholders for the quarter in which they are received.

**Title to Properties**

The underlying properties are subject to certain burdens that are described in more detail below. To the extent that these burdens and obligations affect MV Partners' rights to production and the value of production from the underlying properties, they have been taken into account in calculating the trust's interests and in estimating the size and the value of the reserves attributable to the underlying properties.

MV Partners' interests in the underlying properties are typically subject, in one degree or another, to one or more of the following:

royalties, overriding royalties and other burdens, express and implied, under oil and natural gas leases;

overriding royalties, production payments and similar interests and other burdens created by MV Partners or its predecessors in title;

a variety of contractual obligations arising under operating agreements, farm-out agreements, production sales contracts and other agreements that may affect the underlying properties or their title;

liens that arise in the normal course of operations, such as those for unpaid taxes, statutory liens securing unpaid suppliers and contractors and contractual liens under operating agreements that are not yet delinquent or, if delinquent, are being contested in good faith by appropriate proceedings;

pooling, unitization and communitization agreements, declarations and orders;

easements, restrictions, rights-of-way and other matters that commonly affect property;

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conventional rights of reassignment that obligate MV Partners to reassign all or part of a property to a third party if MV Partners intends to release or abandon such property; and

rights reserved to or vested in the appropriate governmental agency or authority to control or regulate the underlying properties and the net profits interest therein.

MV Partners has informed the trustee that MV Partners believes that the burdens and obligations affecting the underlying properties are conventional in the industry for similar properties. MV Partners also has informed the trustee that MV Partners believes that the existing burdens and obligations do not, in the aggregate, materially interfere with the use of the underlying properties and do not materially adversely affect the value of the net profits interest.

MV Partners acquired the underlying properties in two transactions, the first of which was in 1998 when it acquired a substantial portion of the underlying properties from a major oil and gas company and the second of which was in 1999 when it acquired the remaining portion of the underlying properties from a large independent oil and gas company. At the time of its acquisition of the underlying properties, MV Partners believes that it undertook a thorough title examination of the underlying properties.

MV Partners has recorded the conveyance of the net profits interest in the real property records in each Kansas county where the properties are located. MV Partners has informed the trustee that MV Partners believes that the delivery and recording of the conveyance constituted fully conveyed and vested property interests in the trust under Kansas law. Although no assurance can be given, MV Partners has informed the trustee that MV Partners believes that, if, during the term of the trust, MV Partners becomes involved as a debtor in a bankruptcy proceeding, the conveyance of the net profits interest, as vested and recorded property interests, cannot be avoided by a bankruptcy trustee. If in such a proceeding a determination were made that the conveyance constitutes an executory contract and the net profits interest is not a fully conveyed property interest under the laws of Kansas, and if such contract were not to be assumed in a bankruptcy proceeding involving MV Partners, the trust would be treated as an unsecured creditor of MV Partners with respect to such net profits interest in the pending bankruptcy proceeding.

Oil and gas leases are real property interests under Colorado law. Net profits interests are non-operating, non-possessory interests carved out of the oil and gas leasehold estate. MV Partners has informed the trustee that MV Partners believes that it is possible that the net profits interest for the underlying properties located in Colorado may not be treated as a real property interest under the laws of Colorado. MV Partners has recorded the conveyance of the net profits interest in the real property records of Colorado in accordance with local recording acts. MV Partners has informed the trustee that MV Partners believes that, if, during the term of the trust, MV Partners becomes involved as a debtor in a bankruptcy proceeding, the net profits interest relating to the underlying properties located in Colorado should be treated as a fully conveyed personal property interest under the laws of Colorado. In such a proceeding, however, a determination could be made that the conveyance constitutes an executory contract and the net profits interest is not a fully conveyed personal property interest under the laws of Colorado, and if such contract were not to be assumed in a bankruptcy proceeding involving MV Partners, the trust would be treated as an unsecured creditor of MV Partners with respect to such net profits interest in the pending bankruptcy proceeding. Although no assurance can be given, MV Partners does not believe that the conveyance of the net profits interest relating to the underlying properties located in Colorado should be subject to rejection in a bankruptcy proceeding as an executory contract.

**Competition and Markets**

The oil and natural gas industry is highly competitive. MV Partners competes with major oil and natural gas companies and independent oil and natural gas companies for oil and natural gas,

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equipment, personnel and markets for the sale of oil and natural gas. Many of these competitors are financially stronger than MV Partners, but even financially troubled competitors can affect the market because of their need to sell oil and natural gas at any price to attempt to maintain cash flow. The trust is subject to the same competitive conditions as MV Partners and other companies in the oil and natural gas industry.

Oil and natural gas compete with other forms of energy available to customers, primarily based on price. These alternate forms of energy include electricity, coal and fuel oils. Changes in the availability or price of oil, natural gas or other forms of energy, as well as business conditions, conservation, legislation, regulations and the ability to convert to alternate fuels and other forms of energy may affect the demand for oil and natural gas.

Future price fluctuations for oil, natural gas and natural gas liquids will directly impact trust distributions, estimates of reserves attributable to the trust's interests and estimated and actual future net revenues to the trust. In view of the many uncertainties that affect the supply and demand for oil and natural gas, neither the trust nor MV Partners can make reliable predictions of future oil and natural gas supply and demand, future product prices or the effect of future product prices on the trust.

### **Regulation**

The production of oil and gas from the underlying properties is affected by many state and federal regulations with respect to allowable rates of production, drilling permits, well spacing, marketing, environmental matters and pricing. Future regulations could change allowable rates of production or the manner in which oil and gas operations may be lawfully conducted.

#### *FERC Regulation*

Historically, the transportation and sale for resale of natural gas in interstate commerce has been regulated by the Federal Energy Regulatory Commission, or FERC, under the Natural Gas Act of 1938, or NGA, the Natural Gas Policy Act of 1978, or NGPA, and regulations issued under those statutes. Over the last two decades, the FERC has issued orders and adopted regulations resulting in a restructuring of the natural gas industry. The principal elements of this restructuring were the requirement that interstate pipelines separate, or "unbundle," into individual components the various services offered on their systems, with all transportation services to be provided on a non-discriminatory basis, and the prohibition against an interstate pipeline providing gas sales services except through separately organized affiliates. In various rulemaking proceedings following its initial unbundling requirement, the FERC has refined its regulatory program applicable to interstate pipelines in various respects, and it has announced that it will continue to monitor these and other regulations to determine whether further changes are needed. In addition to rulemaking proceedings, the FERC establishes new policies and regulations through policy statements and adjudications of individual pipeline matters. Further, additional changes to regulations may occur based on actions taken by the United States Congress and/or the courts.

In the past, the federal government has regulated the prices at