THE AMERICAN ARBITRATION ASSOCIATION

RONALD E. HALE; JOETTA J. HALE; DALE H. HENCEROTH; MELINDA J. HENCEROTH; VIRGIL R. BARNES KAREN G. BARNES BRUCE C. MEADOWS; IRMA L. MEADOWS; SAMANTHA MEISTER; DEBRA MEISTER; HOLLY MEISTER; JOHN P. CHESTNUT; PHYLIS CHESTNUT; on Behalf of Themselves and Others Similarly Situated, Plaintiffs, vs. CHESAPEAKE EXPLORATION, L.L.C. Defendant	Arbitration Case No. ____________

<u>CLASS ARBITRATION DEMAND AND COMPLAINT</u>

The Plaintiffs, on behalf of themselves and others similarly situated, demand class arbitration under the rules of the American Arbitration Association against Chesapeake Exploration, L.L.C. for breach of contract for the underpayment of oil and gas royalties.

<u>SUMMARY OF CLAIMS</u>

1. Plaintiffs and the other Class Members are lessors under Ohio oil and gas leases with Defendant Chesapeake Exploration, L.L.C. ("Chesapeake Exploration").

2. The oil and gas leases provide for the payment of oil and gas royalties, including royalties on natural gas (methane), natural gas liquids (ethane, propane, butane, isobutene and pentane) and oil.

3. The royalties are a portion (usually one-eighth) of the revenue realized from the sale of the oil and gas each month.

4. Although Defendant produces gas, it does not hold the proceeds of the sale of the gas, calculate the royalties or issue the royalty checks.

5. The entities that perform these acts are Chesapeake Energy Corporation ("Chesapeake Energy"), the corporate parent of Defendant, and Chesapeake Operating, L.L.C., f/k/a Chesapeake Operating, Inc. ("Chesapeake Operating"), an affiliate of Defendant.

6. Defendant breached the leases by allowing Chesapeake Energy and Chesapeake Operating to underpay the royalties on all three products – natural gas, natural gas liquids ("NGLs") and oil.

7. Defendant, through these affiliates, underpaid the royalties on natural gas by (1) paying the royalties on less than the volume of gas sold; (2) paying the royalties on less than the revenues realized from the sale of the gas; (3) deducting costs incurred after Defendant no longer held title to the gas; (4) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; (5) deducting transportation costs that exceeded the actual cost of transportation; (6) deducting fuel costs that exceeded the actual cost of fuel; (7) deducting marketing fees that were never incurred; and (8) deducting NGL costs.

8. Defendant, through its affiliates, underpaid the NGL royalties by (1) paying a royalty on less than the full amount of NGLs sold; (2) paying the royalties using a price that was likely less than the price paid by the buyer; and (3) deducting inflated costs that exceeded the NGL royalties.

9. Defendant, through its affiliates, underpaid the oil royalties by (1) paying the royalties on the less than the full amount of oil sold; (2) paying the royalties on a price of oil that

was below market and less than the price paid by the buyer; (3) deducting costs incurred after Defendant no longer held title to the oil; and (4) deducting NGL costs.

THE PARTIES

A. Plaintiffs

10. Plaintiffs Ronald E. Hale and Joetta J. Hale, husband and wife, are citizens of Ohio and reside in Columbiana County at 37368 Laughlin Road, Lisbon, Ohio 44432. Mr. and Mrs. Hale were assigned a portion of the lessor's rights on an oil and gas lease entered into on April 15, 2011 by and between James and Barbara Snoeberger and Chesapeake Exploration, L.L.C. pursuant to which Mr. and Mrs. Snoeberger leased it oil and gas rights to real property in Carroll County, Ohio. A copy of this lease is attached as Exhibit 1.

11. Plaintiffs Dale H. Henceroth and Melinda J. Henceroth, husband and wife, are citizens of Ohio and reside in Columbiana County at 10437 Trinity Church Road, Lisbon, Ohio 44432. On September 14, 2010, Mr. and Mrs. Henceroth entered into an oil and gas lease with Dale Property Services Penn, L.P. pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Dale Property Services Penn, L.P. subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. A copy of this lease is attached as Exhibit 2.

12. Plaintiffs Bruce C. Meadows and Irma L. Meadows, husband and wife, are citizens of Ohio and reside in Warren County at 1274 Kay Drive, Mason, Ohio 45040. On August 22, 2008, Mr. and Mrs. Meadows entered into an oil and gas lease with Patriot Energy Partners L.L.C. ("Patriot") pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. A copy of this lease is attached as Exhibit 3.

13. Plaintiffs Samantha Meister, Debra Meister and Holly Meister are citizens of Ohio and reside in Columbiana County at 10075 Salinesville Road, N.E., Salinesville, Ohio 43945. They are royalty owners on leases originally entered into by LaVern Gossman on August 1, 2008 with Patriot Energy Partners, L.L.C. ("Patriot") that leased oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. A copy of this lease is attached as Exhibit 4

14. Plaintiffs John P. Chestnut and Phyllis Chestnut, husband and wife, are citizens of Ohio and reside in Columbiana County at 33255 State Route 30, Hanoverton, Ohio 44423. On May 19, 2008, Mr. and Mrs. Chestnut entered into an oil and gas lease with Patriot Energy Partners, L.L.C. ("Patriot") that leased oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. A copy of this lease is attached as Exhibit 5.

B. The Defendant

15. Defendant Chesapeake Exploration, L.L.C. ("Chesapeake Exploration") is a publicly held corporation incorporated under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118.

JURISDICTION

16. This matter is properly before the American Arbitration Association because the subject oil and gas leases require arbitration before the AAA.

17. By way of example, the arbitration clause in the leases prepared by Chesapeake Exploration have arbitration clauses identical to or substantively the same as the following:

> ARBITRATION: In the event of a disagreement between Lessor and Lessee concerning the Lease, performance thereunder or damages caused by Lessee's operations, the resolution of such dispute shall be determined by arbitration in accordance with the rules of the American Arbitration

> Association. All fees and costs associated with the arbitration shall be borne equally by Lessor and Lessee.

18. By way of further example, the arbitration clause in leases prepared by Patriot Energy Partners, L.L.C. and assigned to Chesapeake Exploration have arbitration clauses identical to or substantively the same as the following:

> ARBITRATION: Any controversy or claim arising out of or relating to this agreement shall be settled by arbitration. Either party may initiate any arbitration proceeding by notifying the other party in writing, but only after the forementioned notice of breach has been served and the time period for cure provided in this lease has expired. The procedure to be followed in the event of any arbitration shall be that prescribed in the Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any Court having jurisdiction thereof.

FACTS

I. BACKGROUND

A. Oil and Gas Leasing

19. Oil and gas producers enter into oil and gas leases with the owners of oil and gas rights.

20. Under such leases, the owner of the oil and gas rights (the lessor) conveys those rights to the producer (the lessee) in exchange for a royalty on the oil and gas produced and sold each month.

21. Royalties on oil and gas traditionally have been one-eighth of the proceeds of the sale of the oil and gas.

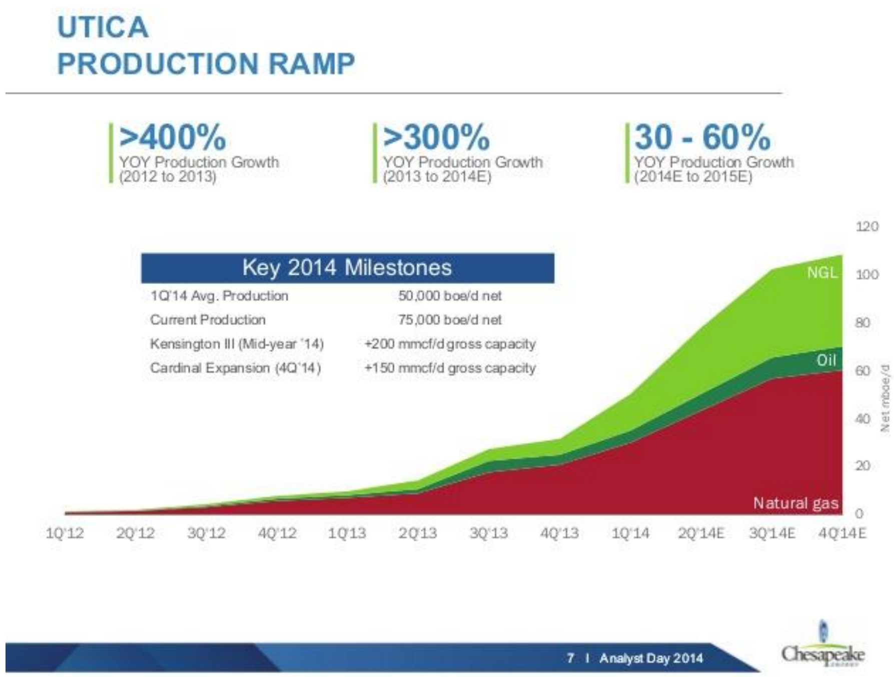
22. If a lease so provides, the producer may deduct "post production costs" when calculating the royalties.

23. "Post production costs" are costs incurred between the well and the point at which the lessee transfers title to the oil and gas to the buyer.

24. Costs incurred after the lessee has transferred title are not deductible from oil and gas royalties.

B. Chesapeake Energy's Production of Oil and Gas in Ohio

25. Chesapeake Energy is the leading producer of oil and gas in Ohio. Its production of natural gas, NGLs and oil has grown robustly since the end of 2012, as shown by the company chart below.



26. Chesapeake Energy produces its oil and gas in Ohio through the Defendant.

27. Defendant produces oil and gas both under leases in which it is named as the lessee and under leases assigned to it by other lessees.

28. Defendant sells the oil and gas it produces to Chesapeake Energy Marketing, L.L.C. ("CEMI"), a gas marketing subsidiary of Chesapeake Energy and thus an affiliate of Defendant.

29. CEMI takes title to the oil and gas at the well.

30. The oil is separated from the gas in tanks near the wells, transported by truck to market and sold by CEMI to unaffiliated third-party buyers by the barrel.

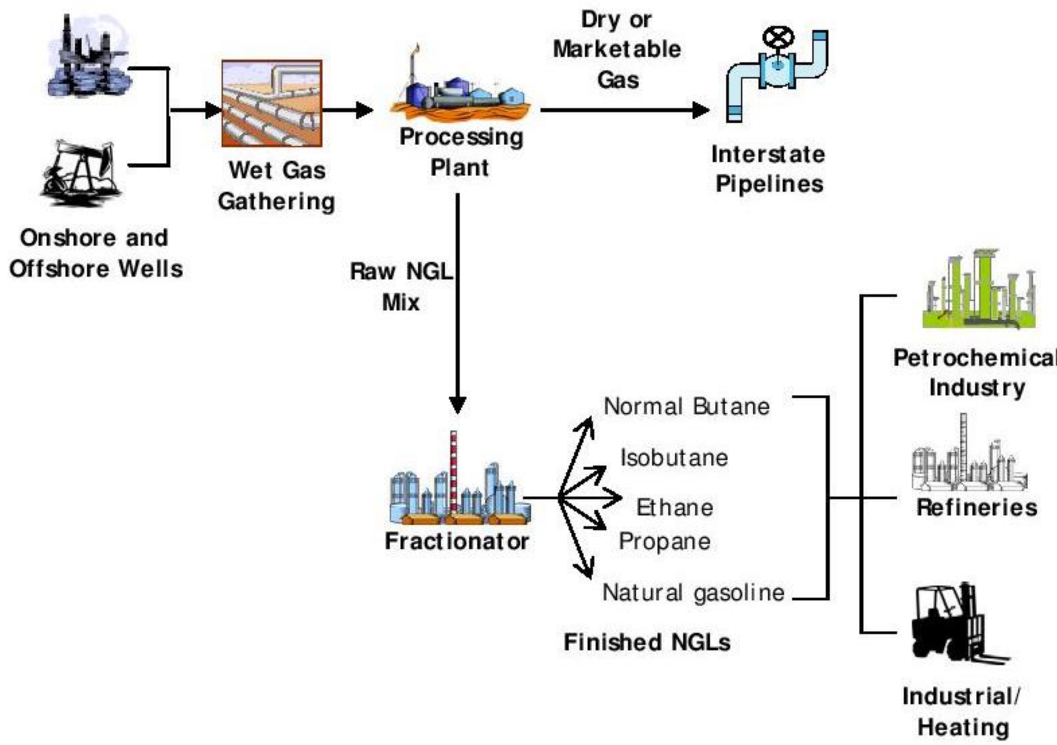
31. The raw gas is transported through gathering lines to a processing plant where CEMI processes the commingled gas purchased from many Chesapeake Exploration wells. This processing includes (1) dehydration (if the gas has excessive water vapor); (2) sweetening (if the gas has excessive sulfur and carbon dioxide); and (3) the removal of ethane, propane, butane, isobutene and pentane and other marketable natural gas liquids ("NGLs").

32. The NGLs are transported through NGL lines to a fractionation plant where the NGLs are processed into separate products. The NGLs are then transported to market and sold by CEMI to unaffiliated third-party buyers by the gallon.

33. CEMI transports the processed natural gas (methane) through pipes to the interstate pipeline system and sells it to unaffiliated third-party buyers in units of a thousand cubic feet ("mcf") at points on the interstate system.

34. The "midstream" services described above are shown in the illustration on the next page prepared by Tudor, Pickering, Holt Co., an energy investment and merchant banking firm.

Midstream Overview



C. <u>The Calculation of the Royalties</u>

35. Chesapeake Energy's Revenue Department organizes the data used to calculate the royalties on spreadsheets with eighteen columns.

36. Chesapeake Energy provided one of these spreadsheets to Plaintiff Ronald E. Hale after he inquired about his royalties.

37. The spreadsheet provided to Mr. Hale provides the calculations of the royalties on gas, NGLs and oil produced from the Utica shale well "Buck 24-15-5 1H" ("the Buck Well") during the five month period of February 2014 through June 2014 ("the Buck Well Spreadsheet").

38. The Buck Well spreadsheet is reproduced on the next page. Excerpts of the data are presented in a more readable format throughout this Complaint. The product codes in the fourth column of the spreadsheet for the products at issue are 1 (Oil), 2 (Gas) and 4 (NGLs).

Chesapeake ENERGY

Date: 10/22/2014
Owner: Ronald E & Joetta J Hale
Owner Number: 111995[illegible]
Property Name: BUCK 24-15-5 1H

Well Number	Well Name	Production Date	Pay Group	Product Code	Purchaser	Gross Volume	BTU Factor (Heating Value)	MMBTU Volume	Gross Value Prior to Deductions	3RD Party Deductions	Fuel	Affiliate Gathering/ Compression/ Treating Deductions	Percentage	Gross Value After Deductions	Sales Price	Owner Payment Decimal	Owner Gross Payment
837175	BUCK 24-15-5 1H	02-2014	62	1	CEMI (OIL)	943	0.000	0	$ 88,632.56	$ 2,251.47	$ -	$ -	2.540%	$ 86,381.09	$ 91.60	0.00071947	$ 62.15
837175	BUCK 24-15-5 1H	02-2014	63	1	CEMI (OIL)	29	0.000	0	$ 2,237.76	$ -	$ -	$ -	0.000%	$ 2,237.76	$ 77.00	0.00071947	$ 1.61
837175	BUCK 24-15-5 1H	02-2014	63	1	CEMI (OIL)	10	0.000	0	$ 806.15	$ -	$ -	$ -	0.000%	$ 806.15	$ 76.92	0.00071947	$ 0.58
837175	BUCK 24-15-5 1H	02-2014	61	2	CEMI (GAS)	10,888	0.970	10,561	$ 77,809.44	$ 3,344.10	$ 9,064.69	$ 7,245.03	25.259%	$ 58,155.62	$ 5.34	0.00069111	$ 40.19
837175	BUCK 24-15-5 1H	02-2014	64	2	TOTAL E&P USA INC (UTICA)	2,795	1.131	3,162	$ 18,316.74	$ 1,410.99	$ 816.18	$ 2,292.37	24.674%	$ 13,797.20	$ 4.94	0.00082046	$ 11.32
837175	BUCK 24-15-5 1H	02-2014	61	4	CEMI (GAS)	39,925	0.000	0	$ 11,447.68	$ 13,671.10	$ -	$ 2,612.25	142.241%	$ (4,835.67)	$ (0.12)	0.00069111	$ (3.34)
837175	BUCK 24-15-5 1H	02-2014	64	4	TOTAL E&P USA INC (UTICA)	6,487	0.000	0	$ 10,024.15	$ 3,651.24	$ -	$ 455.05	40.964%	$ 5,917.86	$ 0.91	0.00082046	$ 4.86
837175	BUCK 24-15-5 1H	03-2014	62	1	CEMI (OIL)	1,070	0.000	0	$ 100,796.69	$ -	$ -	$ 2,839.31	2.817%	$ 97,957.38	$ 91.57	0.00071947	$ 70.48
837175	BUCK 24-15-5 1H	03-2014	63	1	CEMI (OIL)	22	0.000	0	$ 1,709.59	$ -	$ -	$ -	0.000%	$ 1,709.59	$ 77.71	0.00071947	$ 1.23
837175	BUCK 24-15-5 1H	03-2014	63	1	CEMI (OIL)	13	0.000	0	$ 986.84	$ -	$ -	$ -	0.000%	$ 986.84	$ 77.10	0.00071947	$ 0.71
837175	BUCK 24-15-5 1H	03-2014	61	2	CEMI (GAS)	10,064	0.943	9,491	$ 46,960.61	$ 2,665.09	$ 7,092.95	$ 5,760.68	33.046%	$ 31,441.89	$ 3.12	0.00069111	$ 21.73
837175	BUCK 24-15-5 1H	03-2014	64	2	TOTAL E&P USA INC (UTICA)	2,623	1.087	2,851	$ 13,269.73	$ 1,135.71	$ 509.17	$ 2,018.61	27.608%	$ 9,606.24	$ 3.66	0.00082046	$ 7.88
837175	BUCK 24-15-5 1H	03-2014	61	4	CEMI (GAS)	52,606	0.000	0	$ 9,782.69	$ 14,204.65	$ -	$ 3,028.68	176.161%	$ (7,450.64)	$ (0.14)	0.00069111	$ (5.15)
837175	BUCK 24-15-5 1H	03-2014	64	4	TOTAL E&P USA INC (UTICA)	6,847	0.000	0	$ 7,417.75	$ 3,754.17	$ -	$ 504.61	57.413%	$ 3,158.97	$ 0.46	0.00082046	$ 2.59
837175	BUCK 24-15-5 1H	04-2014	02	1	CEMI (OIL)	1,242	0.000	0	$ 118,383.18	$ -	$ -	$ 3,058.35	2.583%	$ 115,324.83	$ 92.89	0.00071947	$ 82.97
837175	BUCK 24-15-5 1H	04-2014	03	1	CEMI (OIL)	21	0.000	0	$ 1,681.79	$ -	$ -	$ -	0.000%	$ 1,681.79	$ 79.07	0.00071947	$ 1.21
837175	BUCK 24-15-5 1H	04-2014	03	1	CEMI (OIL)	6	0.000	0	$ 458.67	$ -	$ -	$ -	0.000%	$ 458.67	$ 77.48	0.00071947	$ 0.33
837175	BUCK 24-15-5 1H	04-2014	01	2	CEMI (GAS)	16,407	0.946	15,521	$ 68,155.50	$ 6,539.30	$ 10,285.20	$ 9,578.64	38.740%	$ 41,752.36	$ 2.54	0.00069111	$ 28.86
837175	BUCK 24-15-5 1H	04-2014	TB	2	TOTAL E&P USA INC (UTICA)	4,315	1.122	4,841	$ 21,347.57	$ 1,902.90	$ 950.88	$ 3,387.50	29.236%	$ 15,106.29	$ 3.50	0.00082046	$ 12.39
837175	BUCK 24-15-5 1H	04-2014	01	4	CEMI (GAS)	30,679	0.000	0	$ 18,049.92	$ 24,587.21	$ -	$ 5,066.92	164.290%	$ (11,604.21)	$ (0.38)	0.00069111	$ (8.02)
837175	BUCK 24-15-5 1H	04-2014	TB	4	TOTAL E&P USA INC (UTICA)	13,692	0.000	0	$ 14,182.53	$ 6,212.86	$ -	$ 838.03	49.715%	$ 7,131.64	$ 0.52	0.00082046	$ 5.85
837175	BUCK 24-15-5 1H	05-2014	02	1	CEMI (OIL)	3,031	0.000	0	$ 281,592.91	$ -	$ -	$ 8,406.50	2.985%	$ 273,186.41	$ 90.14	0.00071947	$ 196.55
837175	BUCK 24-15-5 1H	05-2014	03	1	CEMI (OIL)	46	0.000	0	$ 3,599.87	$ -	$ -	$ -	0.000%	$ 3,599.87	$ 78.79	0.00071947	$ 2.59
837175	BUCK 24-15-5 1H	05-2014	03	1	CEMI (OIL)	28	0.000	0	$ 2,182.16	$ -	$ -	$ -	0.000%	$ 2,182.16	$ 78.41	0.00071947	$ 1.57
837175	BUCK 24-15-5 1H	05-2014	01	2	CEMI (GAS)	40,146	0.959	38,500	$ 171,216.96	$ 16,214.90	$ 17,869.65	$ 24,265.81	34.074%	$ 112,896.60	$ 2.81	0.00069111	$ 78.02
837175	BUCK 24-15-5 1H	05-2014	TB	2	TOTAL E&P USA INC (UTICA)	10,786	1.166	12,576	$ 52,729.44	$ 4,288.30	$ 1,744.38	$ 8,900.14	28.320%	$ 37,796.62	$ 3.05	0.00082046	$ 31.01
837175	BUCK 24-15-5 1H	05-2014	01	4	CEMI (GAS)	76,306	0.000	0	$ 50,601.54	$ 56,206.01	$ -	$ 11,312.50	133.432%	$ (16,916.97)	$ (0.22)	0.00069111	$ (11.69)
837175	BUCK 24-15-5 1H	05-2014	TB	4	TOTAL E&P USA INC (UTICA)	28,642	0.000	0	$ 27,409.17	$ 13,907.03	$ -	$ 1,915.83	57.728%	$ 11,586.31	$ 0.40	0.00082046	$ 9.51
837175	BUCK 24-15-5 1H	06-2014	02	1	CEMI (OIL)	589	0.000	0	$ 55,335.19	$ 1,504.46	$ -	$ -	2.719%	$ 53,830.73	$ 91.38	0.00071947	$ 38.73
837175	BUCK 24-15-5 1H	06-2014	02	1	CEMI (OIL)	158	0.000	0	$ 14,190.15	$ -	$ -	$ -	0.000%	$ 14,190.15	$ 89.95	0.00071947	$ 10.21
837175	BUCK 24-15-5 1H	06-2014	02	1	CEMI (OIL)	1,448	0.000	0	$ 136,048.28	$ -	$ -	$ 3,630.62	2.669%	$ 132,417.66	$ 91.43	0.00071947	$ 95.27
837175	BUCK 24-15-5 1H	06-2014	03	1	CEMI (OIL)	9	0.000	0	$ 750.55	$ -	$ -	$ -	0.000%	$ 750.55	$ 82.12	0.00071947	$ 0.54
837175	BUCK 24-15-5 1H	06-2014	03	1	CEMI (OIL)	17	0.000	0	$ 1,403.81	$ -	$ -	$ -	0.000%	$ 1,403.81	$ 81.24	0.00071947	$ 1.01
837175	BUCK 24-15-5 1H	06-2014	01	2	CEMI (GAS)	55,934	0.970	54,256	$ 223,504.89	$ 21,580.55	$ 24,298.30	$ 33,445.68	35.491%	$ 144,180.36	$ 2.58	0.00069111	$ 99.64
837175	BUCK 24-15-5 1H	06-2014	TB	2	TOTAL E&P USA INC (UTICA)	14,076	1.210	17,031	$ 69,850.36	$ 5,642.06	$ 2,402.58	$ 11,522.05	28.012%	$ 50,283.67	$ 3.57	0.00082046	$ 41.26
837175	BUCK 24-15-5 1H	06-2014	01	4	CEMI (GAS)	127,360	0.000	0	$ 89,494.79	$ 80,051.27	$ -	$ 14,986.71	106.194%	$ (5,543.19)	$ (0.04)	0.00069111	$ (3.83)

39. The royalty checks include a check stub containing a royalty statement prepared by Chesapeake Operating. An example of these check stubs is the one below issued to Mr. and Mrs. Hale on July 31, 2014, covering production for February - May of 2014 on the Buck Well.

Chesapeake Operating Inc
P.O. Box 18496
Oklahoma City, OK 73154
(877) 245-1427

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Retain this statement for tax purposes. No duplicates furnished. State taxes have been deducted and paid where required. When writing, refer to lease number and owner number.

PROD DATE	P C	PRICE	I T	PY GP	LEASE VOLUME	LEASE TAX	LEASE DEDUCT	LEASE NET VALUE	PAYMENT DECIMAL	OWNER VOLUME	OWNER GRS VALUE	OWNER TAX	OWNER DEDUCT	OWNER NET	OWNER BTU

Gross Value refers to the sales price received by the operator/lessee before deduction of taxes. It may reflect the price received from an affiliated purchaser.

Deduct refers to the deductions identified in the Deduct Code below and are generally limited to taxes or deductions made by the operator/lessee. Deductions made by the purchaser (affiliated or non-affiliated) may or may not be shown.

Volume of gas is the volume (mcf) of gas produced which may or may not be equal to the volume of gas sold depending on fuel use.

837175-BUCK 24-15-5 1H STATE: OH COUNTY: CARROLL LEGAL: SECTION 14-15N-5W; AUGUSTA TOW

PROD DATE	P C	PRICE	I T	PY GP	VOLUME	TAX	DEDUCT	NET VALUE	PAYMENT DECIMAL	VOLUME	GRS VALUE	TAX	DEDUCT	NET	BTU
214	1	91.60	2	62	943.06	236.29	.00	86146.75	.00071947	.68	62.15	.17	.00	61.98	
214	1	77.48	2	63	29.06	13.90	.00	2237.76	.00071947	.02	1.62	.01	.00	1.61	
214	1	76.92	2	63	10.48	.00	.00	806.15	.00071947	.01	.58	.00	.00	.58	
314	1	91.58	2	62	1069.73	264.08	.00	97696.92	.00071947	.77	70.48	.19	.00	70.29	
314	1	77.57	2	63	22.22	13.90	.00	1709.59	.00071947	.01	1.24	.01	.00	1.23	
314	1	77.10	2	63	12.80	.00	.00	986.84	.00071947	.01	.71	.00	.00	.71	
414	1	92.87	2	02	1241.54	319.68	.00	114987.42	.00071947	.89	82.96	.23	.00	82.73	
414	1	79.07	2	03	21.27	.00	.00	1681.79	.00071947	.02	1.21	.00	.00	1.21	
414	1	79.83	2	03	5.92	13.90	.00	458.67	.00071947	.01	.34	.01	.00	.33	
514	1	90.14	2	02	3030.57	764.45	.00	272422.76	.00071947	2.18	196.55	.55	.00	196.00	
514	1	78.79	2	03	45.69	.00	.00	3599.87	.00071947	.03	2.59	.00	.00	2.59	
514	1	78.91	2	03	27.83	13.90	.00	2182.16	.00071947	.02	1.58	.01	.00	1.57	
214	2	5.34	2	61	10887.53	434.08	.00	57704.27	.00069111	7.53	40.18	.30	.00	39.88	970
214	2	4.94	2	64	2795.47	109.69	.00	13687.44	.00082046	2.29	11.32	.09	.00	11.23	1131
314	2	3.13	2	61	10064.20	405.15	.00	31094.91	.00069111	6.95	21.77	.28	.00	21.49	943
314	2	3.67	2	64	2622.83	109.69	.00	9519.05	.00082046	2.15	7.90	.09	.00	7.81	1087
414	2	2.54	2	01	16406.70	651.13	.00	41078.84	.00069111	11.34	28.84	.45	.00	28.39	946
414	2	3.51	2	TB	4314.83	170.64	.00	14955.03	.00082046	3.54	12.41	.14	.00	12.27	1122
514	2	2.81	2	01	40145.94	1606.11	.00	111313.68	.00069111	27.74	78.04	1.11	.00	76.93	959
514	2	3.50	2	TB	10785.50	426.59	.00	37369.28	.00082046	8.85	31.01	.35	.00	30.66	1166
214	4	.12	2	61	39925.46	231.51	.00	-5064.32	.00069111	27.59	-3.34	.16	.00	-3.50	
214	4	.91	2	64	6486.66	36.56	.00	5874.75	.00082046	5.32	4.85	.03	.00	4.82	
314	4	.14	2	61	52605.99	289.39	.00	-7741.17	.00069111	36.36	-5.15	.20	.00	-5.35	
314	4	.46	2	64	6847.12	36.56	.00	3132.39	.00082046	5.62	2.60	.03	.00	2.57	
414	4	.38	2	01	30679.37	173.63	.00	-11778.15	.00069111	21.21	-8.02	.12	.00	-8.14	
414	4	.52	2	TB	13692.43	73.13	.00	7057.02	.00082046	11.23	5.85	.06	.00	5.79	
514	4	.22	2	01	76306.18	448.55	.00	-17348.90	.00069111	52.74	-11.68	.31	.00	-11.99	

INTEREST TYPE (IT)	PRODUCT CODE (PC)	DEDUCT CODE		
2-ROYALTY	1-OIL(BBL)	BW-BACKUP WITHHOLDING	CP-COMPRESSION	FL-FUEL
	2-GAS(MCF)	GA-GATHERING	IT-INTEREST	MK-MARKETING
	4-NGL(GAL)	MS-MISCELLANEOUS	NE-NETTING EXPENSE	PC-PROCESSING
		PD-OTH PIPELINE DEDUCT	RJ-ROY ADJUSTMENT	SW-STATE WITHHOLDING
		TG-TREATING	TX-TRANSPORTATION	

Total for check **$643.07**

OWNER NUMBER	1119956	CHECK NUMBER	10539236	CHECK DATE	07/31/2014

Chesapeake Operating Inc
P.O. Box 18496
Oklahoma City, OK 73154
(877) 245-1427

PAGE: 2

Retain this statement for tax purposes. No duplicates furnished. State taxes have been deducted and paid where required. When writing, refer to lease number and owner number.

PROD DATE	P C	PRICE	I T	PY GP	LEASE VOLUME	LEASE TAX	LEASE DEDUCT	LEASE NET VALUE	PAYMENT DECIMAL	OWNER VOLUME	OWNER GRS VALUE	OWNER TAX	OWNER DEDUCT	OWNER NET	OWNER BTU
514	4	.41	2	TB	28641.61	158.45	.00	11432.61	.00082046	23.50	9.51	.13	.00	9.38	
									LEASE TOTAL		648.10	5.03	.00	643.07	
									OWNER TOTAL		648.10	5.03	.00		
		CHECK TOTAL												643.07	

II. THE UNDERPAYMENT OF GAS ROYALTIES

A. Payment of the Gas Royalties On Less Than the Volume of Gas Produced and Sold to CEMI at the Well

40. Defendant, through its affiliates, falsely states on the check stubs that the volume of gas reported on the check stubs is the "volume of gas produced."

41. Defendant files annual and quarterly reports with the Ohio Department of Natural Resources ("ODNR") that report the volume of gas produced by each well.

42. The Table below shows the volume of gas produced by the Buck Well, as reported to the ODNR, with the volume misrepresented on the check stubs as the "volume produced."

Gas Volumes (Buck Well 1H)				
Quarter	**ODNR**	**Check Stubs**	**Vol. Short**	**% Short**
2Q 2014	157,643	141,662.75	15,980.25	10.1369 %
3Q 2014	174,625	148,479.79	26,145.21	14.9722 %
4Q 2014	115,572	92,550.56	23,021.44	19.9195 %
1Q 2015	76,985	52,432.18	24,552.82	31.8929 %
2Q 2015	95,162	81,728.27	13,433.73	14.1166 %
TOTAL	619,987	516,853.55	103,133.45	16.6347 %

43. Defendant, through its affiliates, breached the leases by not paying the royalty on the full amount of gas that it produced and sold.

44. The falsification of the amount of gas produced appears to be the standard practice of all of Defendant's affiliates. On October 19, 2015, the U.S. Department of the Interior issued a press release stating it had found "repeated, systemic errors in Chesapeake Energy's monthly reporting of the amount of gas it produced." The press release announced that the Department had fined the company $2.1 million for "knowing or willful maintenance of this inaccurate information."

U.S. Department of the Interior **News Release**

Office of Natural Resources Revenue www.onrr.gov

Office of Public Affairs
For Immediate Release
October 19, 2015

News Media Contact:
Patrick Etchart, 303-231-3162

ONRR Issues $2.1 Million Civil Penalty to Chesapeake Energy
Company Cited for Maintaining Inaccurate Information in Royalty Reports

DENVER – The Department of the Interior's Office of Natural Resources Revenue (ONRR) announced today that it assessed a $2,118,900 civil penalty against Chesapeake Energy Corporation. Chesapeake failed to comply with an October 2011 Order, which found repeated, systemic errors in Chesapeake's monthly reporting of the amount of gas it produced and sold from Indian leases, directly affecting ONRR's ability to fulfill its regulatory obligation to collect every dollar due.

The 2011 Order required Chesapeake to review the amounts it reported for more than 100 Indian leases and correct unreported and misreported volumes. While ONRR eventually obtained Chesapeake's compliance with its Order to amend monthly reports to correct for its misreporting, Chesapeake continued to maintain inaccurate information on ONRR data systems for an extended period. ONRR issued the civil penalty for Chesapeake's knowing or willful maintenance of this inaccurate information.

B. Payment of Royalties On Less Than The Full Revenue Realized From The Sale Of The Gas

45. Chesapeake Energy states in letters that it mails to royalty owners that Defendant sells the gas to CEMI at the well and transfers title to the gas to CEMI at the well.

46. On September 30, 2015, Jason P. Blose, Associate Division Counsel of Chesapeake Energy's Eastern Division, mailed one of these letters to an Ohio royalty owner. The letter states, in pertinent part:

> By way of background, Chesapeake sells production from the Lease to Chesapeake Energy Marketing, L.L.C. ("CEMLC"), which is an affiliated marketing company that takes title to, and possession of production at or near the well. CEMLC pays Chesapeake 97% of the proceeds it receives from the sale of the gas and natural-gas liquids, and 99% of the proceeds it receives from the sale of the oil, less any post-production costs incurred between the wellhead and downstream points of sale.

47. CEMI acts as Defendant's agent in reselling the gas because Defendant has a 100% contingent interest in all of the gas resold, less a 3% commission to CEMI.

48. The revenue realized from the sale of the gas consists of (1) the proceeds paid by the third-party buyers and (2) the proceeds received under derivative contracts.

49. Defendant, through its affiliates, breached the leases by (1) not paying a royalty on the proceeds paid by the third party buyers and (2) paying no royalty on the proceeds of derivative contracts.

1. Payment on Less Than the Proceeds Paid By the Third Party Buyers

50. The Buck Well Spreadsheet shows that Defendant, through its affiliates, calculates the gas royalty using a price based on the gross value of the gas after cost deductions rather than the gross value of the gas before cost deductions, as shown by the following sample data.

Month	Buyer	Vol. (mcf)	Sale Price Per mcf	Gross Value Before Deducts	Gross Value After Deducts
02-14	CEMI	10,888	5.34	77,809.44	58,155.62

51. The volume of gas (10,888 mcf) multiplied by price per mcf ($5.34) equals $58,141.92. This is closer to the gross value after deducts ($58,155.62) than the gross value before deducts (77,809.44).

52. The leases require Defendant to pay a royalty on the gross value of the gas before deductions.

53. Defendant, through its affiliates, breached the leases by paying the royalties on the value of the gas after deductions.

2. *Defendants' Failure to Pay a Royalty on the Proceeds of Derivative Contracts*

54. Defendant, through its affiliates, failed to make upward adjustments to the gas royalties upon the receipt of the proceeds of derivative contracts.

55. Chesapeake Energy admits in its annual and quarterly reports filed with the U.S. Securities Exchange Commission ("S.E.C.") that the proceeds of the derivative contracts are a part of the revenues realized from the "sale" of the gas.

56. The filings with the S.E.C. state the aggregate "gas sales" of all of Chesapeake Energy's gas production subsidiaries, including Defendant.

57. The Table below collects the "gas sales" reported by Chesapeake Energy in its filings with the S.E.C., using the same tabular form used by Chesapeake Energy.

Natural Gas Sales ($ in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	1Q-15	2Q-15	3Q-15
Gas Sales	3,343	4,117	6,003	2,635	3,169	3,133	2,004	2,430	2,777	425	206	228
Gas Derivatives - Realized Gains /Losses	1,269	1,214	267	2,313	1,982	1,656	328	9	(191)	200	71	70
Gas Derivatives - Unrealized Gains/Losses	467	(139)	521	(492)	425	(669)	(331)	(52)	535	(164)	(67)	33
Total Gas Sales	**5,079**	**5,192**	**6,791**	**4,456**	**5,576**	**4,120**	**2,001**	**2,387**	**3,121**	**461**	**210**	**331**

58. The revenues from derivative contracts increased the total gas amount of the gas sales in all but two of the nine and three quarter years shown.

59. Only in 2012 and 2013 did the derivative contracts reduce the total amount of the gas sales and those decreases were, in a relative sense, negligible.

60. The dollar amounts paid by the third-party buyers during the nine and three quarter years were approximately $30.470 billion. The "Total Natural Gas Sales" were approximately

$39.725 billion. Thus, $9.255 billion of the "gas sales" were the proceeds of derivative contracts on which no royalties were paid.

C. **Deduction of Costs Incurred After Title Transfer**

61. The check stubs show no cost deductions because Defendant incurred none.

62. The check stubs state:

> Deduct refers to the deductions identified in the Deduct Code below and are generally limited to taxes or deductions made by the operator/lessee. Deductions made by the purchaser (affiliated or unaffiliated) may or may not be shown.

63. All of the cost deductions in this case are made by the purchasers of the gas, not by Defendant, and therefore are not shown on the check stubs.

64. Chesapeake Energy's eighteen column spreadsheets show that Defendant sells its gas to two buyers: CEMI and Total E&P USA, Inc. ("E&P").

65. The spreadsheets show that CEMI and E&P deducted three categories of costs: "3rd Party Deductions," "Fuel," and "Affiliate Gathering/Compression/Treating Deductions."

66. The Table on the next page shows the costs deducted from the gas royalties on the Buck Well, supplemented by the last two columns, which show the total amount of the deductions and the amount deducted per mcf.

Cost Deductions from Gas Royalties (Buck Well Spreadsheet)								
	Buyer	**Volume**	**3rd Party Deducts**	**Fuel**	**Gathering Compress. Treating**	**Percent of Gross Royalty**	**Total Deducts**	**Deducts Per mcf**
02-14	CEMI	10,888	3,344.10	9,064.69	7,245.03	25.259	19,653.82	1.8051
	E&P	2,795	1,410.99	816.18	2,292.37	24.674	4,519.54	1.6170
03-14	CEMI	10,064	2,665.09	7,092.95	5,760.68	33.046	15,518.72	1.5420
	E&P	2,623	1,135.71	509.17	2,018.61	27.608	3,663.49	1.3967
04-14	CEMI	16,407	6,539.30	10,285.20	9,578.64	38.740	26,403.14	1.6093
	E&P	4,315	1,902.90	950.88	3,387.50	29.236	6,241.28	1.4464
05-14	CEMI	40,146	16,214.90	17,869.65	24,265.81	34.074	58,350.46	1.4535
	E&P	10,786	4,288.30	1,744.38	8,900.14	28.320	14,932.82	1.3845
06-14	CEMI	55,934	21,580.55	24,298.30	33,445.68	35.491	79,324.53	1.4181
	E&P	14,076	5,642.06	2,402.58	11,522.05	28.012	19,566.69	1.3901
TOTAL CEMI		**133,439**	**50,343.94**	**68,610.79**	**80,295.84**	**33.322**	**199,250.57**	**1.4932**
TOTAL E&P		34,595	14,379.96	6,423.19	28,120.67	27.570	48,923.82	1.4142

67. All three categories of costs deducted from the gas royalties were incurred after Defendant sold the gas and no longer held title.

68. The only costs that can be deducted from oil and gas royalties are "post production costs," that is, costs incurred between the well and the point at which the gas is sold and title passes.

69. Defendant, through its affiliates, breached the leases by deducting costs for gathering, transportation and fuel that were incurred after Defendant no longer held title to the gas.

D. <u>Deduction of Gathering Costs That Were Inflated Through Collusion and Self-Dealing with Access Midstream Partners</u>

70. Even if Defendant had the right to deduct costs incurred it had transferred title (and it had no right), the gathering deductions were improper because they were grossly inflated due to collusion and self-dealing between Defendant's affiliates and Access Midstream Partners, L.P. ("Access Midstream").

71. Until the end of 2010, the gas purchased by CEMI from Defendant was gathered, compressed and treated by Chesapeake Midstream Partners, L.P. ("Chesapeake Midstream"), a

subsidiary of Chesapeake Energy that owned and operated midstream systems in many states, including Ohio.

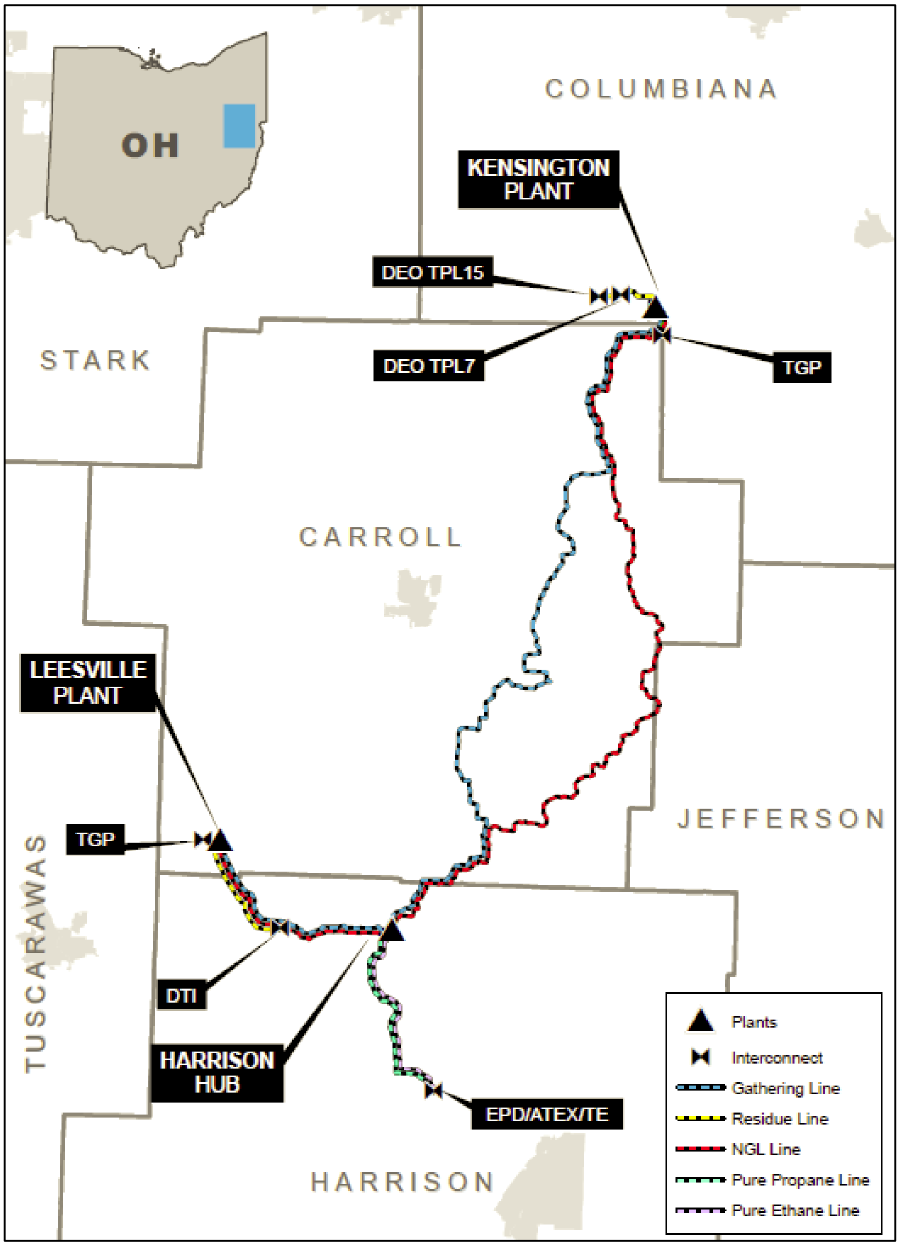
72. In 2010, Chesapeake Energy needed $5 billion in cash for operations and to service its debt.

73. To obtain this liquidity, Chesapeake Energy devised a scheme to obtain an upfront payment of $4.76 billion from private equity investors and repay those investors over time through inflated royalty deductions.

74. With the financial backing of the investors, Chesapeake Energy and its subsidiaries structured the creation of an unaffiliated midstream services company, Access Midstream Partners, L.P. ("Access Midstream") and filled key management positions with Chesapeake executives.

75. Chesapeake Energy then sold its midstream pipeline assets in various states, including Ohio, to Access Midstream for $4.76 billion, thereby resolving its urgent need for cash.

76. Among the midstream pipeline assets sold by Chesapeake Energy to Access Midstream was Chesapeake Midstream's gas gathering and processing system in the Utica shale region of eastern Ohio. This system includes gathering lines, processing plants, NGL lines and various interconnect points into interstate pipeline systems, as shown in the graphic on the next page.



77. When Chesapeake Energy sold Access Midstream its midstream assets, it simultaneously entered into non-public side agreements with Access Midstream in which it agreed that almost all gas produced by its oil and gas production companies, including Defendant, would be serviced by Access Midstream for exorbitant gathering fees that would guarantee Access Midstream recoupment of its $4.76 billion investment over ten years with a 15% return.

78. To pay Access Midstream these exorbitant fees, Defendant's affiliates deducted grossly inflated gathering fees from the gas royalties of Plaintiffs and the other Class Members.

79. The Chesapeake scheme to raise $4.76 billion through royalty deductions was reported in an investigative report by Pro Publica, a public interest group, on March 13, 2014. The report, titled "Chesapeake Energy's $5 Billion Shuffle," can be accessed at www.propublica.org. The report reads in part as follows:

> Federal rules limit the tolls that can be charged on inter-state pipelines to prevent gouging. But drilling companies like Chesapeake can levy any fees they want for moving gas through local pipelines, known in the industry as gathering lines, that link backwoods wells to the nation's interstate pipelines. Property owners have no alternative but to pay up. There's no other practical way to transport natural gas to market.
>
> Chesapeake took full advantage of this. In a series of deals, it sold off the network of local pipelines it had built in Pennsylvania, Ohio, Louisiana, Texas and the Midwest to a newly formed company that had evolved out of Chesapeake itself, raising $4.76 billion in cash.
>
> In exchange, Chesapeake promised the new company, Access Midstream, that it would send much of the gas it discovered for at least the next decade through those pipes. Chesapeake pledged to pay Access enough in fees to repay the $5 billion plus a 15% return on its pipelines.
>
> That much profit was possible only if Access charged Chesapeake significantly more for its services. And that's exactly what appears to have happened: While the precise details of Access's pricing remain private, immediately after the transactions Access said that gathering fees are its predominant source of income, and that Chesapeake accounts for 84 percent of the company's business.
>
> * * * * * * * * * *
>
> On the same day as the last of the major sales, Chesapeake signed long-term contracts pledging to pay Access a minimum fee for transporting its gas. In some cases, the fee held no matter what happened to the price of gas, or even how little of it flowed out of Chesapeake's wells.
>
> * * * * * * * * * *

> According to ProPublica projections based on figures disclosed by the companies in late 2013, Chesapeake commitments would have it paying Access a whopping $800 million each year. Over ten years, the contracts would generate nearly twice as much money as Access paid Chesapeake for its business in the first place.
>
> In plain words, Chesapeake and a company made up of its old subsidiaries were passing money back-and-forth between each other in a deal that added little productive capacity but allowed both sides of the transaction to rake in billions of dollars.

80. The Pro Publica report was summarized on the Oil and Gas Lawyers Blog by John B. McFarland on October 27, 2014, as follows:

> A recent investigative report by *Pro Publica* describes how Chesapeake spun off its subsidiary, Chesapeake Midstream Partners (which became Access Midstream), in the process raising $4.76 billion. According to the report, Chesapeake sold its network of gathering lines in Pennsylvania, Ohio, Louisiana, Texas and the Midwest to Access, and entered into an agreement with Access for Access to gather and transport Chesapeake's gas. Over a ten-year period, Chesapeake pledged by this contract to pay Access enough in fees to repay Access's purchase price plus a 15 percent return on the investment. According to the report, the result of these transactions was to greatly increase Chesapeake's cost of gathering its gas, to an average of 85 cents per mcf. That gathering cost greatly increased the deductions on Chesapeake's royalty owners' checks. In effect, it could be argued that Chesapeake has monetized some of its gas reserves by locking itself into a long-term gathering agreement with Access, in exchange for a $4.76 billion payment from Access, and in the process created an inflated gathering charge which can be passed on to its royalty owners.

81. On November 24, 2015, Seeking Alpha, a firm providing financial analysis, published a report that discussed the out-sized gathering fees. An excerpt of that report is reproduced on the next page.

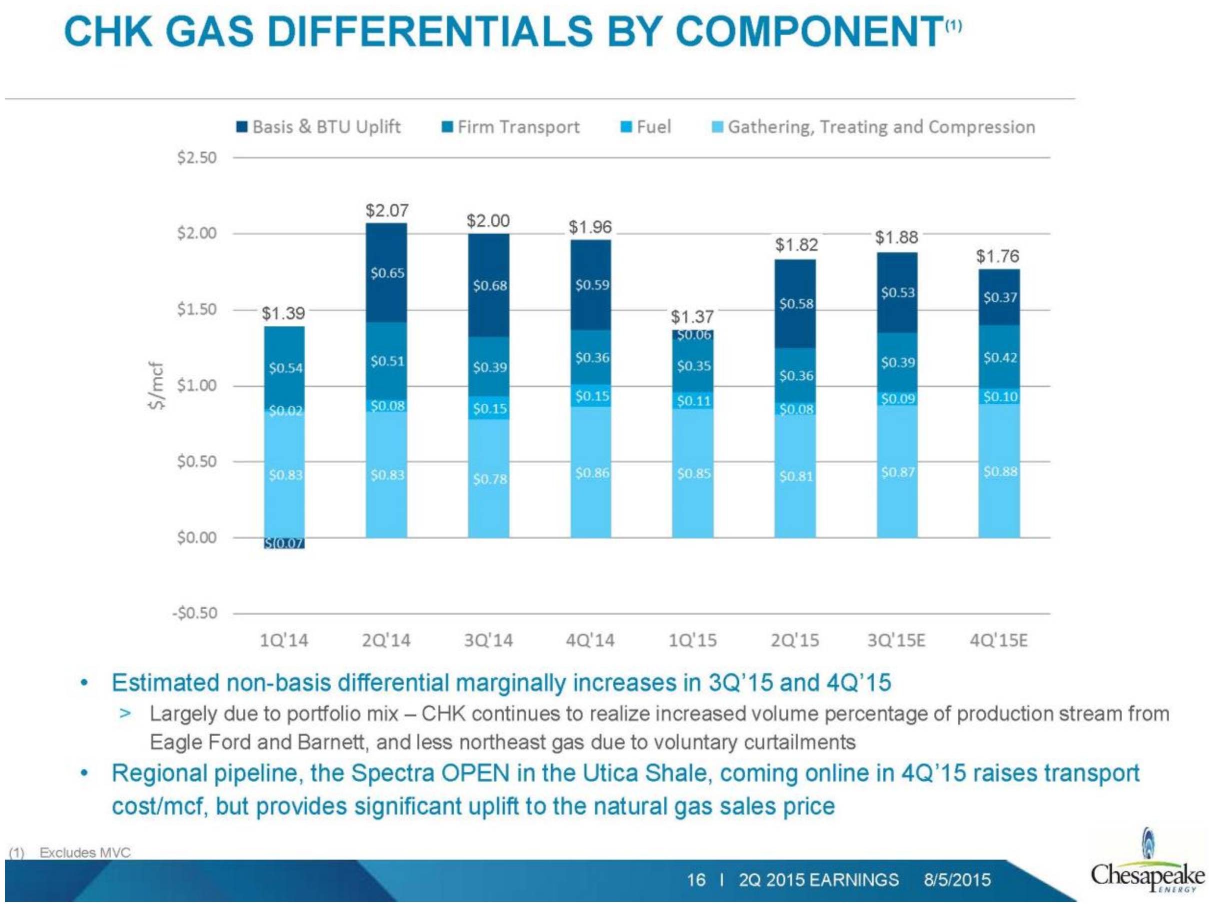
> **Sweetheart Pipeline Deal with Access Midstream Continues to Haunt Chesapeake**
>
> In 2011, Chesapeake Energy spun-out its pipeline division to Access Midstream (ALPM) for $4.76B, a price considered at the time to be well above market value. Terms of deal saddled Chesapeake with a fixed fee gathering and transport fee arrangement which continually burdens Chesapeake Energy's profitability. Based on my analysis, the estimated cost to transport gas based on the deal is fixed at

> approximately $1.60 per mcf, but may in fact be higher since I base it on the on-going reported results of the CHKR Trust. It is subject to some adjustments through time, but currently remains well above realistic economic market levels.
>
> * * * * * * * *
>
> The high contractual cost to gather and transport Chesapeake's gas production is accounted for as an *off-balance sheet* contingent liability. A large portion of the liability is based on a contract with Williams Partners because Access Midstream was acquired by Williams Partners in early 2015. Chesapeake explains the financial arrangement, and estimates the size of the contingent liability to be $14.3B in Note 4 of its financial statements.
>
> * * * * * * * *
>
> It is questionable accounting in my opinion to leave something this large in size off a company's balance sheet from a liability perspective. Even though the asset base is being marked to market with the embedded fixed fee arrangement in the product price, the liability embedded in the revenue stream is not visible to investors without major deciphering of contractual arrangements.

82. Through the Chesapeake-Access “off-balance sheet arrangement,” Defendant’s affiliates obtained a $4.76 billion loan from the equity investors of Access Midstream to be repaid through out-sized deductions from the royalties.

83. The increased gathering costs resulting from the collusion with Access Midstream are shown on the chart on the next page published by Chesapeake Energy on August 5, 2015 titled “CHK Gas Differentials By Component” (“Differentials Chart”).

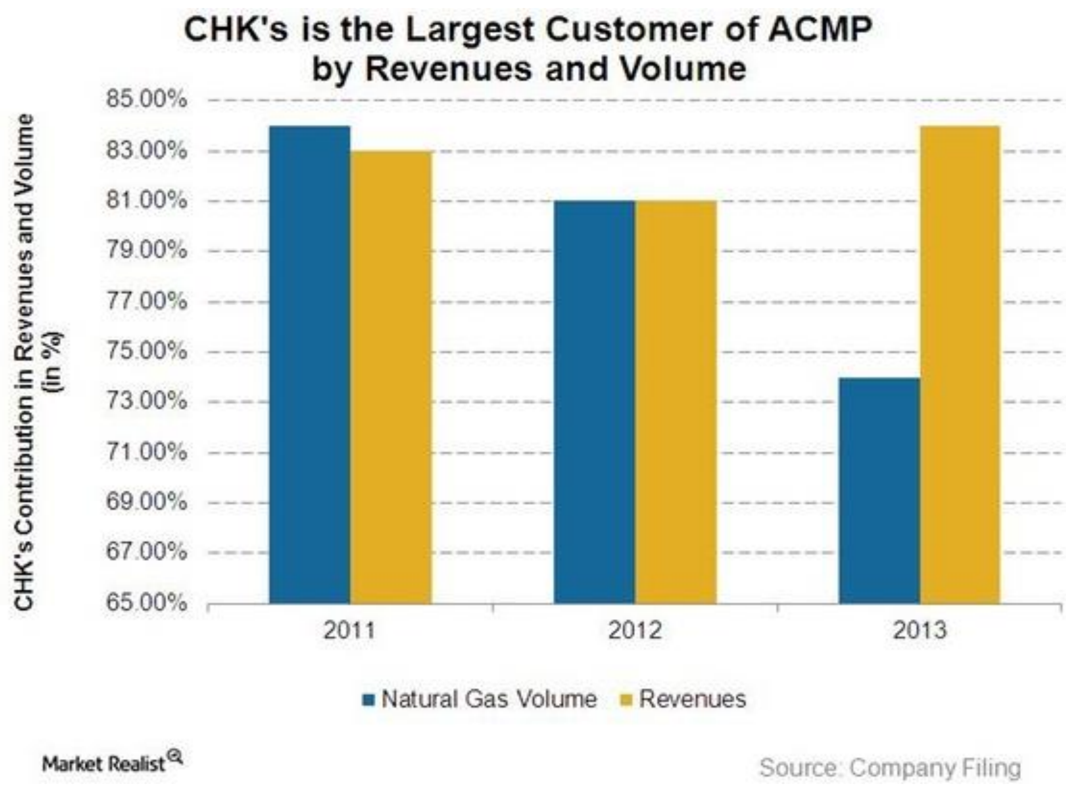
84. The chart shows actual costs for six quarters and estimated costs for 3Q15 and 4Q15.



85. The Table below presents the gathering costs in the Differentials Chart in a more readable format.

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15E	4Q15E	**Ave.**
Gathering, Treating & Compression	0.83	0.83	0.78	0.86	0.85	0.81	0.87	0.88	**0.84**

86. The bloated nature of the gathering fees deducted from the royalties is seen in the Access Midstream chart on the next page, posted online by the financial research firm, Market Realist.



87. This chart shows the percentage of Access Midstream's overall business that comes from Chesapeake in terms of gas volumes and revenue.

88. Chesapeake's percentage of Access Midstream's revenues steadily increases over its percentage of Access Midstream's volumes, meaning that the gathering fees paid by Chesapeake, and later deducted from the gas royalties, greatly exceed those paid by Access Midstream's other customers.

D. <u>Deduction of Transportation Costs That Exceeded The Cost of Transportation</u>

89. Even if Defendant had the right to deduct costs incurred after it transferred title (and they had no right), the deductions for interstate transportation exceeded the actual cost of transportation.

90. The deductions for transportation taken from the royalties on the Buck well for gas sold to CEMI during the period of February through May of 2014 average $0.38, as shown in the Table below.

Transportation Costs (Buck Well Spreadsheet)				
Month	**Buyer**	**Volume**	**Trans. Deduction**	**Trans. Deduction per mcf**
02-2014	CEMI	10,888	3,344.10	0.3071
	E&P	2,795	1,410.99	0.5048
03-2014	CEMI	10,064	2,665.09	0.2648
	E&P	2,623	1,135.71	0.4329
04-2014	CEMI	16,407	6,359.30	0.3875
	E&P	4,315	1,902.90	0.4409
05-2014	CEMI	40,146	16,214.90	0.4038
	E&P	10,786	4,288.30	0.3975
06-2014	CEMI	55,934	21,580.55	0.3858
	E&P	14,076	5,642.06	0.4008
TOTAL CEMI		133,439	50,163.94	**0.3759**
TOTAL E & P		34,595	14,379.96	0.4156

91. Range Resources Corporation ("Range") also transports Appalachian gas production. The prices paid by Range for transportation are shown in the charts from its website reproduced on the next page, the first published on December 15, 2014 and the second on October 28, 2015.

Appalachia Gas Transportation Arrangements

	Projected 2014		Projected 2016		Projected 2018	
Regional Direction	**Mmbtu/day (Gross)**	**Transport Cost per Mmbtu**	**Mmbtu/day (Gross)**	**Transport Cost per Mmbtu**	**Mmbtu/day (Gross)**	**Transport Cost per Mmbtu**
Firm Transportation						
Appalachia/Local	325,000	$ 0.21	330,000	$ 0.22	430,000	$ 0.30
Gulf Coast	260,000	$ 0.31	485,000	$ 0.43	935,000	$ 0.51
Midwest/Canada	70,000	$ 0.20	270,000	$ 0.26	470,000	$ 0.41
Northeast	185,000	$ 0.60	185,000	$ 0.60	185,000	$ 0.60
Southeast	100,000	$ 0.39	100,000	$ 0.39	100,000	$ 0.39
Firm Sales/Released Capacity	175,000	--	380,000	--	270,000	--
Total Take-Away Capacity	**1,115,000**	**$ 0.28**	**1,750,000**	**$ 0.28**	**2,390,000**	**$ 0.39**

Capacity listed above reflects actual amounts of production that can flow under these arrangements. We believe these firm arrangements provide adequate capacity to meet our growth projections through 2018

Range net production would be approximately 83% of the gross amounts shown. Does not include current intermediary pipeline capacity of >800,000 Mmbtu/day, and assumes full utilization. Cost associated with Firm Sales/Released Capacity is assumed as a deduction to price. Based on anticipated project start dates.

Appalachia Gas Transportation Arrangements

	Projected YE 2015		Projected YE 2016		Projected YE 2018	
Regional Direction	**Mmbtu/day (Gross)**	**Transport Cost per Mmbtu**	**Mmbtu/day (Gross)**	**Transport Cost per Mmbtu**	**Mmbtu/day (Gross)**	**Transport Cost per Mmbtu**
Firm Transportation						
Appalachia/Local	360,000	$ 0.22	360,000	$ 0.18	360,000	$ 0.18
Gulf Coast	270,000	$ 0.30	420,000	$ 0.41	945,000	$ 0.48
Midwest/Canada	285,000	$ 0.26	285,000	$ 0.26	585,000	$ 0.50
Northeast	210,000	$ 0.57	210,000	$ 0.57	210,000	$ 0.57
Southeast	100,000	$ 0.39	100,000	$ 0.39	100,000	$ 0.39
Firm Sales/Released Capacity	175,000	--	270,000	--	300,000	--
Total Takeaway Capacity	**1,400,000**	**$ 0.28**	**1,645,000**	**$ 0.28**	**2,500,000**	**$ 0.39**

Capacity listed above reflects actual amounts of production that can flow under these arrangements. We believe these firm arrangements provide adequate capacity to meet our growth projections through 2018

Range net production would be approximately 83% of the gross amounts shown. Does not include current intermediary pipeline capacity of > 650,000 Mmbtu/day, and assumes full utilization. Cost associated with Firm Sales/Released Capacity is assumed as a deduction to price. Based on anticipated project start dates.

92. As these pricing charts show, in 2014 Range spent an average $0.21 per mcf to transport gas to Appalachian markets and an average of $0.28 per mcf to transport gas to all markets. In the current year, Range is spending approximately $0.22 per mcf to transport gas to Appalachian markets and an approximately $0.28 per mcf to transport gas to all markets.

93. In contrast, Defendant, through its affiliates, deducted $0.38 per mcf for transportation on gas produced from the Buck well and sold to CEMI in February through June of 2014, as shown on the Buck Well Spreadsheet.

94. It is inconceivable that Defendant pays $0.10 per mcf for transportation than Range pays.

F. Deductions for Fuel

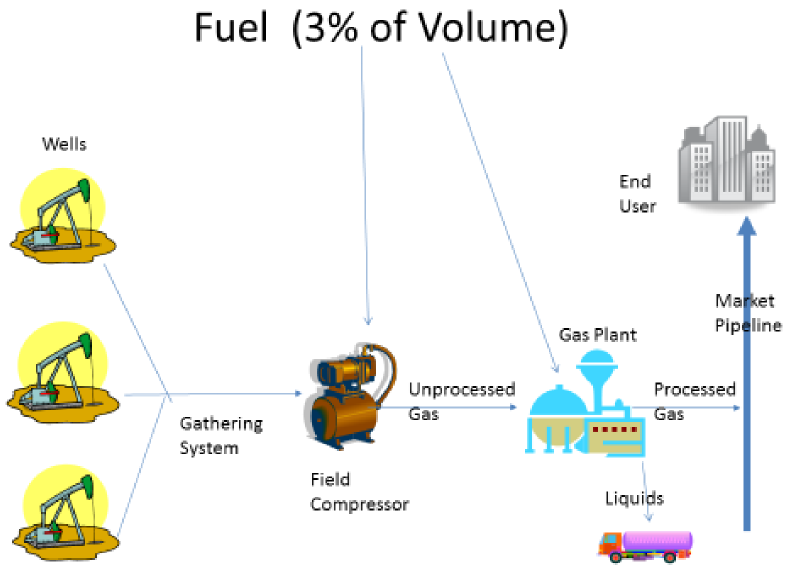
95. The deductions for fuel breached the leases because the gas used for compression, dehydration and processing was leasehold gas, not purchased gas.

96. As shown in the Table at paragraph 42 of this Complaint and reproduced below, 17% of the gas produced at the well is not resold downstream.

Gas Volumes (Buck Well 1H)				
Quarter	**ODNR**	**Check Stubs**	**Vol. Short**	**% Short**
2Q 2014	157,643	141,662.75	15,980.25	10.1369 %
3Q 2014	174,625	148,479.79	26,145.21	14.9722 %
4Q 2014	115,572	92,550.56	23,021.44	19.9195 %
1Q 2015	76,985	52,432.18	24,552.82	31.8929 %
2Q 2015	95,162	81,728.27	13,433.73	14.1166 %
TOTAL	619,987	516,853.55	103,133.45	16.6348 %

97. The check stubs state that the reason for the difference is “fuel use.”

98. Defendants’ purported use of 17% of the gas for fuel is impossible because, typically, only 3% of a well’s gas is needed for fuel, as shown by the graphic on the next page.



99. Further, the dollar amount of the fuel deduction is also fraudulent.

100. The Differentials Chart at paragraph 84 of this Complaint shows the following fuel costs.

Fuel Costs on Differentials Chart								
1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15E	4Q15E	**Average**
0.02	0.08	0.15	0.15	0.11	0.08	0.09	0.10	**0.10**

101. Yet the average dollar amount deducted for fuel on gas sold by CEMI during the five months reported on the Buck Well spreadsheet is $0.51, as shown in the Table on the next page.

Fuel Costs On Buck Well Spreadsheet				
Month	Buyer	Volume	Fuel Deduction	Fuel Deduct
02-2014	CEMI	10,888	$ 9,064.69	$ 0.8325
	E&P	2,795	$ 816.18	$ 0.2920
03-2014	CEMI	10,064	$ 7,092.95	$ 0.7048
	E&P	2,623	$ 509.17	$ 0.1941
04-2014	CEMI	16,407	$ 10,285.20	$ 0.6269
	E&P	4,315	$ 950.88	$ 0.2204
05-2014	CEMI	40,146	$ 17,869.65	$ 0.4451
	E&P	10,786	$ 1,744.38	$ 0.1617
06-2014	CEMI	55,934	$ 24,298.30	$ 0.4344
	E & P	14,076	$ 2,402.58	$ 0.1707
TOTAL CEMI		**133,439**	**$ 68,610.79**	**$ 0.5141**
TOTAL E & P		34,595	$ 6,423.19	$ 0.1857

G. <u>The Deduction of Marketing Fees That Were Never Incurred</u>

102. Defendant, through its affiliates, also breached the leases by deducting a 3% marketing fee from the price paid by the third-party buyer.

103. Defendant incurred no marketing fees because it sold all of its gas to CEMI at the well. All marketing costs were incurred by CEMI after Defendant no longer held title to the gas.

H. <u>Defendants' Deduction of NGL Costs from The Gas Royalties</u>

104. Royalty owners have a separate property interest in each product and can assign those interests separately.

105. As a result, the only costs deductible from gas royalties are costs incurred with respect to the gas.

106. During the five month reported on the Buck Well Spreadsheet, the costs deducted from the NGL royalties were 142%, 176%, 164%, 133% and 106% of the value of the NGLs before the deductions.

107. These cost deductions not only cancelled out any royalty paid on NGLs, they diminished the royalties paid on gas and oil because the balance of the NGL costs not used to neutralize the NGL royalties were applied against the royalties on gas and oil.

III. THE UNDERPAYMENT OF ROYALTIES ON NGLs

108. Defendant, through its affiliates, underpaid the royalties on NGLs by (1) paying a royalty on less than the full amount of NGLs sold; (2) paying the royalties using a price per gallon that was likely less than the price paid by the buyer; and (3) deducting costs that exceeded the NGL royalties.

A. The Payment of the Royalties on Less Gallons of NGLs Than Were Produced and Sold

109. The Brookings Natural Gas Task Force published a study in 2013 in which it stated that oil and gas produced in the Utica shale play produces 4 to 9 gallons of NGLs from each mcf of gas. A Table from the study is reproduced below.

Table 1: Gallons of NGL per (Mcf)
Selected Shale Plays

Bakken (shale oil) 6 to 12
Barnett 2.5 to 3.5
Eagle Ford (oil and gas) 4 to 9
Green River (shale oil) 4 to 6
Niobrara (shale oil) 4 to 9
Marcellus/Utica (oil and gas) 4 to 9

110. Defendant, through its affiliates, breached the leases by paying a royalty on only 3.29 gallons of NGLs per mcf, as shown in the Table below showing the NGLs produced from the Buck well.

NGLs Per Mcf (Buck Well)			
Quarter	Gas (mcf)	NGLs (gallons)	NLGs /mcf
2Q 2014	157,643	341,552.58	2.1666
3Q 2014	174,625	671,139.97	3.8433
4Q 2014	115,572	413,683.55	3.5794
1Q 2015	76,985	254,461.14	3.3053
2Q 2015	95,162	333,283.75	3.5023
TOTAL	619,987	2,041,120.99	3.2921

B. The Likely Payment of the NGL Royalties Using A Price That Was Below the Market and Below the Price Paid by the Buyer

111. Discovery may establish that Defendant, through its affiliates, underpaid the NGL royalties using a price that was below the market price and below the price paid by the buyer.

112. The U.S. Energy Information Agency publishes a composite price for NGLs per million Btu, as shown in the Table below from the E.I.A. website.

U.S. Natural Gas Liquid Composite Price (Dollars per Million Btu)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	7.31	6.90	6.70	6.94	7.72	9.35	8.36	9.51	9.67	10.52	11.76	12.45
2010	13.46	13.23	11.89	11.62	11.29	10.93	10.18	10.48	11.02	12.15	12.71	13.07
2011	13.03	13.65	14.38	15.45	15.62	15.23	15.80	15.24	15.88	15.71	15.70	15.31
2012	13.82	12.47	13.13	12.72	10.83	8.70	9.66	10.18	10.04	10.35	10.16	9.73
2013	9.84	9.91	9.57	9.64	9.48	9.06	9.56	10.21	10.26	10.41	10.42	10.76
2014	11.61	11.94	10.03	10.26	10.02	10.17	9.94	9.69	9.86	8.75	7.84	5.63
2015	5.08	5.70	5.52	5.58	5.25	4.78	4.73	4.42				

113. The Buck Well Spreadsheet price provides both the gross volume of NGLs in gallons sold during the five month period of February 2014 through June 2014, as well as the gross value of the NGLs prior to cost deductions. These data are shown in the Table below, along with the computation of the value of the NGLs per gallon before cost deductions.

NGLs (Buck Well)				
Month	Buyer	Gross Gallons	Gross Value	Gross Value Per Gallon
02-2014	CEMI	39,925	11,447.68	0.2867
03-2014	CEMI	52,606	9,782.69	0.1860
04-2014	CEMI	39,679	18,049.92	0.5883
05-2014	CEMI	76,306	50,601.54	0.6631
06-2014	CEMI	127,360	89,494.79	0.7027
Total	CEMI	326,876	179,376.62	0.5488

114. Plaintiffs cannot presently convert the prices in the E.I.A. Table ($ per million btu) to the prices on the Buck Well Spreadsheet ($ per gallon) without knowing the chemical composition of the NGLs, which is determined by Defendant using a chromatograph.

115. Plaintiffs will obtain the chromatograph results in discovery to determine how the NGL prices published by E.I.A. compare with the NGL prices on Chesapeake Energy's spreadsheets.

C. **The Deduction of NGL Costs that Exceeded the Amount of the Royalties**

116. The costs deducted from the NGL royalties on the Buck Well appear on the Buck Well Spreadsheet as "third-party deductions" and "affiliate gathering, compression and treating," as shown in the Table on the next page.

COST DEDUCTIONS FROM NGL ROYALTIES (BUCK WELL)								
Month	**Buyer**	**Gross Vol.**	**Gross Value Prior to Deducts**	**Third Party Deducts**	**Affiliate Gath. Comp. Treating**	**Percent**	**Gross Value After Deducts**	**Sale Price**
02-2014	CEMI	39,925	11,447.68	13,671.10	2,612.25	142.241	(4,835.67)	(0.12)
	Other	6,487	10,024.15	3,651.24	455.05	40.964	5,917.86	0.91
03-2014	CEMI	52,606	9,782.69	14,204.65	3,028.68	176.161	(7,450.64)	(0.14)
	Other	6,847	7,417.75	3,754.17	504.61	57.413	3,158.97	0.46
04-2014	CEMI	30,679	18,049.92	24,587.21	5,066.92	164.290	(11,604.21)	(0.38)
	Other	13,692	14,182.53	6,212.86	838.03	49.715	7,131.64	0.52
05-2014	CEMI	76,306	50,601.54	56,206.01	1,312.50	133.432	(16,916.97)	(0.22)
	Other	28,642	27,409.17	13,907.03	1,915.83	57.728	11,586.31	0.40
06-2014	CEMI	127,360	89,494.79	80,051.27	14,986.71	106.194	(5,543.19)	(0.04)
	Other	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL CEMI		326,876	179,376.62	188,720.24	37,007.06	144.464	(46,350.68)	(0.18)

117. The affiliate charges are fractionation charges incurred in separating the NGLs into marketable liquids.

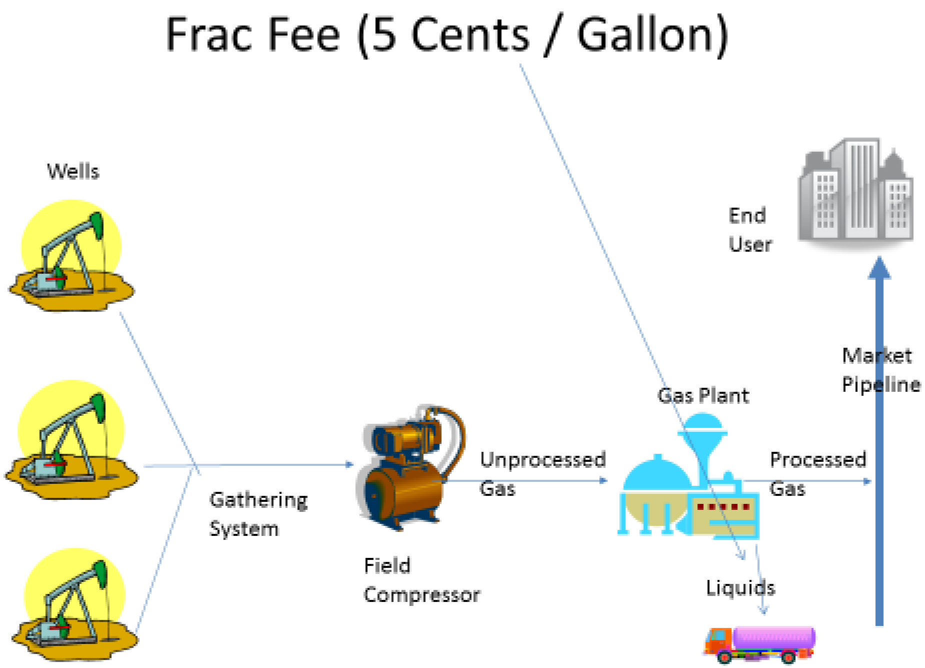
118. Plaintiffs do not presently know what services are reflected in the third-party deductions, although they likely include some form of transportation costs.

119. Regardless of how these charges are classified, they are excessive because they consume a grossly inordinate percentage of the value of the NGLs before the deductions.

120. During the five month reported on the Buck Well Spreadsheet, the costs deducted by Defendants were 142%, 176%, 164%, 133% and 106% of the value of the NGLs before the deductions. In contrast, the costs deducted by Total Exploration and Production USA were 41%, 57%, 50% and 58%.

121. The NGL costs could not have so grossly exceeded the value of the NGLs. If they did, Defendant would have stopped producing NGLs to prevent further losses. Instead, Chesapeake Energy increased its production of NGLs in 3Q 2015 by 31%.

122. Moreover, fractionation costs are vastly lower than the amounts deducted by Defendant, as shown in the graphic below.



123. As a result of the inflated cost deductions from the NGLs, Defendant, through its affiliates, paid no royalty on the $179,376.62 of NGLs sold by CEMI over the five months reported on the Buck Well Spreadsheet.

124. It then applied the $46,350.68 of costs not used to cancel the NGL royalties against the positive royalties on gas, oil and the royalties earned on NGLs sold by the other seller, Total E&P USA, Inc.

III. THE UNDERPAYMENT OF OIL ROYALTIES

125. Defendant, through its agents, underpaid the royalties on oil by (1) paying the royalties on less than the full amount of oil sold; paying the royalties on a price of oil that was below the market and less than the price paid by the buyer; (3) deducting costs incurred after Defendant no longer held title to the oil; and (4) deducting costs that exceeded the costs incurred.

A. The Payment of Royalties on Less than the Full Amount of Oil Sold

126. Defendant was required to pay a royalty on the full amount of oil sold to CEMI at the well.

127. Defendant, through its affiliates, breached the leases by paying a royalty on less oil than was sold to CEMI at the well.

128. Defendant reports the barrels of oil it produces in quarterly and annual filings with the ODNR.

129. The Table on the next page shows the difference between the barrels of oil produced from the Buck Well (as reported to the ODNR) and the amount of oil on which Defendants paid a royalty.

Month	Barrels (ODNR)	Barrels (Check Stub)	Spread	Percentage No Royalty
04-2014		1,268.73		
05-2014		3,104.09		
06-2014		2,221.55		
2Q 2014	7,056	6,594.37	(461.63)	6.5423 %
07-2014		1,576.81		
08-2014		1, 063.82		
09-2014		956.39		
3Q 2014	3,672	3,587.02	(84.98)	2.3143 %
10-2014		1,019.23		
11-2014		949.43		
12-2014		952.67		
4Q 2014	2,880	2,922.05	42.05	(1.4601%)
01-2015		305.74		
02-2015		261.60		
03-2015		177.71		
1Q 2015	1,313	745.05	(567.95)	(43.2558%)
04-2015		176.74		
05-2015		694.57		
06-2015		701.88		
2Q 2015	2,094	1,573.19	(520.81)	24.8715 %
Totals	**17,015**	**15,421.68**	**(1,593.32)**	**9.3642 %**

130. As this Table shows, Defendant paid a royalty on only on only 91.6% of the oil produced and sold to CEMI at the well.

B. <u>Payment of the Royalties Using a Price That Was Below Market and Below the Price Paid by the Buyer</u>

131. Defendant's deductions from the oil royalties show that costs were incurred in processing and transporting the oil to market, meaning that the price received was a downstream market price.

132. The prices used by Defendant in calculating the oil royalties were always below fair market value and varied arbitrarily even within the same month on the check stubs

133. The Table below shows the price per barrel reported on Buck Well Check Stubs compared with the average Cushing spot price reported U.S. Energy Information Administration.

Month	Buck Well Check Stubs (Ave. $/Barrel)	Cushing Spot ($/Barrel)	Check Stub % Cushing
02-2014	82.00	100.82	81.33 %
03-2014	82.00	100.80	81.35 %
04-2014	83.92	102.07	82.22 %
05-2014	82.61	102.18	80.85 %
06-2014	87.38	105.79	82.60 %
07-2014	83.74	103.59	80.84 %
08-2014	75.24	96.54	77.94 %
09-2014	62.05	93.21	66.57 %
10-2014	54.25	84.40	64.28 %
11-2014	51.79	75.79	68.33 %
12-2014	34.67	59.29	58.48 %
01-2015	47.30	47.22	100.16 %
02-2015	29.31	50.58	57.95 %
03-2015	17.94	47.82	37.52 %
04-2015	22.09	54.45	40.57 %
05-2015	24.55	59.27	41.42 %
06-2015	25.51	59.82	42.64 %
07-2015	27.68	50.90	54.38 %
08-2015	19.07	42.87	44.48 %
09-2015	19.61	45.48	43.12 %
Average	**50.63**	**74.14**	**68.29%**

C. <u>Deduction of Costs Incurred After Title Transfer</u>

134. As with gas, Chesapeake Exploration sold the oil to CEMI at the well.

135. The cost deductions from the oil royalties are not disclosed on the check stubs because Defendant did not incur them.

136. The costs deductions from the oil royalties do appear, however, on Chesapeake Energy's spreadsheets.

137. The Table below shows the cost deductions from the oil royalties, as reported on the Buck Well Spreadsheet.

Cost Deductions from Oil Royalties						
Month	**Gross Vol.**	**Gross Value Before Deducts**	**Third Party Deducts**	**Affiliate Gath./ Comp./ Treating**	**Gross Value After Deducts**	**Sale Price**
02-2014	943	88,632.56	2,251.47	0.00	86,381.09	91.60
	29	2,237.76	0.00	0.00	2,237.76	77.00
	10	806.15	0.00	0.00	806.15	76.92
03-2014	1,070	100,796.69	0.00	2,839.31	97,957.38	91.57
	22	1, 709.59	0.00	0.00	1,709.59	77.71
	13	986.84	0.00	0.00	986.84	77.10
04-2014	1,242	118,383.18	0.00	3,058.35	115,324.83	92.89
	21	1,681.79	0.00	0.00	1,681.79	79.07
	6	458.67	0.00	0.00	458.67	77.48
05-2014	3,031	281,592.91	0.00	8,406.50	273,186.41	90.14
	46	3,599.87	0.00	0.00	3,599.87	78.79
	28	2,182.16	0.00	0.00	2,182.16	78.41
06-2014	589	55,335.19	1,504.46	0.00	53,830.73	91.38
	158	14,190.15	0.00	0.00	14,190.15	89.95
	1,448	136,048.28	0.00	3,630.62	132,417.66	91.43
	9	750.55	0.00	0.00	750.55	82.12
	17	1,403.81	0.00	0.00	1,403.81	81.24

138. All of the deductions under "Third-Party Deductions" and "Affiliate Gathering/Compression/Treating Deductions" were in breach of the leases because these costs were incurred after Defendant no longer held title to the oil.

D. <u>Deduction of NGL Costs From the Oil Royalties</u>

139. The costs deducted from the oil royalties were also in breach of the leases because they included NGL costs.

140. Costs incurred on one product cannot be charged against the royalties of another product.

141. This is because royalty owners have a separate property interest in each product and can assign their rights in the products separately.

142. Even if the NGL costs could be applied against the royalties on oil, the NGL costs were in breach of the leases because they exceeded the actual costs incurred.

143. Additionally, the processing and transportation costs on the oil itself, while in theory deductible, were not deductible in this case because they too were exceeded the actual costs.

CLASS ARBITRATION ALLEGATIONS

144. The Plaintiffs restate and incorporate by reference the allegations contained in paragraphs 1-143 of this Complaint.

145. The Plaintiffs bring this arbitration on behalf of themselves and the following Class:

> Every person except governmental entities who is, or has been, a royalty owner under an oil and gas lease in which Chesapeake Exploration, L.L.C., is the present lessee, either because it is named as the lessee or because the lease has been assigned to it, and (i) the lease conveys rights to oil, natural gas and natural gas liquids in Ohio, (ii) one or more of these products was produced under the lease, and (iii) the lease has a provision requiring the arbitration of disputes.

146. The Class Members exceed 2,000 in number, making joinder impracticable. Plaintiffs do not presently know the exact number and identities of the Class Members, but they are known to Defendant and can be ascertained through its business records.

147. The claims set forth in this Complaint are common to all Class Members because Defendant, through its affiliates, underpaid the gas royalties of all Class Members in the same ways.

148. Plaintiffs are adequate representatives of all Class Members because the claims they assert are typical of the claims of all Class Members, the named Plaintiffs are not subject to any

unique defenses, the interests of Plaintiffs do not conflict with those of the Class Members and Plaintiffs will fairly and adequately protect the interests of all Class Members.

149. Counsel to the Plaintiffs have extensive experience in complex litigation. This experience includes litigating cases in all state and federal courts in Ohio, in the U.S. Courts of Appeals for the Third, Fourth, Sixth and D.C. Circuits, and in the United States Supreme Court. One of the attorneys for Plaintiffs is lead trial counsel in four natural gas royalty class actions pending in the Appalachian Basin, three of which have been certified as class actions and one of which resulted in a jury verdict for the plaintiff class earlier this year.

150. The claims set forth in this Complaint are proper for certification as a class action because questions of law and fact common to the class predominate over any issues affecting individual class members.

151. The common questions of law include (1) whether costs can be deducted from oil and gas royalties if the costs are incurred after the lessee has sold the gas and transferred title, (2) whether costs deducted from oil and gas royalties can exceed the gross royalty, (3) whether costs incurred with respect to one product can be deducted from the royalties of another product; and (4) whether revenues received under natural gas derivative contracts are revenues realized from the sale of the gas and therefore subject to royalty.

152. The common questions of fact include (1) whether in reselling the oil and gas CEMI functioned as the agent of Defendant such that the proceeds paid by the third-party buyers are the revenues on which the royalties must be paid and (2) whether the conduct of Defendant, through its affiliates, breached the leases.

153. No other class action or class arbitration in Ohio asserts the claims asserted here. A class action for breach of contract and an accounting for the underpayment of oil and gas royalties

was filed on October 26, 2015 by three plaintiffs in the Court of Common Pleas for Columbiana County captioned *Zehentbauer Family Land L.P. v. Chesapeake Exploration, L.L.C.*, et al., Case No. 2015-CV-557. This arbitration is different from *Zehentbauer* because (1) this action seeks recovery under all Ohio leases entered into by, or assigned to, Defendant whereas *Zehentbauer* seeks recovery under only a subset of those leases and (2) this arbitration seeks recovery for breach of contract claims not asserted in *Zehentbauer*, including claims that the royalties were calculated on the incorrect amount of the product, that the costs deducted were not deductible because the lessee did not own the product when the costs were incurred, and that no royalties were paid on the proceeds of derivative contracts

154. A class arbitration is superior to other available methods for the fair and efficient adjudication of the claims asserted because there are thousands of Class Members and individual discovery and litigation of the common issues by each lessor would be a needless waste resources. The interest of Class Members in individually controlling the prosecution of separate arbitrations does not outweigh the benefits of a class arbitration. It is desirable to concentrate the litigation of these claims in one forum. Any difficulties in managing this case as a class arbitration are outweighed by the benefits a class arbitration in disposing of common issues of law and fact.

155. The prosecution of separate arbitrations by each lessor would create a risk of inconsistent or varying adjudications that would establish incompatible standards of conduct for Defendant, could be dispositive of interests of persons not parties to the individual arbitrations, and could substantially impair or impede the ability of those persons to protect their interests. Further, Defendant, through its agents, acted, or refused to act, on grounds generally applicable to all Class Members.

156. A class arbitration is superior to all other methods for the fair and efficient adjudication of the claims in this case. The class is readily definable and the prosecution of a class arbitration would eliminate the possibility of repetitious litigation and provide redress for persons unable to bring their claims individually. Maintenance of separate arbitrations would place a substantial and unnecessary burden on the courts and could result in inconsistent adjudications. In contrast, a class arbitration would determine the rights of all Class Members with judicial economy.

COUNT I

BREACH OF CONTRACT

157. Plaintiffs re-allege and incorporate by reference paragraphs 1-156 of this Complaint.

158. Oil and gas was produced under each of the leases subject to this action.

159. Each named Plaintiff and other Class Member is or was entitled to royalty payments pursuant to one or more of the leases with Defendant or a predecessor lessee of Defendant.

160. Defendant made periodic royalty payments to each named Plaintiff and other Class Member pursuant to one or more of the leases subject to this action

161. Defendant breached the leases by allowing Chesapeake Energy and Chesapeake Operating to underpay the royalties on all three products – natural gas, natural gas liquids ("NGLs") and oil.

162. Defendant, through these affiliates, underpaid the royalties on natural gas by (1) calculating the royalties on less than the volume of gas sold, (2) calculating the royalties on less than the revenues realized from the sale of the gas, (3) deducting costs incurred after Defendant no longer held title to the gas, (4) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P., (5) deducting transportation costs that

exceeded the actual cost of transportation, (6) deducting fuel costs that exceeded the actual cost of fuel, (7) deducting marketing fees that were never incurred, and (7) deducting NGL costs from the gas royalties.

163. Defendant, through its affiliates, underpaid the royalties on NGLs by (1) paying a royalty on less than the full amount of NGLs sold; (2) paying the royalties using a price per gallon than was likely below market and less than the price paid by the buyer; and (3) deducting costs that exceeded the NGL royalties (thereby paying no NGL royalties).

164. Defendant, through its affiliates, underpaid the royalties on oil by (1) failing to pay a royalty on the full amount of oil sold; (2) deducting costs incurred after Defendant no longer held title to the oil; (3) deducting costs that exceeded the actual amount of the costs; and (4) calculating the royalties on a price of oil that was below market and less than the price paid by the buyer.

165. Defendant's breaches of the leases proximately caused damages to Plaintiffs and the other Class Members because, as a direct and proximate result of the breaches, Defendant paid Plaintiffs and the other Class Members gas royalties that were less than the royalties due them.

WHEREFORE, the Plaintiffs, on behalf of themselves and the other Class Members, request an award in their favor for breach of contract, compensatory damages, pre-award interest and post-award interest.

Respectfully submitted,

<u>/s/ James A. Lowe</u>

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