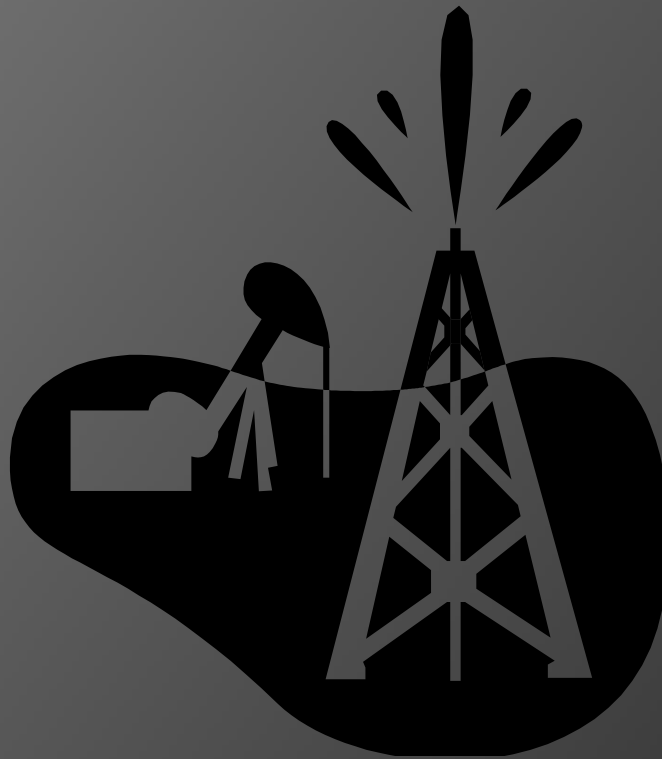


DAGGER, JOHNSTON, MILLER, OGILVIE AND HAMPSON LLP



144 EAST MAIN ST.

LANCASTER, OHIO 43130

740-653-6464

ROBERT E. JOHNSTON

MARK R. RIEGEL

CARRIE SNOKE LOTT

NICHOLAS R. GRILLI

Agenda

- Introduction
- Buckeye Landowners Group
- Leasing Considerations and Understanding Oil and Gas Leases
- Questions?



Landowner Groups

- Strengthens an individual landowner's bargaining strength on a collective basis due to:
 - The acreage needed by O & G company for latest oil and gas exploration and production techniques.
 - O & G company can more efficiently lease acreage.
- Allows the sharing of information and resources further increasing leverage.
- All of the above = more consideration and better lease terms to landowner.

Buckeye Landowners Group Agreement

1. LANDOWNER'S RESPONSIBILITIES AND AUTHORIZATION. I am providing the exclusive right and authority to the Dagger Law Firm to negotiate and market oil and gas lease(s) for my property/properties described in the Property Information page of this Agreement. I agree to direct any potential bidders that I learn of to the Dagger Law Firm and that I will not negotiate with potential bidders on my own. I represent that I am not a member of any other landowners group for oil and gas lease purposes and I agree that I will not join any other landowners group for oil and gas lease purposes as long as I am a member of the Group. I have provided accurate property owner information for my property described on the Property Information page below. I understand that the Dagger Law Firm may merge my group with another group or form sub-groups of landowners. I understand that if I have insufficient acreage to support an oil and gas lease, or if neighboring properties cannot be joined to form sufficient acreage for the purpose of an oil and gas lease, the Dagger Law Firm has the right to release me and my acreage from the Group. I understand that any existing oil and gas leases on my property may preclude a new lease on the property. Any representation concerning issues under an existing lease or other legal matters will require a separate agreement for legal representation. I understand that the Dagger Law Firm has no responsibility towards curing any title defects concerning my property or the oil and gas rights to my property and that title issues could preclude a new oil and gas lease. I understand that a group lease may not cover all of the acres in the Group or represented by the Group.

Buckeye Landowners Group

- 2. SCOPE OF REPRESENTATION BY THE DAGGER LAW FIRM. I understand that the Dagger Law Firm representation will be to market my oil and gas rights in an effort to generate an acceptable oil and gas lease ("lease"), and to assist with the lease and closing associated with the transaction. For legal services beyond the scope of this agreement I will need to sign a separate engagement letter, or hire another attorney. The Dagger Law Firm will be responsible for all costs associated with the Group, the organization of the Group, and communication on the Group's behalf with interested bidders. The Dagger Law Firm may have employees or associates provide work for the group or associate with other attorneys or experts to work with the Dagger Law Firm. Group members may assist as volunteers, but they are not compensated by the Group and any opinions given by them are not legal advice. I understand that questions on legal issues may be addressed to the Dagger Law Firm or to my own individual attorney. All efforts will be made to preserve the confidentiality of Group member communications during legal negotiations. However, given the nature of the Dagger Law Firm's joint representation of Group Members, the Dagger Law Firm attorneys cannot guarantee that communications made by individual group members will be confidential from other group members.

Buckeye Landowners Group

- 3. MARKET DISCLAIMER. The market value of oil and gas rights is highly speculative and fluctuates. Numerous factors can create changes and unpredictability in the valuation of oil and gas leases, such as location, changes in economic conditions, Federal, State, and Local legislation, strategic decisions made within the oil and gas industry, costs of production, and various other direct and indirect market influences. The Dagger Law Firm cannot predict the market for oil and gas leasing and/or purchasing in the future. The Dagger Law Firm may give their opinion on fairness of monetary terms of lease offers, but such opinions are to be regarded merely as opinions.

Buckeye Landowners Group

- 4. ACCEPTANCE OF OFFER. The Dagger Law Firm will communicate all lease offers to the Group. I understand that it will remain my decision whether to accept an offer. I understand under this agreement, I am not obligated to enter into the oil and gas lease obtained as a result of efforts of the Dagger Law Firm. However, if I directly or indirectly enter into an oil and gas lease for my property prior to September 30, 2013, or if I directly or indirectly enter into an oil and gas lease for my property at any time with any bidder that made an offer to the Dagger Law Firm which included my property, I agree that I will remain responsible to pay the fees set forth below.

Buckeye Landowners Group

- 5. FEE. The Dagger Law Firm fee will be contingent on the lease of any or all of my oil and gas rights and that payment will be due when such a lease of my property has occurred and the bonus/delay rental consideration for the transaction is being paid. I agree that the Dagger Law Firm will be paid one percent (1%) of the gross lease signing bonus or total delay rental payments (“bonus price”) for the lease. I hereby authorize the Lessee of my oil and gas lease to make direct payment of this one percent (1%) amount to the Dagger Law Firm pursuant to this fee arrangement.

Buckeye Landowners Group

- 6. TERM. This agreement shall be in effect and exclusive through September 30, 2013, or until such time as I have signed an oil and gas lease, letter of intent or any binding agreement secured through the representation of the Dagger Law Firm and the attorneys fees have been paid, as set forth above.

Buckeye Landowners Group

- 7. ACKNOWLEDGMENT AND CONSENT. By signing on page 3, the Property Information page of this Agreement, I indicate that I have read and consent to the above terms and conditions. I further acknowledge that if I am signing this Agreement on behalf of a corporation, limited liability entity, or principal, I represent and ratify that I am a duly authorized officer and/or member of said entity or acting as an agent for the principal and am fully authorized to execute and deliver this Agreement on behalf of said entity or principal and said principals have full capacity to enter into this Agreement and all necessary action by the entity or principal for approval for the making of this Agreement has been taken and done. I further acknowledge and agree that this Agreement is binding on my heirs, executors, successors, and assigns.

Buckeye Landowners Group

LANDOWNER(S) PROPERTY INFORMATION

I/we own approximately _____ acres located in _____ Township,
_____ County, on _____ parcels. (Attach additional pages if parcels in more than
one Township or County.)

PARCEL NUMBERS: (From tax bills or attach the tax bills. If you want to list all of your property, write "ALL" and the
county where your land is located.)

EXISTING LEASES OR EASEMENTS: (Complete if applicable.)

My property is under an oil and gas lease with _____
and the expiration date on my current lease is _____.

My property is subject to an agricultural easement, conservation easement, or pipeline easement with
_____.

CONTACT INFORMATION:

Contact Person Printed Name: _____

Contact Person Address: _____

Phone: _____ Alternate Phone: _____

E-Mail: _____

Use of surface for a drilling pad (check one)

I agree that the surface of my property can be used for a drilling pad as long as I receive extra payment for the same. ☐

I do not agree that the surface of my property can be used for a drilling pad. ☐

Caveat

- ◎ This presentation is not intended to be an exhaustive or comprehensive presentation or opinion on oil and gas law or the interpretation of oil and gas leases. The purpose of this presentation is to provide general information about oil and gas leases and the considerations that landowners should make before entering into a lease.

General Lease Considerations

1. Do you want to lease your oil and gas rights?
 - What are your present and future plans for the land?
 - Financial benefits vs. impact on land
2. Receipt of Bonus Payment and Royalties is a taxable event
 - Consult with tax advisor
3. Don't spend money before you have it
 - Lessee has a due diligence period to check title

The Leasing Process

- ⦿ “The first offer is always the worst offer.”
- ⦿ Standard Oil and Gas Lease-written by O/G company and in its favor.
- ⦿ What’s Negotiable
 - Everything?
- ⦿ Lease vs. Addendum
- ⦿ Order of Payment

The Oil and Gas Lease

The Basics

Oil and Gas Lease- A legally binding contract whereby a Lessor grants to a Lessee the exclusive right to explore and produce oil, gas and their respective constituents in realty for a specified period of time.

Parties- Who?

- Lessor- Landowner
- Lessee- Oil and Gas Company, Driller, Landmen, Speculators

Grant of Lease or Leasing Clause- What, Why and How?

Term of Lease- When or How long?

Consideration- How Much?



The Granting or Leasing Clause

- “ That the Lessor, for and in consideration of Ten dollars (\$10.00) and other valuable consideration in hand paid by the Lessee, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, does hereby lease and let exclusively unto the Lessee, its successors and assigns, all the oil, gas and coalbed methane and other minerals (not including coal or hard minerals) produced in conjunction therewith, including but not limited to mined out or gob areas of such coal formations or seams (hereinafter collectively called “coal seam gas,” “coalbed methane gas,” “coalbed gas,” “gob gas”, “coal mine methane,” “methane,” “methane gas”, “occluded gas,” and other naturally occurring gases contained in or associated with any coal seam and gas originating or produced from any coal formations, seams or other strata or formations)and their constituents, whether hydrocarbon or non-hydrocarbon, underlying the land herein described and leased (such lands hereinafter referred to as “Leased Premises”) together with such exclusive rights as may be necessary or convenient for Lessee, at its election, to explore for by geophysical, or other methods, develop, produce, measure, and market production from the Leased Premises, and from adjoining lands, using methods and techniques which are not restricted to current technology, including the right to conduct geophysical and other exploration tests; to drill (either vertically, horizontally, or directionally), maintain, operate, treat, vent, dewater, cease to operate, plug, abandon, and remove wells; to stimulate or fracture all coal formations, seams or other strata or formations; to use or install roads, electric power and telephone facilities, and to construct pipelines with appurtenant facilities, including data acquisition, compression and collection facilities for use in the production, transportation and marketing of products from the Leased Premises and from neighboring lands across the Leased Premises, and such rights shall survive the term of this agreement for so long thereafter as operations are continued, to use oil, gas, and non-domestic water sources, free of cost, to store gas of any kind underground, regardless of the source thereof, including the injection of gas therein and removing same therefrom, to protect stored gas, to operate and maintain, repair, store, and remove material and equipment.

Consider what this language allows...

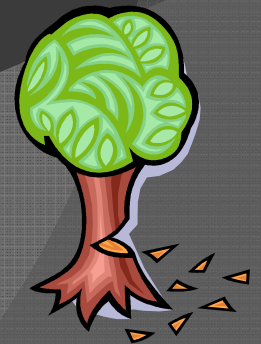
- All oil, gas and other minerals (not including coal or hard minerals) to be produced from any formation;
- Roads and pipelines to be installed, regardless of type or location;
- Electric power and telephone facilities to be installed, regardless of type or location;
- Compression and collection facilities to be installed regardless of location;
- Transportation of “products” from other lands besides landowners across landowners land;
- Use of non-domestic water sources, free of cost;
- Underground storage of any kind of gas; and
- Any successor in interest or assignee to do the same.

LIMITATIONS THAT SHOULD BE IN LEASE

- Other minerals, formations or strata reserved; lease should only cover oil, gas and other associated hydrocarbons (e.g. NGL's- ethane, propane, butane, etc.)
- Restriction on and Compensation for Surface Activity
 - Distance from structures;
 - Additional compensation for surface damage such as to timber and crops.
 - Surface operations should be conducted in manner that minimizes intrusion into crop fields
 - Fence and Gate provisions
- Installation of roads, facilities, pipelines subject to separate negotiation, agreement, and compensation.
 - Location and type/size approval and additional compensation
 - No foreign gas (i.e. gas from neighboring properties) without additional compensation
 - Pipeline to be installed below plow depth using “double-ditch” method
- No Compression
- No Disposal of Waste Products
- No Storage
- No non-domestic water usage without consent and consideration
- Domestic water quality assurance and fresh water damage protection
 - Require domestic water testing prior to and after operations.

Timber Clause

- Lease should address the cutting of both marketable and non-marketable timber.
- Cash or Timber itself?
 - ❖ Cash
 - Require an appraisal of the timber by a qualified third party forester/appraiser, at Lessee's expense
 - If parties can't agree, each selects his own appraiser and the two appraisers select a third who determines value
 - Money is paid prior to tree removal
 - ❖ Timber
 - Specify how it is to be cut and stacked
 - Landowner has right to keep or sell
 - Both...



What land is being leased?

- ⦿ Metes and bounds legal description that identifies the perimeter of the property and its exact acreage.
- ⦿ No “mother hubbard” language-
“...including all contiguous or appurtenant lands owned by Lessor”
- ⦿ Reference to deed by book and page

Lease Term

- ⦿ Period of time that lease will be in effect
- ⦿ Primary Term and Secondary Term
- ⦿ Primary Term- usually up to 5 years or until
- ⦿ Secondary Term- **indefinite** term that begins and lasts...
 - “as long as prescribed payments are made”
 - “as long as operations are conducted on the Leased Premises”
 - Operations is defined intentionally overbroad to include such activities as testing and geological activities.
 - “as long as a well capable of production is located on the Leased Premises or on lands unitized or combined therewith”
 - Who determines its “capable of production”?
 - “as long as extended by other provisions”
 - “as long as Leased Premises or pooled/unitized lands are used for storage”
- ⦿ Option to Extend Primary Term- Any option to extend primary term should be for equal or greater consideration.

LIMITATIONS...

- ⦿ Define when Primary Term ends and Secondary Term begins- **“producing oil and gas in paying quantities”**
- ⦿ Pugh Clause- automatically terminates lease as to any acreage of the leased premises which is not included in the drilling or production unit at the expiration of the primary term.
- ⦿ Delay Rental
 - Per acre/per year payment for no production. Usually paid up front (paid up lease) which then allows lease to extend primary term without any additional payment by Lessee.
- ⦿ Delay in Marketing Rental
 - Per acre/per year payment for drilling but not yet marketing and producing.
- ⦿ Shut-In Safeguards
 - Limitation on length of shut-in
 - Shut-In royalties after 60 to 90 days

Bonus and Royalty Payments

- ◉ Bonus Payment-up front payment to Lessor for signing lease.
- ◉ Royalty: Landowner's share of oil and gas production
 - Gross proceeds of all oil, gas and other products produced from the Leased Premises and sold by Lessee in arms' length transaction or fair market value.
 - No net proceeds or deduction for costs of production, transporting, compression, gathering, treating, separating, marketing
 - Define the start date and due date of payments, payment methods, and consequences when payments are late (e.g. interest)
 - Lessee must note on payment the section of lease under which payment is made
- ◉ Audit Rights- Lessor's right to examine and audit books, records, and accounts of Lessee for the purpose of verifying the accuracy of the reports provided to Lessor and to check the amount of payment due to Lessor
- ◉ What about taxes...
 - Ad Valorem Taxes- taxes imposed and payable on the oil and gas should be paid by the parties in proportion to their interest.
 - Real Estate Taxes- any increase in real estate taxes as a result of improvements/structures constructed by Lessee should be the responsibility of Lessee.
 - Retroactive tax assessments relating to local, state, or federal agricultural assistance programs should be paid by Lessee.
 - ◉ Ex: Current Agricultural Use Valuation (CAUV) and Conservation Reserve Program (CRP)

Pooling and Unitization

- ◉ State of Ohio requires minimum acreage requirements for drilling units and minimum distances for wells. O.R.C. § 1509.24 and OAC 1501:9-1-04 to 05
 - The purpose is to promote the efficient production of oil and gas and protect landowners' correlative rights.
 - Requires drilling units to be compact and composed of contiguous land.
 - Well 2,000 to 4,000 ft. in depth require
 - 20 acre drilling unit
 - Must be located at least 600 ft. from any well producing from same pool or formation
 - Must be located at least 300 ft. from any boundary of the drilling unit
 - Wells 4,000 ft. or deeper require
 - 40 acre drilling unit
 - Must be located at least 1000 ft. from any well producing from same pool or formation
 - Must be located at least 500 ft. from any boundary of the drilling unit
 - Well is defined as including borehole...

Pooling and Unitization

- ◎ Consider this...
 - One lateral “leg” of a horizontally drilled well extending 1 mile horizontally requires 144.16 acres to meet the foregoing spacing requirements.
 - Most pads have multiple “legs” that will be hydraulically fractured.
- ◎ Thus...
 - O & G companies are seeking to acquire rights to larger tracts of land to maximize production from a single well

Pooling and Unitization

- ◎ What's the problem???
- Ohio law does not provide for a maximum limit on the size of a drilling unit.
- While your lease may provide for 15% gross royalty of oil and gas produced, when you are in a drilling unit, your share of production is calculated in proportion to your acreage contributed to the unit to the total acreage in the drilling unit.
- Potentially, the larger the unit the more diluted your share in the production of that unit becomes.

Pooling and Unitization

⦿ Safeguard:

- Pugh Clause
- Lease must place limitation on pooled unit size.
 - 640 to 1,280 acres for horizontal wells
- Lease must require provision of Declaration of Unit with all maps, plats and other exhibits by O & G company to landowner

Warranty of Title

- Standard O & G Lease typically requires Landowner to warrant:
 1. That he/she has the right to lease the O & G rights and agrees to defend title; and
 2. That he/she is not currently receiving any bonus, rental or production royalties from a prior lease and that there are no producing wells on his/her land or on other lands within a drilling or production unit of which his/her land is a part.

Reclamation

- While there is a duty on Lessee to restore land upon completion of well and plugging of well under O.R.C. 1509.072, Lease should include provisions that go above and beyond:
 - Restoration of property to “as nearly as practicable to pre-drilling.”
 - Removal of debris, equipment and personal property within a specified period of time, not a reasonable amount of time.

Insurance and Indemnity

- Ohio Revised Code requires minimum amounts of property damage and bodily injury coverage. O.R.C. 1509.07
- Lease should go above and beyond:
 - Require worker's compensation, employer liability, and business auto coverage
 - Require higher minimum coverages (e.g. \$5,000,000.00)
 - Insurance company licensed with State of Ohio
 - Require proof of insurance
 - Landowner to be listed as an additional insured with regard to his property
- Indemnity Provision
 - Lessee agrees to indemnify and hold landowner harmless from any damages or injury to persons or property, including environmental damages, that occur during operations.

QUESTIONS?