



Haynesville Shale Update

Many of you may have received letters recently from Twin Cities/Chesapeake (TC/C). According to reports, TC/C is offering a \$1000 bonus with a 25% royalty or a \$1500 bonus with a 22.5% royalty. In comparison, Petrohawk has already paid a \$5000 bonus and a 25% royalty in Southeast Shreveport this summer. They are currently offering the same to other neighborhoods. However, we don't know what other neighborhoods Petrohawk might be interested in.

Some things to remember if you are considering an offer:

- Leasing involves far more than bonus and royalty payments.
- A landman's verbal assurances carry no legal weight, nor do they have any binding status. Only what is written in the lease has any legal foundation.
- Subordination: Does the TC/C lease address the issue of subordination? In other words, will they pay the subordination fees charged by the mortgage company? Any homeowner with a mortgage will not see one penny of a bonus or royalty until the mortgage company signs off on that. The banks' subordination fee may range from \$300 to \$800, or more.
- Noise, streets, lights, truck traffic, safety: The City is far from adopting drilling regulations and lease clauses, which are the only other way to protect quality of life, environmental, safety, and property value issues that drilling will negatively impact.
- Royalties are only paid when the well is completed, the gas is in the pipeline, and the gas is sold. Plus, royalties are paid on what the well actually produces, not on what it is capable of producing. Many Chesapeake wells are currently choked so tight that only the minimum amount of gas is produced to keep the well classified as a working well.
- Make sure that the lease contains a well-worded vertical "Pugh Clause" so that the homeowner does not give up the rights to other minerals at other depths. Other depths require another lease.
- Be cautious; ShreveCentre Coalition (SCC) strongly suggests that you have any lease agreement reviewed by an attorney.

Tell the landman that you are a part of the ShreveCentre Coalition and its attorneys will negotiate for you. This means that SCC attorneys negotiate and review leases for the group, e.g. neighborhood organizations (Highland Restoration Association). SCC attorneys provide their services to SCC "pro bono" - as a public service. However, please note that they will review individual leases only on a fee basis.

Estimation of Royalty Payments on Residential Lots

The ShreveCentre Coalition asked one of our members who is an experienced landman to provide us with rough estimates of royalty payments that a homeowner with a residential lot in Shreveport might expect. These are estimates and are provided for your information only.

This is based on the actual production from the B & K Exploration 37-1 as reported to the Dept. of Natural Resources from date of first production in February thru the last month posted on SONRIS which is June of this year. I have based the price of gas on an estimated basis for each month. The Potential Report on this well shows it is capable of producing 17,901 MCF/day. This is an extremely good well and most of the Haynesville wells are not capable of producing this much. Prior to the Haynesville Shale, a company was pleased to get a well capable of 2,000 MCF per day. Assuming a 30-day month, production would run about 537,030 MCF/month.

You will note that the well has never produced at its potential. There are several reasons for this at present: (1) the current low price of natural gas, (2) companies are purposely selling less gas than they would normally because of the low price and the fact that reserves are up significantly above where they were a year ago, and (3) lack of pipelines capable of running this type of production through the lines.

Assuming a lot of 1/4 of an acre in a 640 acre unit, with a 1/4 royalty ($.25/640 \times 1/4$), you would receive .00009766 interest from the unit.

February	10,357 MCF x \$4.50 per MCF = \$46,606.50	\$ 4.55 (your part of production)
March	122,738 MCF x \$4.00 per MCF = \$490,952	\$47.95
April	102,766 MCF x \$3.60 per MCF = \$369,957.60	\$36.13
May	75,866 MCF x \$4.00 per MCF = \$303,464	\$29.64
June	56,409 MCF x \$3.80 per MCF = \$214,354.20	\$20.93

Companies normally don't pay you until you accrue at least \$100 so you would be looking at receiving a check about every three to four months for a little over \$100. This is a realistic scenario for all of us.

Bear in mind that natural gas was down to \$3.11 per MCF and rarely does a well produce monthly at the rate it is capable of producing. By November or December, assuming we are having a cold winter up north, that reserves are being reduced, we probably will see the price go into the \$5 range; however, in the spring and summer it usually goes down. They will probably then increase the amount of production this winter in order to take advantage of the higher prices (which as a royalty owner, you want them to do this).

As I said – there is no way anyone can tell you what you will get for production off a lease as there are too many variables to consider. Hopefully this will help you to get a general idea of what we ultimately can expect.