BEFORE THE AMERICAN ARBITRATION ASSOCIATION

RONALD and JOETTA HALE

Claimants

v.

CHESAPEAKE EXPLORATION, L.L.C.;
TOTAL E&P USA, INC.;
CHESAPEAKE ENERGY CORPORATION;
and CHESAPEAKE OPERATING, L.L.C.

Respondents.

ARBITRATION DEMAND AND COMPLAINT

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EXHIBITS

Ronald and Joetta Hale, by counsel, submit this Arbitration Demand and Complaint for the underpayment of oil and gas royalties.

THE PARTIES

1. Claimants Ronald and Joetta Hale ("Claimants") reside in Columbiana County, Ohio at 37368 Laughlin Road, Lisbon, Ohio 44432. Claimants are lessors on two oil and gas leases with Chesapeake Exploration, L.L.C., one as to property in Carroll County, Ohio and the other as to property in Columbiana County, Ohio.

2. Respondent Chesapeake Exploration, L.L.C. ("Chesapeake Exploration") is a limited liability company organized under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118. Chesapeake Exploration is the named lessee on the Claimants' leases and has 75% working interest in both.

3. Respondent Total E&P USA, Inc. ("Total E&P") is a corporation organized under the laws of Delaware with its principal place of business at 1201 Louisiana Street, Suite 1800, Houston, Texas 77002. Effective November 1, 2011, Respondent Total E&P purchased from Chesapeake Exploration an undivided 25% interest in thousands of oil and gas leases in Ohio, including Claimants' two leases.

4. Respondent Chesapeake Operating, L.L.C. ("Chesapeake Operating") is a limited liability company organized under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118. Respondent Chesapeake Operating, with its parent, Chesapeake Energy Corporation, (1) holds the proceeds of the sale of the oil, gas, and natural gas liquids produced under Claimants' leases, (2) calculates the royalties, and (3) issues the monthly Royalty Statements and royalty checks for both Chesapeake Exploration and Total E&P.

5. Respondent Chesapeake Energy Corporation ("Chesapeake Energy") is a corporation organized under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118. Respondent Chesapeake Energy is the parent company of Chesapeake Exploration and Chesapeake Operating. Respondent Chesapeake Energy, along with Chesapeake Operating, (1) holds the proceeds of the sale of the oil, gas, and natural gas liquids produced under Claimants' leases, (2) calculates the royalties, and (3) issues the monthly Royalty Statements and royalty checks on behalf of both Chesapeake Exploration and Total E&P.

THE ARBITRATION PROVISION

6. Claimants' two oil and gas leases include the following arbitration provision:

> ARBITRATION: Any questions concerning the Lease or performance thereunder shall be ascertained and determined by three disinterested arbitrators, one thereof to be appointed by the Lessor, one by the Lessee and the third by the two so appointed, and the majority vote of such collective group shall be final and conclusive. In the event that the two appointees of the Lessor and Lessee cannot agree upon the third, the parties shall thereupon submit to the rules and procedures of the American Arbitration Association. Arbitration proceedings shall be conducted at the county seat of the county where the leased property is located or such other place as the parties to such arbitration shall all mutually agree. Each party shall pay its own arbitrator and the costs of the third arbitrator (umpire) shall be borne equally. The determination rendered by the arbitrators may be entered in the court of general jurisdiction in the county where the Leased Premises is located.

7. Although this arbitration provision provides for non-AAA arbitration in the first instance, Claimants and the Chesapeake Respondents have agreed to proceed directly to arbitration before the AAA.

NUMBER OF ARBITRATORS/LOCATION OF HEARING

8. Claimants request arbitration by a panel of three arbitrators and that the arbitration hearing be in North Canton, Ohio.

INTRODUCTION AND SUMMARY OF CLAIMS

9. This is the most recent of hundreds of oil and gas royalty lawsuits and arbitrations against these Respondents that have resulted in settlements, judgments and awards in the hundreds of millions of dollars. These include a $119M settlement payment by Chesapeake Operating to Oklahoma royalty owners in January of 2015 and a $52.5M settlement by Chesapeake Energy and Total E&P to Texas royalty owners in May of 2016.

10. Respondents' royalty practices have also been the subject of multiple actions by state and federal authorities. On October 19, 2015, the U.S. Department of the Interior assessed a $2.1M civil penalty against Chesapeake Energy for "repeated, systemic errors in Chesapeake's monthly reporting of the amount of gas it produced and sold from Indian leases." The Department determined that Chesapeake's failure to correct its "unreported and misreported volumes" was "knowing and willful."

11. On December 9, 2015, the Attorney General of Pennsylvania filed a consumer class action against Chesapeake Energy and Chesapeake Operating under Pennsylvania's Unfair Trade Practices and Consumer Protection statute, alleging that they had engaged in "unfair and deceptive practices" in the calculation and payment of oil and gas royalties. See *Commonwealth v. Chesapeake Energy Corp., et al.,* No. 16-cv-01012 (M.D. Pa.).

12. On August 4, 2016, Chesapeake Energy filed a Quarterly Report with the U.S. Securities and Exchange Commission ("S.E.C.") in which it disclosed that "[w]e also have received DOJ [Department of Justice], U.S. Postal Service and state subpoenas seeking information on our royalty payment practices." See Chesapeake Energy Form 10Q, Aug. 4, 2016 at page 63.

13. Claimants' Leases provide for a royalty of 17.5% (Carroll County Lease) and 20% (Columbiana County Lease) of the gross proceeds paid from the sale of all oil, natural gas (methane) and natural gas liquids ("NGLs") (collectively, "well products").

14. Chesapeake Exploration and Total E&P began to produce oil and gas under the Carroll County Lease in February 2014 and under the Columbiana County Lease in October 2015.

15. Respondents have underpaid the royalties due under both wells since production began by (1) understating the amount of the product sold; (2) understating the price paid; and (3) deducting non-deductible costs.

16. Claimants seek damages under four Counts:

- **Breach of Contract** (Chesapeake Exploration)
- **Breach of Contract** (Total E&P)
- **Conversion** (Chesapeake Energy & Chesapeake Operating)
- **Ohio RICO Act** (Chesapeake Energy & Chesapeake Operating).

17. If Claimants prevail on their breach of contract claims, they will be entitled to compensatory damages from Chesapeake Exploration and Total E&P. The compensatory damages will be the difference between the amount of the royalties paid to date and the amount that should have been paid.

18. If Claimants prevail on their conversion claims against Chesapeake Energy and Chesapeake Operating, they will be entitled to both compensatory and punitive damages.

19. If Claimants prevail on their Ohio RICO claims against Chesapeake Energy and Chesapeake Operating, the compensatory damages are statutorily trebled and Claimants can recover their attorneys' fees.

20. The claims that Respondents understated the amount the product sold and the price paid are simple. The claim that they improperly deducted costs from the royalties requires some preliminary explanation.

21. Respondents deducted costs incurred between the well and the downstream point of sale. These costs, known in the industry as "post production costs," include costs such as gathering, dehydration, processing, fractionation, marketing and interstate transportation. No post production costs were deductible from the royalties in this case for three reasons.

22. First, section 2(e) of the Leases requires the lessee to pay all costs of putting the oil, gas and NGLs into marketable condition. Chesapeake Exploration and Total E&P sell the raw well product at the wellhead to their marketing affiliates and those affiliates take title to the raw well product at the well. There is no marketable oil, gas and NGLs when title is transferred to the marketing affiliates because these products do not exist in a marketable form at that point. Marketable oil, gas and NGLs are only created when (1) the oil is separated from the "wet" gas, (2) marketable NGLs (ethane, propane, butane, isobutene and pentane) are separated from the wet gas, and (3) the wet gas is processed into marketable gas (methane or "dry" gas). The Leases require Chesapeake Exploration and Total E&P to pay the costs of producing these distinct, and separately priced, products.

23. The costs are also not deductible because they are incurred after Chesapeake Exploration and Total E&P transfer title to their marketing affiliates. Under settled law, the only costs that can be deducted from oil and gas royalties are costs incurred while the lessee still holds title to the oil and gas.

24. Finally, even if the Leases allowed for cost deductions, the costs deducted were excessive, unreasonable and fraudulent.

STATEMENT OF FACTS

A. The Carroll County Lease

25. On April 15, 2011, James and Barbara Snoeberger entered into an oil and gas lease with Chesapeake Exploration pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. (**EXHIBIT 1**). In November of 2013, the Snoebergers sold the leased premises to Claimants, thereby making Claimants the lessors on the Lease. The leased premises are part of a 486-acre unit with one producing Utica Shale horizontal well known as Buck 24-15-5-1H ("the Buck Well"). See Division Order for Property 837175 (**EXHIBIT 2**).

B. The Columbiana County Lease

26. On October 31, 2011, Claimants entered into an oil and gas lease with Chesapeake Exploration pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio (**EXHIBIT 3**). 0.65 acres of the leased premises are part of a 518.6-acre unit with one producing Utica Shale horizontal well known as Paige 35-14-4-5H ("the Paige Well"). See Division Order for Property 654821 (**EXHIBIT 4**).

C. The Royalty Provision

27. The Leases provide for a royalty equal to a percentage (17.5% on the Carroll County Lease and 20% on the Columbiana County Lease) of "Gross Proceeds of the total gross production attributable to the applicable well." Leases (**EXHIBITS 1** and **3**) at § 2(a). "Gross Proceeds" is defined in the Leases as "the **total consideration paid** for the sale of oil, gas, casinghead gas, casinghead gasoline, associated hydrocarbons and marketable by-products produced from the Leased Premises." *Id.* at § 2(d) (emphasis added).

28. Section 2(e) the Leases requires the Lessee to pay all costs of transforming the raw well product into marketable oil, gas and NGLs. It states that:

> **Lessee** shall place **oil and gas** from the leased premises in **marketable condition and shall market same** as agent for Lessor. Except as expressly provided in (b) and (d) above, Lessor's royalty **shall not be charged directly or indirectly with any expense required to make gas marketable, including** but not limited to the following: expenses of production, **gathering, dehydration, compression, manufacturing, processing, treating, transporting or marketing of gas, oil, or any liquefiable hydrocarbons extracted therefrom**.

Leases (**EXHIBITS 1** and **3**) at § 2(e) (emphasis added).

D. Chesapeake Exploration's Sale of Its Share of the Raw Well Product to CEMLLC at the Well

29. Chesapeake Exploration sells its 75% share of the raw well product at the well to Chesapeake Energy Marketing, L.L.C. ("CEMLLC"), a gas marketing subsidiary of Chesapeake Energy and thus a sister company of Chesapeake Exploration. CEMLLC processes the raw well product into marketable oil, gas and NGLs and sells these products to third-party buyers.

30. Chesapeake Energy describes these two sales (Chesapeake Exploration to CEMLLC and CEMLLC to third-parties) in letters it sends royalty owners who inquire how their royalties are calculated. Such a letter was mailed to an attorney for Bruce A. Buck, a neighbor of Claimants with a royalty interest in Claimants' Carroll County unit. That letter states:

> Chesapeake sells production from the Lease to Chesapeake Energy Marketing, L.L.C. ("CEMLLC"), which is an affiliated marketing company that **takes title to, and possession of production at or near the well**. CEMLLC 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.

See Letter from Jason P. Blose, Sept. 30, 2015 (**EXHIBIT 5**) (emphasis added).

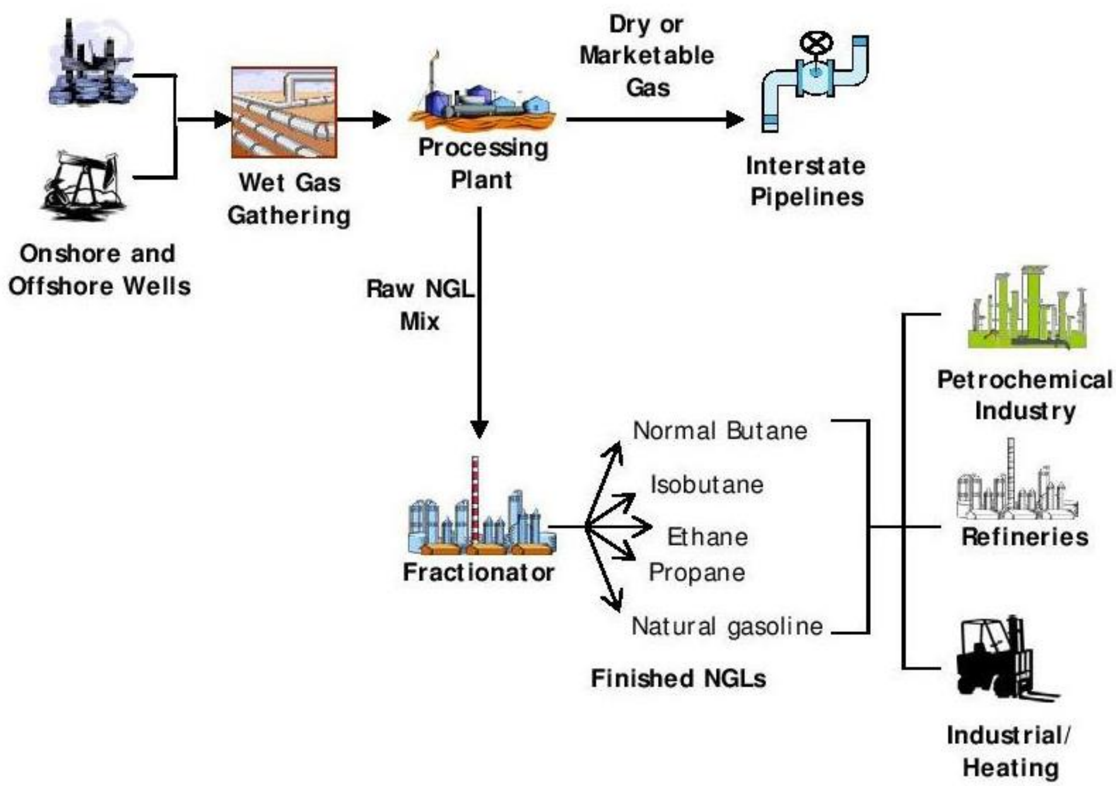
E. CEMLLC's Processing of the Raw Well Product into Marketable Oil, Gas and NGLs

31. The product sold by Chesapeake Exploration to CEMLLC is the raw well product, not marketable oil, gas and NGLs.

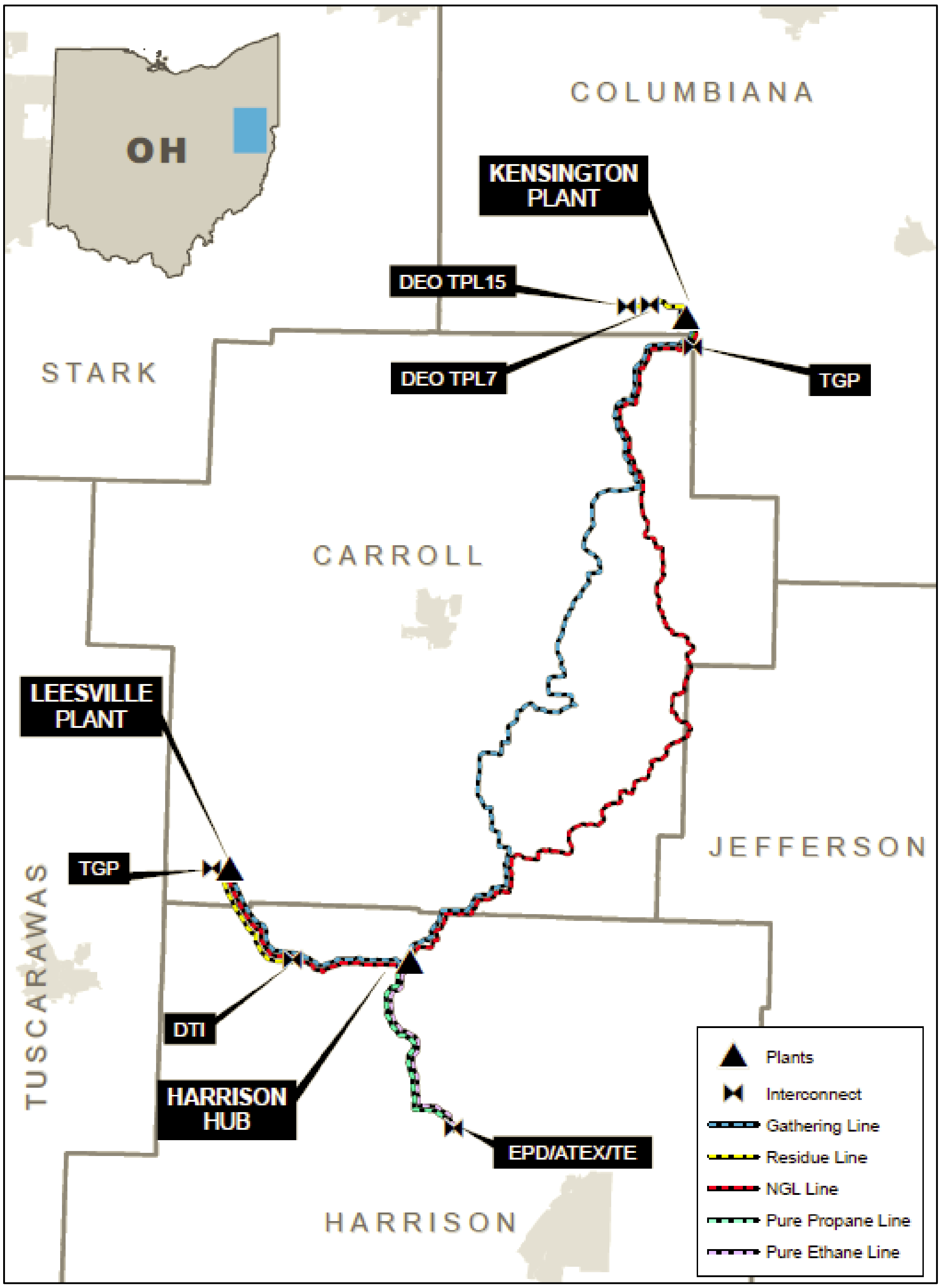
32. CEMLLC separates the oil from the gas and sells it to third-party buyers by the barrel.

33. CEMLLC then transports the balance of the raw well product ("wet" gas) through gathering lines to a processing plant, where the marketable NGLs (ethane, propane, butane, isobutene and pentane) are separated from the gas ("dry gas" or methane) and "fractionated" into separate NGL products. CEMLLC then sells the NGLs to third-party buyers by the gallon and the dry gas to third-party buyers in units of a thousand cubic feet ("MCF").

34. The "midstream" services to place the oil, gas and NGLs into marketable condition are shown in the illustration below prepared by Tudor, Pickering, Holt Co., an energy investment and merchant banking firm.



35. The gathering systems and processing plants used by CEMLLC to perform these various midstream services, as well as the interconnect points (⧓) with the interstate pipeline system, are shown on the map below.

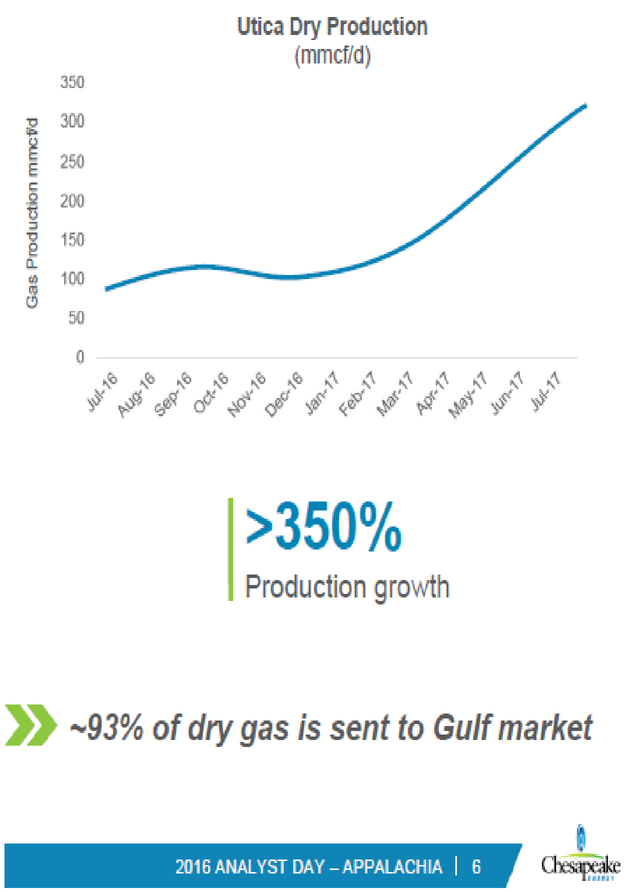


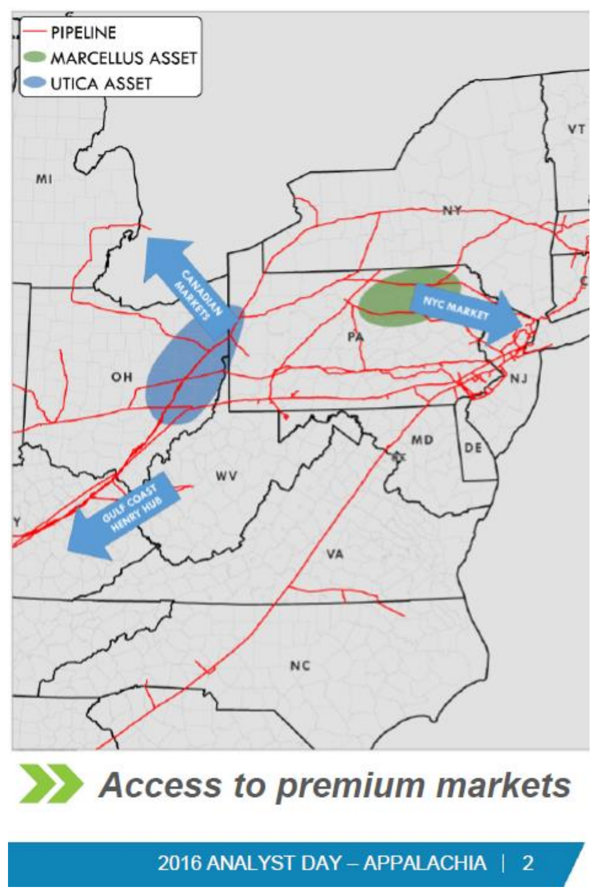
F. CEMLLC's Marketing of the Oil, Gas and NGLs to Third-Party Buyers

36. The U.S. Energy Information Administration ("EIA") states on its website (at www.eia.gov) that:

> Natural gas spot prices around the United States are often compared to prices at the Henry Hub in Louisiana. At trading points in and around the Marcellus and Utica shale plays in Pennsylvania, West Virginia, and Ohio, natural gas prices consistently trade below the Henry Hub national benchmark price.

37. Chesapeake sells 93% of its dry gas from the Utica shale play at Louisiana "Henry Hub" prices and 7% at Canadian market prices. This marketing strategy is shown in the graphics below from the 2016 ANALYST DAY presentation on Chesapeake's website (www.chk.com):





G. The Average Sale Price Paid to CEMLLC by the Third-Party Buyers

38. Chesapeake Energy files consolidated quarterly and annual reports with the U.S. Securities and Exchange Commission ("SEC"). These reports state the average "sale price" paid by the third-party buyers on all three products: oil, natural gas and NGLs.

39. The Tables below, copied from the quarterly and annual reports, state the average sales price received by Chesapeake since January 1, 2014. Chesapeake recognizes the revenues it receives from derivative contracts as a part of the "sale price."

		1Q 2014
Average Sales Price (excluding gains (losses) on derivatives):		
Natural gas ($ per mcf)	$	3.86
Oil ($ per bbl)	$	93.60
NGL ($ per bbl)	$	29.23
Oil equivalent ($ per boe)	$	35.35
Average Sales Price (including realized gains (losses) on derivatives):		
Natural gas ($ per mcf)	$	3.27
Oil ($ per bbl)	$	85.08
NGL ($ per bbl)	$	29.23
Oil equivalent ($ per boe)	$	31.44

		2Q 2014
Average Sales Price (excluding gains (losses) on derivatives):		
Natural gas ($ per mcf)	$	2.76
Oil ($ per bbl)	$	97.49
NGL ($ per bbl)	$	21.03
Oil equivalent ($ per boe)	$	30.32
Average Sales Price (including realized gains (losses) on derivatives):		
Natural gas ($ per mcf)	$	2.45
Oil ($ per bbl)	$	85.23
NGL ($ per bbl)	$	21.03
Oil equivalent ($ per boe)	$	26.97

3Q 2014

Average Sales Price (excluding gains (losses) on derivatives):		
Natural gas ($ per mcf)	$	2.02
Oil ($ per bbl)	$	91.87
NGL ($ per bbl)	$	22.95
Oil equivalent ($ per boe)	$	26.62
Average Sales Price (including realized gains (losses) on derivatives):		
Natural gas ($ per mcf)	$	2.09
Oil ($ per bbl)	$	84.81
NGL ($ per bbl)	$	22.95
Oil equivalent ($ per boe)	$	25.74

Annual 2014

Average Sales Price (excluding gains (losses) on derivatives):		
Oil ($ per bbl)	$	87.13
Natural gas ($ per mcf)	$	2.54
NGL ($ per bbl)	$	21.27
Oil equivalent ($ per boe)	$	27.78
Average Sales Price (including realized gains (losses) on derivatives):		
Oil ($ per bbl)	$	82.76
Natural gas ($ per mcf)	$	2.36
NGL ($ per bbl)	$	21.27
Oil equivalent ($ per boe)	$	26.32

1Q 2015

Average Sales Price (excluding gains (losses) on derivatives):		
Oil ($ per bbl)	$	41.16
Natural gas ($ per mcf)	$	1.61
NGL ($ per bbl)	$	6.99
Oil equivalent ($ per boe)	$	14.96
Average Sales Price (including realized gains (losses) on derivatives):		
Oil ($ per bbl)	$	62.57
Natural gas ($ per mcf)	$	2.37
NGL ($ per bbl)	$	6.99
Oil equivalent ($ per boe)	$	22.00

	2Q 2015
Average Sales Price (excluding gains (losses) on derivatives):	
Oil ($ per bbl)	$ 51.21
Natural gas ($ per mcf)	$ 0.75
NGL ($ per bbl)	$ 1.90
Oil equivalent ($ per boe)	$ 12.13
Average Sales Price (including realized gains (losses) on derivatives):	
Oil ($ per bbl)	$ 67.91
Natural gas ($ per mcf)	$ 1.01
NGL ($ per bbl)	$ 1.90
Oil equivalent ($ per boe)	$ 16.08

	3Q 2015
Average Sales Price (excluding gains (losses) on derivatives):	
Oil ($ per bbl)	$ 41.25
Natural gas ($ per mcf)	$ 0.87
NGL ($ per bbl)	$ (1.38)
Oil equivalent ($ per boe)	$ 10.63
Average Sales Price (including realized gains (losses) on derivatives):	
Oil ($ per bbl)	$ 62.68
Natural gas ($ per mcf)	$ 1.14
NGL ($ per bbl)	$ (1.38)
Oil equivalent ($ per boe)	$ 15.45

	ANNUAL - 2015
Average Sales Price (excluding gains (losses) on derivatives):	
Oil ($ per bbl)	$ 45.77
Natural gas ($ per mcf)	$ 2.31
NGL ($ per bbl)	$ 14.06
Oil equivalent ($ per boe)	$ 19.23
Average Sales Price (including realized gains (losses) on derivatives):	
Oil ($ per bbl)	$ 66.91
Natural gas ($ per mcf)	$ 2.72
NGL ($ per bbl)	$ 14.06
Oil equivalent ($ per boe)	$ 24.54

		1Q 2016
Average Sales Price (excluding gains (losses) on derivatives):		
Oil ($ per bbl)	$	29.34
Natural gas ($ per mcf)	$	1.75
NGL ($ per bbl)	$	11.44
Oil equivalent ($ per boe)	$	13.28
Average Sales Price (including realized gains (losses) on derivatives):		
Oil ($ per bbl)	$	37.74
Natural gas ($ per mcf)	$	2.29
NGL ($ per bbl)	$	11.44
Oil equivalent ($ per boe)	$	16.93

		2Q 2016
Average Sales Price (excluding gains (losses) on derivatives):		
Oil ($ per bbl)	$	43.00
Natural gas ($ per mcf)	$	1.63
NGL ($ per bbl)	$	13.37
Oil equivalent ($ per boe)	$	14.76
Average Sales Price (including realized gains (losses) on derivatives):		
Oil ($ per bbl)	$	44.31
Natural gas ($ per mcf)	$	1.97
NGL ($ per bbl)	$	12.88
Oil equivalent ($ per boe)	$	16.43

		3Q 2016
Average Sales Price (excluding gains (losses) on derivatives):		
Oil ($ per bbl)	$	42.94
Natural gas ($ per mcf)	$	2.32
NGL ($ per bbl)	$	13.93
Oil equivalent ($ per boe)	$	17.86
Average Sales Price (including realized gains (losses) on derivatives):		
Oil ($ per bbl)	$	45.24
Natural gas ($ per mcf)	$	2.13
NGL ($ per bbl)	$	13.70
Oil equivalent ($ per boe)	$	17.30

H. The Calculation of the Royalties on Chesapeake's Share of Production

40. Chesapeake Operating and Chesapeake Energy jointly calculate the royalties of both Chesapeake Exploration and Total E&P and generate spreadsheets and royalty statements reflecting those calculations.

41. Chesapeake Energy's Revenue Department organizes the data used to calculate the royalties on spreadsheets with eighteen columns. It provided one of these spreadsheets to Claimants.

42. The spreadsheet provided to Claimants shows the calculations of the royalties on oil, gas and NGLs produced from the Utica shale well Buck 24-15-5 1H under the Carroll County Lease during the five-month period of February 2014 through June 2014 ("the Buck Well Spreadsheet") (**EXHIBIT 6**). The Buck Well Spreadsheet (in full size as the Exhibit) is reproduced in smaller typeface below. The product codes in the fifth column of the spreadsheet are 1 (Oil), 2 (Gas) and 4 (NGLs).

Chesapeake
ENERGY

Date: 10/22/2014
Owner: Ronald E & Joetta J Hale
Owner Number: 111995
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	$ 171,246.96	$ 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)

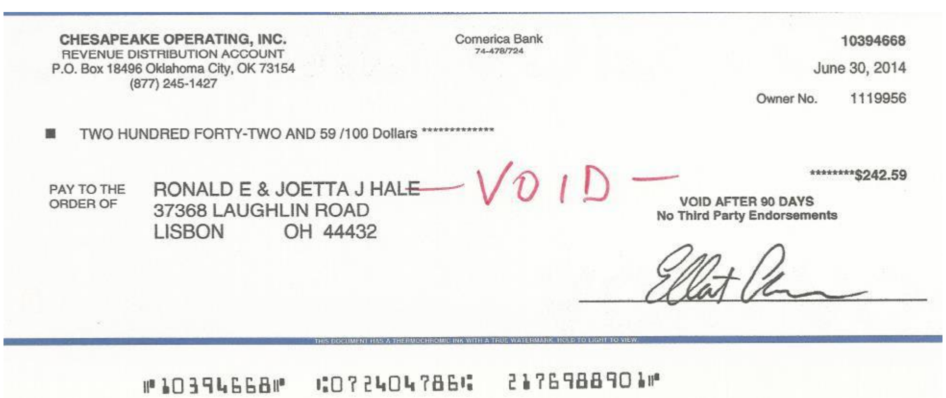
I. The Payment of the Royalties on Chesapeake's Share of Production

43. Chesapeake Operating issued Division Orders to Claimants (**EXHIBITS 2** and **4**) that identify Chesapeake Operating as the "payor" of the royalties.

44. As the payor of the royalties, Chesapeake Operating holds and exercises control over the royalties owned by Claimants.

45 Chesapeake Operating and Chesapeake Energy pay the gas royalties with checks issued by Chesapeake Operating and signed by the Treasurer of Chesapeake Energy.

46. Until approximately May of 2015, the royalty checks were issued from the Revenue Distribution Account of Chesapeake Operating, Inc. (the prior name of Chesapeake Operating, L.L.C.) with Comerica Bank. These checks were signed by Chesapeake Energy's then Vice President and Treasurer, Elliot Chambers. An example of these checks is reproduced below.


CHESAPEAKE OPERATING, INC.
REVENUE DISTRIBUTION ACCOUNT
P.O. Box 18496 Oklahoma City, OK 73154
(877) 245-1427

Comerica Bank
74-478/724

10394668
June 30, 2014
Owner No. 1119956

TWO HUNDRED FORTY-TWO AND 59 /100 Dollars *************

PAY TO THE ORDER OF
RONALD E & JOETTA J HALE
37368 LAUGHLIN ROAD
LISBON OH 44432

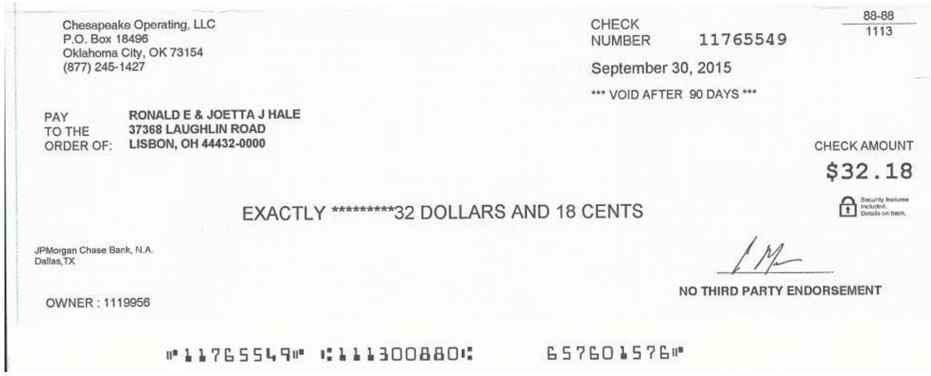
VOID

********$242.59

VOID AFTER 90 DAYS
No Third Party Endorsements

10394668 072404786 2176988901

47. Beginning in approximately June of 2015, Chesapeake Operating began issuing the royalty checks from its Revenue Distribution Account at JPMorgan Chase Bank, N.A. These checks are signed by Chesapeake Energy's current Vice President and Treasurer, Caleb Morgret. An example of these checks is reproduced on the next page.


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

CHECK NUMBER 11765549

88-88
1113

September 30, 2015

*** VOID AFTER 90 DAYS ***

PAY TO THE ORDER OF: RONALD E & JOETTA J HALE
37368 LAUGHLIN ROAD
LISBON, OH 44432-0000

CHECK AMOUNT
$32.18

EXACTLY *********32 DOLLARS AND 18 CENTS

JPMorgan Chase Bank, N.A.
Dallas,TX

NO THIRD PARTY ENDORSEMENT

OWNER : 1119956

⑈11765549⑈ ⑆111300880⑆ 657601576⑈

48. The royalty checks include a check stub containing a Royalty Statement prepared by Chesapeake Operating.

49. Copies of the Royalty Statements for the Buck Well under the Carroll County lease and the Paige Well under the Columbiana County lease are attached as **EXHIBIT 7**.

50. An example of these Royalty Statements is reproduced on the next page. This Royalty Statement, issued on July 31, 2014, covers production from the Buck Well for February through the end of May of 2014 (the same months shown on Chesapeake's Buck Well Spreadsheet reproduced on page 15).

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

PAGE: 1

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.

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	PC	PRICE	IT	PY GP	LEASE VOLUME	LEASE TAX	LEASE DEDUCT	LEASE NET VALUE	PAYMENT DECIMAL	OWNER VOLUME	OWNER GRS VALUE	OWNER TAX	OWNER DEDUCT	OWNER 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	PC	PRICE	IT	PY GP	LEASE VOLUME	LEASE TAX	LEASE DEDUCT	LEASE NET VALUE	PAYMENT DECIMAL	OWNER VOLUME	OWNER GRS VALUE	OWNER TAX	OWNER DEDUCT	OWNER NET	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	

J. Total E&P's Sale of Its Share of the Raw Well Product to Total G&P at the Well

51. Total E&P sells its 25% share of the raw well product to its marketing affiliate, Total Gas & Power of North America, Inc. ("Total G&P") at the well. In a sworn interrogatory answer in a case by Ohio royalty owners, Total E&P stated:

> TEPUSA [Total E&P] takes its working interest share of the hydrocarbons produced in the wells in which the named plaintiffs own an interest and sells those hydrocarbons to TGPNA [Total G&P] at the wellhead pursuant to written agreements between the parties.

K. Total G&P's Processing of the Raw Well Product into Marketable Oil, Gas and NGLs

52. The raw well product that Total E&P sells to Total G&P is not marketable oil, gas and NGLs.

53. Total G&P incurs the costs of processing the raw well product into marketable oil, gas, and NGLs, and then deducts those costs from the amounts paid by third-party buyers to arrive at the "wellhead sales price" it purportedly "pays" to Total E&P. In a sworn interrogatory answer in a case by Ohio royalty owners, Total E&P stated:

> For gas sales, TGPNA [Total Gas and Power] pays TEPUSA [Total E&P] a wellhead sales price determined by an arithmetic formula based upon a weighted average of resale prices at certain distant locations prescribed in the contracts between TEPUSA and TGPNA adjusted for TGPNA's costs of compression, dehydration, treating gathering, fractionation, processing and transportation to move the hydrocarbons from the wellhead sales points to those downstream resale locations.
>
> For crude oil and condensate sales, TGPNA pays TEPUSA a wellhead sales price determined by an arithmetic formula based upon TGPNA's resale prices to third-parties adjusted for TGPNA's costs for treating, transporting, marketing, and making gravity adjustments and other similar costs to move the crude oil and condensate from the wellhead sales points to those resale locations.

L. Total G&P's Marketing of the Oil, Gas and NGLs to Third-Party Buyers

54. As stated in the interrogatory answer just quoted, Total G&P resells the gas to third-parties "at certain distance locations," a reference to the Henry Hub in Louisiana. As stated in the same answer, Total G&P resells the oil and NGLs at unspecified "resale locations."

M. The Calculation and Payment of the Royalties on Total E&P's Share of Production

55. Chesapeake Operating calculates and pays the royalties that Total E&P is obligated to pay pursuant to a service agreement between Total E&P and Chesapeake Operating. In a sworn interrogatory answer in a case by Ohio royalty owners, Total E&P stated:

> Chesapeake Operating, Inc., now known as Chesapeake Operating, L.L.C. ("COLLC"), as it does for CEMLLC, administers and manages the payment of the named plaintiffs' royalty interests on behalf of TEPUSA pursuant to a written services agreement dated December 30, 2011. TEPUSA understands that COLLC calculates and pays the named plaintiffs' royalties on behalf of TEPUSA in the same manner and method that it does on behalf of CELLC.

N. The Access Midstream Scheme

56. Until the end of 2010, the gas purchased by CEMLLC from Chesapeake Exploration was gathered, compressed and treated by Chesapeake Midstream Partners, L.P., a subsidiary of Chesapeake Energy.

57. In 2010, Chesapeake Energy required $5 billion in cash for operations and to service its debt. To obtain this cash, Respondents devised a scheme to obtain an up-front payment of $4.76 billion from private equity investors and repay those investors over time through inflated royalty deductions.

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

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

60. 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 Chesapeake Exploration, 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.

61. To pay Access Midstream these fees, Respondents conspired to deduct, and did deduct, grossly inflated and fraudulent gathering fees from the royalties of Claimants and other oil and gas lessors.

62. Respondents' 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. It reads in pertinent 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. According to Pro Publica 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.

63. 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.

64. Through this "off-balance sheet arrangement," Chesapeake Energy obtained a $4.76 billion loan to be repaid through inflated and fraudulent deductions from the royalties.

CHESAPEAKE'S UNDERPAYMENT OF THE OIL ROYALTIES

65. Chesapeake underpaid the oil royalties by (1) calculating the royalties on less than the full amount of oil sold; (2) calculating the royalties on less than the "total consideration paid;" (3) deducting costs incurred to place the oil in marketable condition; (4) deducting costs incurred after it no longer held title; and (5) deducting non-deductible NGL costs.

A. The Understatement of Barrels of Oil Sold

66. Upon information and belief, Chesapeake Exploration understated the barrels of oil sold.

B. The Understatement of the Sale Price

67. The Leases require Chesapeake to pay a royalty on the "Gross Proceeds," which the Leases define as "the total **consideration paid** for the sale of oil, gas, casinghead gas, casinghead gasoline, associated hydrocarbons and marketable by-products produced from the Leased Premises.") (emphasis added). The only "consideration paid" for the oil is the consideration paid by the third-party buyers into bank accounts held by Chesapeake Operating or Chesapeake Energy. Chesapeake Exploration has admitted in a sworn interrogatory answer in a case by Ohio royalty owners that it **has no bank account**. It is only "credited" for the sales on Chesapeake Energy's general ledger. Since the only consideration ever **actually paid** is the consideration paid by the third-party buyers, the royalties must be calculated on the prices paid by the third-party buyers.

68. The "sale price" paid by the third-party buyers is reported in Chesapeake's quarterly and annual reports filed with the S.E.C. (the "S.E.C. sale price"). The Table on the next page shows the oil revenue for the Buck Well using the S.E.C. sale price, both with and without positive derivatives, compared with the oil revenue on the Royalty Statements ("R.S.").

Oil Revenue – Buck Well Royalty Statement v. S.E.C. Sale Price w/o Derivatives						
Year	R.S. Barrels	R.S. ($/B)	R.S (Gross $)	S.E,C. ($/B)	S.E.C. (Gross $)	Diff. ($)
1Q 2014	2,029.10	92.48	187,651.17	93.60	189,923.76	2,272.59
2Q 2014	6,255.26	93.35	583,928.52	97.49	609,825.30	25,896.78
3Q-2014	3,444.80	81.48	280,682.30	91.87	316,473.78	35,791.47
4Q-2014	2,930.50	49.58	145,294.19	65.66	192,416.63	47,122.44
1Q-2015	834.31	26.84	22,392.88	41.16	34,340.20	11,947.32
2Q-2015	2,715.82	40.35	109,583.34	51.21	139,077.14	29,493.81
3Q-2015	1,722.33	32.26	55,562.37	41.25	71,046.11	15,483.75
4Q-2015	1,640.96	25.78	42,303.95	49.46	81,161.88	38,857.93
1Q-2016	1,475.94	18.80	27,747.67	29.34	43,304.08	15,556.41
2Q-2016	1,395.99	34.24	47,798.70	43.00	60,027.57	12,228.87
3Q-2016	1,164.18	36.28	42,236.45	42.94	49,989.89	7,753.44
TOTAL	**25,609.19**	**---**	**1,545,181.54**	**---**	**1,787,586.34**	**242,404.80**

Oil Revenue – Buck Well Royalty Statement v. S.E.C. Sale Price with Derivatives						
Year	R.S. Barrels	R.S. ($/B)	R.S Gross $)	S.E,C. ($/B)	S.E.C. (Gross $)	Diff. ($)
1Q 2014	2,029.10	92.48	187,651.17	no gain	189,923.76	2,272.59
2Q 2014	6,255.26	93.35	583,928.52	no gain	609,825.30	25,896.78
3Q-2014	3,444.80	81.48	280,682.30	no gain	316,473.78	35,791.48
4Q-2014	2,930.50	49.58	145,294.19	75.92	222,483.56	77,189.37
1Q-2015	834.31	26.84	22,392.88	no gain	34,340.20	11,947.32
2Q-2015	2,715.82	40.35	109,583.34	67.91	184,431.34	74,848.00
3Q-2015	1,722.33	32.26	55,562.37	62.68	107,955.64	52,393.28
4Q-2015	1,640.96	25.78	42,303.95	66.91	109,796.63	67,492.68
1Q-2016	1,475.94	18.80	27,747.67	37.74	55,701.98	27,954.30
2Q-2016	1,395.99	34.24	47,798.70	44.31	61,856.32	14,057.62
3Q-2016	1,164.18	36.28	42,236.45	45.24	52,667.50	10,431.05
TOTAL	**25,609.19**	**---**	**1,545,181.54**	**---**	**1,945,456.01**	**400,274.47**

69. If the oil revenues on the Buck Well are calculated using the S.E.C. price <u>without</u> derivative revenue, the oil revenues through the end of 3Q 2016 are $1,787,586.34. Chesapeake paid royalties on only $1,545,181.54. The shortfall is $242,404.80, which averages $7,575.15 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $310,581.15 of oil revenues from the Buck Well by June 30, 2017. Applying the 17.5% royalty applicable to the Buck Well, Chesapeake will have underpaid the oil royalties by $54,351.70 by June 30, 2017.

70. If the oil revenues on the Buck Well are calculated using the S.E.C. price <u>with</u> derivative revenue, the oil revenues through the end of 3Q 2016 are $1,945,456.01. Chesapeake paid royalties on only $1,545,181.54. The shortfall is $400,274.47, which averages $12,508.58 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $512,851.66 of oil revenues from the Buck Well by June 30, 2017. Applying the 17.5% royalty applicable to the Buck Well, Chesapeake will have underpaid the oil royalties by $89,749.04 by June 30, 2017.

71. The Table on the next page shows the oil revenue for the Paige Well using the S.E.C. sale price, both with and without positive derivatives, compared with the oil revenue on the Royalty Statements.

Oil Revenue – Paige Well Royalty Statement v. S.E.C. Sale Price w/o Derivatives						
Year	R.S. Barrels	R.S. ($/B)	R.S (Gross $)	S.E,C. ($/B)	S.E.C. (Gross $)	Diff. ($)
4Q-2015	184.52	20.86	3,849.23	49.46	9,126.36	5,277.13
1Q-2016	484.37	11.29	5,470.92	29.34	14,211.42	8,740.50
2Q-2016	341.53	22.71	7,756.86	43.00	14,685.79	6,928.93
3Q-2016	231.76	26.57	6,157.56	42.94	9,951.77	3,794.21
TOTAL	**1248.18**	**---**	**23,234.57**	**---**	**47,975.34**	**24,740.77**

Oil Revenue – Paige Well Royalty Statement v. S.E.C. Sale Price with Derivatives						
Year	R.S. Barrels	R.S. ($/B)	R.S (Gross $)	S.E,C. ($/B)	S.E.C. (Gross $)	Diff. ($)
4Q-2015	184.52	20.86	3,849.23	66.91	12,346.23	8,497.00
1Q-2016	484.37	11.29	5,470.92	37.74	18,280.12	12,809.20
2Q-2016	341.53	22.71	7,756.86	44.31	15,133.19	7,376.33
3Q-2016	231.76	26.57	6,157.56	45.24	10,484.82	4,327.26
TOTAL	**1242.18**	**---**	**23,234.57**	**---**	**56,244.37**	**33,009.80**

72. If the oil revenues on the Paige Well are calculated using the S.E.C. price without derivatives, the revenues through the end of 3Q 2016 are $47,975. Chesapeake paid royalties on only $23,234.57. The shortfall is $24,740.77, which averages $2,061.73 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $43,296.35 of oil revenues from the Paige Well by June 30, 2017. Applying the 20% royalty applicable to the Paige Well, Chesapeake will have underpaid the oil royalties by $8,659.27 by June 30, 2017.

73. If the oil revenues on the Paige Well are calculated using the S.E.C. price with derivatives, the oil revenues through the end of 3Q 2016 are $56,244.37. Chesapeake paid

royalties on only $23,234.57. The shortfall is $33,009.80, which averages $2,750.82 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $57,767.15 of oil revenues from the Paige Well by June 30, 2017. Applying the 20% royalty applicable to the Paige well, Chesapeake will have underpaid the oil royalties by $11,553.43 by June 30, 2017.

C. <u>The Deduction of Non-Deductible Costs</u>

74. Chesapeake was not entitled to deduct any post production costs from the oil royalties because (1) the Leases require Chesapeake Exploration to pay all costs of placing the oil in marketable condition and (2) the costs deducted were incurred after Chesapeake Exploration no longer held title to the oil.

75. No oil in marketable condition was produced at the well because it was mixed with raw gas and NGLs. Chesapeake was therefore required to pay all costs to place the oil in marketable condition.

76. The costs deducted were incurred after Chesapeake Exploration transferred title because it transfers title at the well.

77. The Chesapeake Respondents state on the Royalty Statements:

> 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.

78. The costs deducted from the oil royalties are not disclosed on the Royalty Statements because Chesapeake Exploration did not incur them.

79. Chesapeake's Buck Well Spreadsheet shows that the Chesapeake deducted "Third-Party Deductions" and "Affiliate Gathering/Compression/Treating Deductions" from the oil royalties. These deductions are shown on the Table on the next page.

Cost Deducts - Oil Royalties (Buck Well)		
Month	Third-Party Deducts	Affiliate Gath./ Comp./ Treating
02-2014	2,251.47	0.00
03-2014	0.00	2,839.31
04-2014	0.00	3,058.35
05-2014	0.00	8,406.50
06-2014	1,504.46	3,630.62
TOTAL	**3,755.93**	**17,934.78**

80. For the five months shown, Chesapeake deducted $21,690.71 from the Buck Well oil royalties, an average of $4,338.14 per month. At this monthly rate, by June 30, 2017, it will have deducted $177,863.74 from the oil royalties on the Buck Well.

81. Claimants do not presently know the amount of costs deducted from the oil royalties on the Paige Well. The deductions from the oil royalties on the Buck Well averaged $21.46 per barrel ($177,863.74 ÷ 8,284.36 barrels). Assuming the same deductions per barrel on the Paige Well, Chesapeake will have deducted $26,761.05 from the oil royalties on the Paige Well by the end of the 3Q 2016. [Calculation: 1,247.02 barrels x $21.46]. Based on the oil production on the Paige Well for the first 12 months of production, the Paige Well's monthly average production is 103.9 barrels/month. [Calculation: 1,247.02 barrels ÷ 12 months]. The total production by June 30, 2017 will be 2,181.9 barrels [Calculation: 103.9 barrels x 21months].

D. <u>The Deduction of Non-Deductible NGL Costs</u>

82. Royalty owners have a property interest in each product and can assign those interests separately. As a result, the only costs deductible from oil royalties are costs incurred with respect to oil. During the five months reported on the Chesapeake's 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. These cost deductions not only cancelled out any royalty paid on NGLs, they diminished the royalties paid on oil and gas because the balance of the NGL costs not applied to the NGL royalties was applied against the oil and gas royalties.

83. As a result of the inflated cost deductions from the NGLs, Chesapeake paid **no royalty** on the $179,376.62 of NGLs sold from the Buck well over five months reported on the Buck Well Spreadsheet. Chesapeake then applied the $46,350.68 of costs not used to cancel the NGL royalties against the positive royalties on oil and gas. This averages $9,270.14 per month. If 50% of these costs were applied against the oil royalties and 50% applied against the gas royalties, the royalties on each would have been improperly reduced by $4,635.07 per month. At this monthly rate, Chesapeake will have deducted $190,037.87 in NGL costs from the oil royalties on the Buck Well by June 30, 2017, and $190,037.87 in NGL costs from the gas royalties on the Buck Well by June 30, 2017. [Calculation: $4,645.07 x 41 months].

TOTAL E&P'S UNDERPAYMENT OF THE OIL ROYALTIES

84. Total E&P, like Chesapeake Exploration, sold its oil to a marketing affiliate that resold the oil to third-party buyers. See ¶¶ 52-54 above. Total E&P underpaid the oil royalties in the same ways that Chesapeake did because Chesapeake Operating calculated and paid the royalties on behalf of both lessees in the same way. See ¶ 56 above.

85. Total E&P, like Chesapeake Exploration, sold the oil to a marketing affiliate that resold the oil to third-party buyers. See ¶¶ 52-54 above. Total E&P underpaid the oil royalties in the same ways that Chesapeake underpaid them because Chesapeake Operating calculated and paid the royalties on behalf of Total E&P and Chesapeake Exploration the same way. See ¶ 56 above.

CHESAPEAKE'S UNDERPAYMENT OF THE GAS ROYALTIES

86. Chesapeake underpaid the gas royalties by (1) calculating the royalties on less than the full amount of gas sold; (2) calculating the royalties on less than the "total consideration paid;" (3) deducting costs to place the gas in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; (5) deducting non-existent fuel charges; (6) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; and (7) deducting non-deductible NGL costs.

A. The Understatement of the MCFs Gas Produced and Sold

87. Chesapeake falsely states on the Royalty Statements that the MCFs of gas reported are the "volume of gas produced." Chesapeake files annual and quarterly reports with the Ohio Department of Natural Resources ("ODNR") that report the MCFs of gas produced by each well. The Table below shows the MCFs produced by the Buck Well as reported to the ODNR compared with the MCFs reported as the "volume produced" on the Royalty Statements.

GAS VOLUMES: ODNR v. ROYALTY STATEMENTS (Buck Well) (MCFs)			
Quarter	ODNR	R.S.	Difference
1Q 2014	29,278	26,370.00	2,908.00
2Q 2014	157,643	141,662.75	15,980.25
3Q 2014	174,625	148,479.79	26,145.21
4Q 2014	115,572	92,550.56	23,021.44
1Q 2015	76,985	52,432.18	24,552.82
2Q 2015	95,162	81,728.27	13,433.73
3Q 2015	87,880	74,050.50	13,829.50
4Q 2015	78,643	66, 519.57	12,123.00
1Q 2016	74,417	62,004.44	12,412.56
2Q 2016	70,814	59,345.33	11,468.67
3Q 2016	174,625	148,391.00	26,234.00
TOTAL	**1,135,644**	**887,014.82**	**182,109.61**

B. <u>The Understatement of Sale Price</u>

88. The Leases require Chesapeake to pay a royalty on the "Gross Proceeds," which the Leases define as "the total **consideration paid** for the sale of oil, gas, casinghead gas, casinghead gasoline, associated hydrocarbons and marketable by-products produced from the Leased Premises." (emphasis added). The only "consideration paid" for the gas is the consideration paid by the third-party buyers into bank accounts held by Chesapeake Operating or Chesapeake Energy. Chesapeake Exploration has admitted in a sworn interrogatory answer in a case by Ohio royalty owners that it **has no bank account**. It is only "credited" for the sales on Chesapeake Energy's general ledger. Since the only consideration ever **actually paid** is the consideration paid by the third-party buyers, the royalties must be calculated on the price paid by them.

89. 93% of the dry Utica shale gas produced by Chesapeake Exploration is sold to third-party buyers at the Henry Hub.

90. Chesapeake reports the average sale prices it is paid in its quarterly and annual reports to the S.E.C. The Table on the next page shows the gas revenues of the Buck Well calculated with the prices reported by Chesapeake to the S.E.C, both without derivative revenue and with derivative revenue, compared with the revenues reported on the Royalty Statements.

Gas Revenue – Buck Well S.E.C. Prices (w/o Derivatives) v. R.S.					
Month	S.E.C. Price/MCF	Buck Well R.S. MCFs	S.E.C. Price Revenue	R.S. Revenue	Difference ($)
1Q-2014	3.86	26,370	101,788.20	113,075.95	-11,287.75
2Q-2014	2.76	141,664	390,992.64	401,941.73	-10,949.09
3Q-2014	2.02	148,481	299,931.62	380,730.63	-80,799.01
4Q-2014	1.52	92,530	140,645.60	246,507.82	-105,862.22
1Q-2015	1.61	62,424	100,502.64	119,784.93	-19,282.29
2Q-2015	0.75	81,727	61,295.25	105,521.79	-44,226.54
3Q-2015	0.87	74,050	64,423.50	108,106.18	-43,682.68
4Q-2015	6.01	66,519	399,779.19	42,585.62	357,193.57
1Q-2016	1.75	62,004	108,507.00	27,506.68	81,000.32
2Q-2016	1.63	59,345	96,732.35	25,147.87	71,584.48
3Q-2016	2.32	56,427	130,910.64	64,205.57	66,705.07
TOTAL	**---**	**871,541**	**1,895,508.63**	**1,635,114.77**	**260,393.86**

Gas Revenue – Buck Well S.E.C. Prices (with Derivatives) v. R.S.					
Month	S.E.C. Price/MCF	Buck Well R.S. MCFs	S.E.C. Price Revenue	R.S. Revenue	Difference ($)
1Q-2014	no gain	26,370	101,788.20	113,075.95	-11,287.75
2Q-2014	no gain	141,664	390,992.64	401,941.73	-10,949.09
3Q-2014	2.09	148,481	310,325.29	380,730.63	-70,405.34
4Q-2014	1.63	92,530	150,823.90	246,507.82	-95,683.92
1Q-2015	2.37	62,424	147,944.88	119,784.93	28,159.95
2Q-2015	1.01	81,727	82,544.27	105,521.79	-22,977.52
3Q-2015	1.14	74,050	84,417.00	108,106.18	-23,689.18
4Q-2015	6.36	66,519	423,060.84	42,585.62	380,475.22
1Q-2016	2.29	62,004	141,989.16	27,506.68	114,482.48
2Q-2016	1.97	59,345	116,909.65	25,147.87	91,761.78
3Q-2016	no gain	56,427	130,910.64	64,205.57	66,705.07
TOTAL	**---**	**871,541**	**2,081,706.47**	**1,635,114.77**	**446,591.70**

91. If the gas revenues on the Buck Well are calculated using the S.E.C. prices <u>without</u> derivative revenue, the gas revenues through the end of 3Q 2016 would be $1,895,508.63. Chesapeake paid royalties on only $1,635,114.77. The shortfall is $260,393.86, which averages $8,137.31 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $333,629.63 of gas revenues from the Buck Well by June 30, 2017. Applying the 17.5% royalty applicable to the Buck Well, Chesapeake will have underpaid the gas royalties by $58,385.19 by June 30, 2017.

92. If the gas revenues on the Buck Well are calculated using the S.E.C. prices <u>with</u> derivative revenue, the gas revenues through the end of 3Q 2016 are $2,081,706.47. Chesapeake paid royalties only $1,635,114.77. The shortfall is $446,591.70, which averages $13,955.99 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $572,195.62 of gas revenues from the Buck Well by June 30, 2017. Applying the 17.5% royalty applicable to the Buck Well, Chesapeake will have underpaid the gas royalties by $100,134.23 by June 30, 2017.

93. The Table on the next page shows the gas revenues of the Paige Well calculated using the prices reported by Chesapeake to the S.E.C., both without derivative revenue and with derivative revenue, compared with the revenues reported on the Royalty Statements.

Gas Revenue – Paige Well S.E.C. Prices (w/o Derivatives) v. R.S.					
Month	S.E.C. Price/MCF	Paige Well R.S. MCFs	S.E.C. Price Revenue	R.S. Revenue	Difference ($)
4Q-2015	6.01	666,461.94	4,005,436.26	477,885.08	3,527,551.18
1Q-2016	1.75	804,005.45	1,407,009.54	492,577.85	914,431.69
2Q-2016	1.63	745,299.16	1,214,837.63	361,970.62	852,867.01
3Q-2016	2.32	716,665.63	1,662,664.26	910,017.56	752,646.70
TOTAL	**---**	**2,932,432.18**	**8,289,947.69**	**2,242,451.11**	**6,047,496.58**

Gas Revenue – Paige Well S.E.C. Prices (with Derivatives) v. R.S.					
Month	S.E.C. Price/MCF	Paige Well R.S. MCFs	S.E.C. Price Revenue	R.S. Revenue	Difference ($)
4Q-2015	6.36	666,461.94	4,238,697.94	477,885.08	3,760,812.86
1Q-2016	2.29	804,005.45	1,841,172.48	492,577.85	1,348,594.63
2Q-2016	1.97	745,299.16	1,468,239.35	361,970.62	1,106,268.73
3Q-2016	2.13	716,665.63	1,526,497.79	910,017.56	616,480.23
TOTAL	**---**	**2,932,432.18**	**9,074,607.56**	**2,242,451.11**	**6,832,156.45**

94. If the gas revenues on the Paige Well are calculated using the S.E.C. prices without derivative revenue, the gas revenues through the end of 3Q 2016 are $8,289,947.69. Chesapeake paid royalties on only $2,242,451.11. The shortfall is $6,047,496.58, which averages $503,958.05 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $10,583,119.05 of gas revenues from the Paige Well by June 30, 2017. Applying the 20% royalty applicable to the Paige Well, the gas royalties would be underpaid by $2,116,623.80 by June 30, 2017.

95. If the gas revenues on the Paige Well are calculated using the S.E.C. prices with derivative revenue, the gas revenues through the end of 3Q 2016 would be $9,074,607.56. Chesapeake paid royalties only $2,242,451.11. The shortfall is $6,832,156.45, which averages

$569,346.37 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $11,956,273.79 of gas revenues from the Paige Well by June 30, 2017. Applying the 20% royalty applicable to the Paige Well, the gas royalties will be underpaid by $2,391,254.76.

C. **The Deduction of Non-Deductible Costs**

96. Chesapeake was not entitled to deduct post production costs from the gas royalties because (1) the Leases require Chesapeake Exploration to pay all costs of placing the gas in marketable condition and (2) the costs deducted were incurred after Chesapeake Exploration no longer held title to the gas.

97. The raw wellhead product was not marketable methane because it was mixed with crude oil and raw NGLs. Chesapeake was therefore required to pay all costs to place the gas in marketable condition.

98. The costs deducted were incurred after Chesapeake Exploration transferred title because it transfers title at the well.

99. The Chesapeake states on the Royalty Statements:

> 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.

100. The costs deducted from the gas royalties are not disclosed on the Royalty Statements because Chesapeake Exploration did not incur them.

101. Chesapeake's spreadsheet for the Buck Well shows three categories of costs deducted from the gas royalties: "Third-Party Deducts," "Fuel," and "Affiliate Gathering/Compression/Treating Deducts." The Table on the next page shows the costs deducted from the gas royalties on the Buck Well.

Cost Deductions from Gas Royalties – Buck Well (Buck Well Spreadsheet)								
Month	Seller	Vol. MCFs	Third Party Deducts	Fuel	Gathering Compress. Treating	% of Gross Royalty	Total Deducts	Deducts per mcf
02-14	CEM	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	CEM	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	CEM	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	CEM	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	CEM	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 CEM		**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**

102. For the five months shown, Chesapeake deducted $199,250.57 from the gas royalties, which averages $39,850.11 per month. Assuming the amount of the deductions remained constant thereafter, Chesapeake will have deducted $1,633,854.67 from the gas royalties on the Buck Well by the June 30, 2017.

103. Claimants do not presently know the amount of costs deducted from the gas royalties on the Paige Well. If Chesapeake deducted the same amount per MCF as they did on the Buck Well (an average of $1.49/MCF during the five months on the Buck Well Spreadsheet), Chesapeake will have deducted $4,369,324.87 from the Paige Well gas royalties by June 30, 2017. [Calculation: 2,932,432.8 MCFs x $1.49/MCF].

D. <u>The Deduction of Non-Existent Fuel Costs</u>

104. Chesapeake did not pay a royalty on approximately 16% of the gas produced, as shown by the Table on the next page.

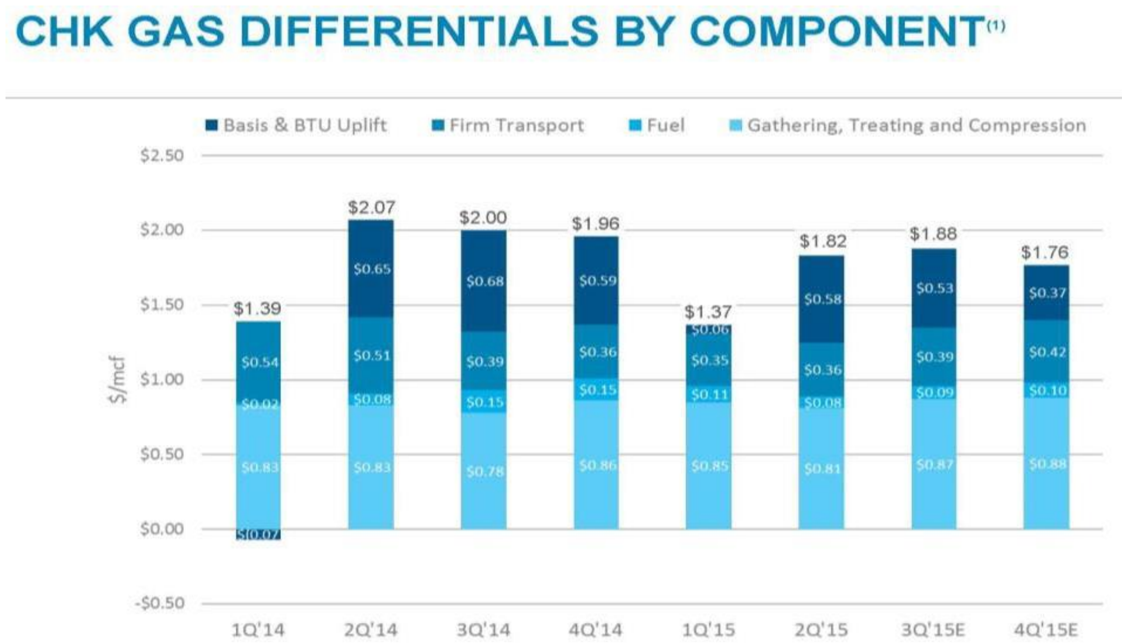
Gas Volumes (Buck Well) (MCF)				
Quarter	ODNR	Check Stubs	Vol. Short	% Short
1Q 2014	29,278	26,370.0	2,908.0	9.9%
2Q 2014	157,643	141,662.8	15,980.5	10.2%
3Q 2014	174,625	148,479.8	26,145.2	15.0%
4Q 2014	115,572	92,550.6	23,041.2	19.9%
1Q 2015	76,985	52,432.2	24,552.8	31.9%
2Q 2015	95,162	81,728.3	13,433.7	14.1%
3Q 2015	87,880	74,050.5	13,829.5	15.7%
4Q 2015	78,643	66, 519.6	16,638.6	21.1%
1Q 2016	74,417	62,004.4	12,412.6	16.7%
2Q 2016	70,814	59,345.3	11,468.7	16.2%
3Q 2016	174,625	148,391.0	26,234.0	15.0%
TOTAL	**1,135,644**	**887,014.8**	**186,644.7**	**16.4%**

105. Chesapeake falsely states on the Royalty Statements that the difference between the "produced volume" and the "royalty volume" is "fuel use."

106. Chesapeake's purported use of 16.4% of the gas for fuel is fraudulent because, typically, only 3% of a well's gas is needed to fuel compressors and other equipment.

107. Chesapeake's deductions for fuel were also fraudulent because the gas used for compression, dehydration and processing was leasehold gas, not purchased gas.

108. Further, the dollar amount of the fuel deduction is fraudulent. Chesapeake published a chart on August 5, 2015 titled "CHK Gas Differentials By Component" ("Differentials Chart"). The chart shows its actual costs, including fuel costs, for six quarters and estimated costs for 3Q15 and 4Q15. A copy of the chart appears on the next page.



109. The fuel costs in the above chart are presented more legibly in the Table below.

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

110. During the five-month period covered by the Buck Well Spreadsheet, Chesapeake's actual cost of fuel was only **$0.05**/MCF. [Calculation: .02 + .08 ÷ 2]. Yet, as shown in the Table below, Chesapeake deducted **$0.69**/MCF for fuel from the gas royalties on the Buck Well during the same period (1Q and 2Q 2014).

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

E. <u>The Deduction of Inflated Gathering Fees</u>

111. The gathering fees deducted from the gas royalties were grossly overstated, excessive and fraudulent due to collusion and self-dealing between Chesapeake and Access Midstream Partners, L.P., as set forth in paragraphs 56-64 above.

F. <u>The Deduction of Non-Deductible NGL Costs</u>

112. Royalty owners have a property interest in each product and can assign those interests separately. As a result, the only costs deductible from gas royalties are costs incurred with respect gas. During the five months reported on Chesapeake's Buck Well Spreadsheet, the costs deducted from the NGL royalties were 142%, 176%, 164%, 133% and 106% of the value of the NGLs before deductions. These cost deductions not only cancelled out any royalty paid on NGLs, they diminished the royalties paid on oil and gas because the balance of the NGL costs not used to cancel out the NGL royalties was applied against the royalties on oil and gas.

113. As a result of the inflated cost deductions from the NGLs, Chesapeake paid no royalty on the $179,376.62 of NGLs sold from the Buck well over five months reported on the Buck Well Spreadsheet. The shortfall is $6,047,496.58, which averages $503,958.05 per month.

114. Chesapeake then applied the $46,350.68 of costs not used to cancel the NGL royalties against the positive royalties on oil and gas. This averages $9,270.14 per month. If 50% of these costs were applied against the oil royalties and 50% applied against the gas royalties, the royalties on each would have been improperly reduced by $4,635.07 per month. At this monthly rate, Chesapeake will have deducted $190,037.87 in NGL costs from the oil royalties on the Buck Well by June 30, 2017 and $190,037.87 in NGL costs from the gas royalties on the Buck Well by June 30, 2017. [Calculation: $4,645.07 times 41 months].

115. Discovery will establish the NGL costs improperly deducted from the oil royalties on the Paige Well.

TOTAL E&P'S UNDERPAYMENT OF THE GAS ROYALTIES

116. Total E&P, like Chesapeake Exploration, sold its gas to a marketing affiliate that resold the gas to third-party buyers. See ¶¶ 52-54 above. Total E&P underpaid the gas royalties in the same ways that Chesapeake did because Chesapeake Operating calculated and paid the royalties on behalf of both lessees in the same way. See ¶ 56 above.

CHESAPEAKE'S UNDERPAYMENT OF THE NGL ROYALTIES

117. Chesapeake underpaid the NGL royalties by (1) calculating the royalties on less than the full amount of NGLs sold; (2) calculating the royalties on less than the "total consideration paid;" (3) deducting costs incurred to place the NGLs in marketable condition; (4) deducting costs incurred after it no longer held title; and (5) deducting excessive and inflated costs that exceeded the NGL royalties (thereby paying no NGL royalties).

A. Understatement of Gallons of NGLs Sold

118. 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 (an average of 6.5 gallons per mcf), as shown in Brookings Table below.

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

119. Chesapeake underpaid the royalties on NGLs by paying a royalty on only 4.4 gallons of NGLs per mcf, as shown in the Table below.

NGLs Per MCF (Buck Well)

Quarter	Gas (MCF)	NGLs (Gal.)	NLGs /MCF
1Q 2014	26,370	105,865.00	4.015
2Q 2014	141,644	341,552.58	2.411
3Q 2014	148,481	671,139.97	4.520
4Q 2014	92,530	413,683.55	4.471
1Q 2015	62,424	254,461.14	4.076
2Q 2015	81,727	333,283.75	4.078
3Q 2015	74,050	348,717.00	4.709
4Q 2015	66,519	488,887.00	7.350
1Q 2016	62,004	283,503.00	4.572
2Q 2016	59,345	271,952.00	4.583
3Q2016	72,264	377,851.00	5.299
TOTAL	**887,358**	**3,890,895.99**	**4.385**

120. If the NGL royalties on the Buck Well are calculated using the total gas volumes reported to the ODNR of 1,388,927 MCF, the NGL royalties should have been paid on 9,028,026 gallons of NGLs through the end of September 2016 [Calculation: 1,388,927/MCF x 6.5 gallons]. Instead, Chesapeake paid royalties on only 3,890,896 gallons. It therefore failed to pay royalties on 5,137,129.50 gallons of NGLs produced by the Buck Well through the end of 3Q 2016. This averages 160,535.29 gallons per month. [Calculation: 5,137,129.50 gallons ÷ 32 months]. At this monthly rate, Chesapeake will failed to pay NGL royalties on 6,581,947.17 gallons of NGLs by June 30, 2017. [Calculation: 160,535.29 gallons x 41 months].

B. Understatement of the Sale Price

121. The Leases require Chesapeake to pay an NGL royalty equal to a percentage of the "Gross Proceeds," which the Leases define as "the total **consideration paid** for the sale of oil, gas, casinghead gas, casinghead gasoline, associated hydrocarbons and marketable by-products produced from the Leased Premises." (emphasis added). The only "consideration paid" for the NGLs is the consideration paid by the third-party buyers into bank accounts held by Chesapeake Operating or Chesapeake Energy. Chesapeake Exploration has admitted in a sworn interrogatory in an Ohio royalty case that it **has no bank account**. It is only "credited" for the sales on Chesapeake Energy's general ledger. Since the only consideration ever **actually paid** is the consideration paid by the third-party buyers, the royalties must be calculated on the price paid by them.

122. The prices used by Chesapeake in calculating the NGL royalties were always below fair market value and less than the price actually paid. The U.S. Energy Information Administration ("E.I.A.") publishes a composite price for NGLs per million Btu, as shown in the Table on the next page 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	4.89	4.95	4.72	4.23
2016	3.69	3.89	4.48	4.65	5.11	5.25	4.92	4.94	5.25			

123. The Royalty Statements list NGLs in units of Dollars per Gallon ($/Gal). In order to compare the EIA composite prices to the price on the Royalty Statements, the EIA price per Million Btu must be converted to a price per gallon. The conversion is accomplished by dividing the Btu content of 1 gallon of NGLs (120,476 Btu) into the EIA units of $/1.0 MBtu. This resulting conversion factor is 8.30 ($/Gal).

124. The Table on the next page shows the NGL revenue for the Buck Well as reported on the Royalty Statements compared the revenue calculated using the EIA composite price converted to a price per gallon.

NGL REVENUE – BUCK WELL ROYALTY STATEMENTS v. EIA COMPOSITE PRICE						
Month	Gal. R.S.	Price R.S. $	Gross R.S. $	EIA Price $	Gross EIA Price $	Difference ($)
02-2014	46,412	0.23	10,694.17	1.44	66,833.28	56,139.11
03-2014	59,453	0.18	10,514.46	1.21	71,938.13	61,423.67
04-2014	44,371	0.42	18,777.86	1.24	55,020.04	36,242.18
05-2014	104,948	0.27	28,530.54	1.21	126,987.08	98,456.54
06-2014	192,233	0.16	31,043.06	1.23	236,446.59	205,403.53
07-2014	274,126	0.45	123,956.66	1.20	328,951.20	204,994.54
08-2014	219,029	0.42	92,147.61	1.17	256,263.93	164,116.32
09-2014	177,985	0.45	79,548.18	1.19	211,802.15	132,253.97
10-2014	157,191	0.45	70,493.70	1.05	165,050.55	94,556.85
11-2014	135,766	0.37	49,897.16	0.94	127,620.04	77,722.88
12-2014	120,727	0.16	19,575.71	0.68	82,094.36	62,518.65
01-2015	50,953	0.06	3,253.04	0.61	31,081.33	27,828.29
02-2015	127,561	0.14	16,104.55	0.69	88,017.09	71,912.54
03-2015	75,947	0.07	5,536.99	0.67	50,884.49	45,347.50
04-2015	111,453	0.06	6,349.92	0.67	74,673.51	68,323.59
05-2015	117,528	-0.05	-5,999.36	0.63	74,042.64	80,042.00
06-2015	104,303	0.17	17,731.51	0.58	60,495.74	42,764.23
07-2015	122,876	-0.19	-11,651.82	0.57	70,039.32	81,691.14
08-2015	110,116	-0.17	-18,363.00	0.53	58,361.48	76,724.48
09-2015	115,725	-0.03	-3,261.39	0.59	68,277.75	71,539.14
10-2015	99,398	0.15	14,799.84	0.6	59,638.80	44,838.96
11-2015	293,742	0.04	12,154.32	0.57	167,432.94	155,278.62
12-2015	95,737	0.09	8,881.44	0.51	48,825.87	39,944.43
01-2016	99,841	0.03	2,679.41	0.44	43,930.04	41,250.63
02-2016	90,312	0.03	2,907.12	0.47	42,446.64	39,539.52
03-2016	93,350	0.02	2,333.71	0.54	50,409.00	48,075.29
04-2016	87,308	-0.02	-1,373.32	0.56	48,892.48	50,265.80
05-2016	92,379	0.03	3,204.93	0.62	57,274.98	54,070.05
06-2016	92,270	0.06	5,288.65	0.63	58,130.10	52,841.45
07-2016	96,808	0.01	1,416.70	0.59	57,116.72	55,700.02
08-2016	103,058	0.04	4,325.90	0.6	61,834.80	57,508.90
09-2016	177,985	0.45	79,548.18	0.63	112,130.55	32,582.37
Total	**3,890,891**	**----**	**$681,046.43**	**----**	**$3,112,943.62**	**$2,431,897.19**

125. As shown in the preceding Table, if the EIA composite price is used to calculate the NGL revenues, the Chesapeake Respondents understated the NGL revenue by $2,431,897.19 through the end of September 2016. This averages $75,996.79 per month. At that monthly rate, Chesapeake will have failed to pay royalties on $3,115,868.28 of NGL revenue through June 30, 2017. Applying the 17.5% royalty applicable to the Buck Well, Chesapeake will have underpaid the NGL royalties by $545,276.95 by June 30, 2016.

126. The variance in NGL revenues on the Buck Well is even greater if the gallons used in the revenue calculation are the gallons calculated in paragraphs 120, as this would require multiplying the revenues by a correction factor of 2.32 (9,028,026 calculated gallons ÷ 3,890,891 R.S. gallons). This would yield an NGL revenue shortfall of $5,642,001.48 through the end of September 2016, which averages $176,312.54 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $7,228,814.40 of NGL revenues from the Buck Well by June 30, 2017. Applying the 17.5% royalty applicable to the Buck Well, Chesapeake will have underpaid the NGL royalties by $1,265,042.52 by June 30, 2017.

127. The Table on the next page shows the NGL revenue for the Paige Well as reported on the Royalty Statements compared the revenue calculated using the EIA composite price converted to a price per gallon.

NGL Revenue – Paige Well Royalty Statements v. EIA Composite Price						
Month	Gal. R.S.	Price R.S. $	Gross R.S. $	EIA Price $	Gross EIA Price $	Difference ($)
10-2015	156253.06	0.1	15625.31	0.6	93,751.84	78,126.53
11-2015	416628.05	0.04	45829.09	0.57	237,477.99	191,648.90
12-2015	458293.85	0.09	36663.51	0.51	233,729.86	197,066.35
01-2016	495361.87	0.02	9907.24	0.44	217,959.22	208,051.98
02-2016	536538.28	0.03	16096.15	0.47	252,172.99	236,076.84
03-2016	475874.3	0.06	28552.46	0.54	256,972.12	228,419.66
04-2016	532442.89	0.03	15973.29	0.56	298,168.02	282,194.73
05-2016	545099.1	0.07	38156.94	0.62	337,961.44	299,804.50
06-2016	491601.28	0.06	29496.08	0.63	309,708.81	280,212.73
07-2016	494368.75	0.01	4943.69	0.59	291,677.56	286,733.87
08-2016	513755.51	0.01	5137.56	0.6	308,253.31	303,115.75
09-2016	440737.8	0.07	30851.65	0.63	277,664.81	246,813.16
Total	**5,556,954.74**	**----**	**277,232.97**	**----**	**3,115,497.97**	**2,838,265.00**

128. As shown in the preceding Table, if the EIA composite price is used to calculate the NGL revenues, Chesapeake will have understated the NGL revenues by $2,838,265.00 through the end of September 2016. This averages $236,522.08 per month. At that monthly rate, Chesapeake will have failed to pay royalties on $4,966,963.75 of the Paige Well NGL revenue through June 30, 2017. Applying the 20% royalty applicable to the Paige Well, Chesapeake will have underpaid the NGL royalties by $993,392.75 by June 30, 2017.

129. The variance in NGL revenues on the Paige Well is even greater if the gallons used in the revenue calculation are the gallons calculated in paragraph 120, as this would require multiplying the revenues by a correction factor of 2.32. This would yield an NGL revenue shortfall of $6,584,774.80 through the end of September 2016, which averages $548,731.23 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $11,523,355.90 of

NGL revenues from the Buck Well by June 30, 2017. Applying the 20% royalty applicable to the Paige Well, Chesapeake will have underpaid the NGL royalties by $2,304,671.17 by June 30, 2017.

130. An alternate method of calculating the NGL revenues is to use the sales prices reported by Chesapeake in its quarterly and annual reports to the S.E.C. The derivative contracts did not increase the NGL revenues on the Buck Well. Thus, the Table below shows the NGL revenues of the Buck Well using the prices reported by Chesapeake to the S.E.C without derivative revenue.

NGL Revenue – Buck Well S.E.C. Prices (w/o Derivatives) v. R.S.					
Month	S.E.C. Price/Gal.	Buck Well R.S. Gallons	S.E.C. Price Revenue	R.S. Revenue	Difference ($)
1Q-2014	0.7	105,865	74,105.50	21,208.63	52,896.87
2Q-2014	0.5	341,552	170,776.00	78,352.00	92,424.00
3Q-2014	0.55	671,140	369,127.00	295,652.45	73,474.55
4Q-2014	0.29	413,684	119,968.36	139,966.57	-19,998.21
1Q-2015	0.17	254,461	43,258.37	24,894.58	18,363.79
2Q-2015	0.05	333,284	16,664.20	-17,380.95	34,045.15
3Q-2015	-0.03	348,717	-10,461.51	-33,276.21	22,814.70
4Q-2015	1.1	488,877	537,764.70	35,835.60	501,929.10
1Q-2016	0.16	283,503	45,360.48	7,920.24	37,440.24
2Q-2016	0.05	271,957	13,597.85	7,120.26	6,477.59
3Q-2016	0.03	377,851	11,335.53	85,290.78	-73,955.25
TOTAL	**----**	**3,890,891.00**	**1,391,496.48**	**645,583.95**	**745,912.53**

131. If the NGL revenues on the Buck Well are calculated using the S.E.C. prices without derivative revenue, the NGL revenues through the end of 3Q 2016 are $1,391,496.48. Chesapeake paid royalties only $645,583.95. The shortfall is $745,912.53, which averages

$23,309.77 per month. At this monthly rate, Chesapeake will have failed to pay royalties on $955,700.43 of NGL revenues from the Buck Well by June 30, 2017. Applying the 17.5% royalty applicable to the Buck Well, Chesapeake will have underpaid the NGL royalties by $167,247.58 by June 30, 2017. If the per gallon correction factor of 2.32 is applied, Chesapeake will have underpaid the NGL royalties by $388,014.37 by June 30, 2017.

132. The Tables that follow show the NGL revenues of the Paige Well calculated using the S.E.C. prices without derivatives compared with the revenues reported on the Royalty Statements.

NGL Revenue – Paige Well
S.E.C. Prices (w/o Derivatives) v. R.S.

Month	S.E.C. Price/Gal.	Paige Well R.S. Gallons	S.E.C. Price Revenue	R.S. Revenue	Difference ($)
4Q-2015	1.1	1,031,174.96	98,117.90	1,134,292.46	1,036,174.56
1Q-2016	0.16	1,507,774.45	54,555.84	241,243.91	186,688.07
2Q-2016	0.05	1,569,143.27	97,149.09	78,457.16	-18,691.93
3Q-2016	0.03	1,448,862.06	40,932.89	43,465.86	2,532.97
TOTAL	----	**5,556,954.74**	**290,755.72**	**1,497,459.39**	**1,206,703.67**

133. If the NGL revenues on the Paige Well are calculated using the prices reported by Chesapeake to the S.E.C. without derivative revenue, the gas revenues through the end of 3Q 2016 are $1,493,112.81. Chesapeake paid royalties of only $290,755.72. The shortfall is $1,206,703.67, which averages $100,558.64 per month. At this monthly rate, by June 30, 2017, Chesapeake will have failed to pay royalties on $2,111,731.42 of gas revenues from the Paige Well. Applying the 20% royalty applicable to the Paige Well, Chesapeake will have underpaid the NGL royalties by $422,346.28 by June 30, 2017. If the per gallon correction factor of 2.32 is applied, Chesapeake will have underpaid the NGL royalties by $979,843.38 by June 30, 2017.

C. Deduction of Non-Deductible Costs

134. Chesapeake was not entitled to deduct post production costs from the NGL royalties because (1) the Leases require Chesapeake Exploration to pay all costs of placing the gas in marketable condition and (2) the costs deducted were incurred after Chesapeake Exploration no longer held title to the NGLs.

135. The raw wellhead product was not marketable NGLs because it was mixed with crude oil and wet gas. Chesapeake was therefore required to pay all costs necessary to place the NGLs in marketable condition.

136. The post production costs were incurred after Chesapeake Exploration transferred title because it transfers title to the NGLs at the well.

137. Chesapeake Exploration states on the Royalty Statements:

> 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.

138. The costs deducted from the NGL royalties are not disclosed on the Royalty Statements because Chesapeake Exploration did not incur them.

139. The costs deducted from the NGL royalties on the Buck well appear on Chesapeake's 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	Seller	Gallons	Gross $ Before Deducts	Third Party Deducts	Affiliate G/C/T	Percent	Gross $ After Deducts	Sale Price
02-14	CEM	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
03-14	CEM	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
04-14	CEM	30,679	18,049.92	24,587.21	5,066.92	164.29	-11,604.21	-0.38
	Other	13,692	14,182.53	6,212.86	838.03	49.715	7,131.64	0.52
05-14	CEM	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	0.4
06-14	CEM	127,360	89,494.79	80,051.27	14,986.7	106.194	-5,543.19	-0.04
TOTAL CEM		**382,544**	**238,410**	**216,246**	**30,721**	**------**	**-18,556**	**------**

140. For the five months shown, Chesapeake improperly deducted $246,967 from the NGL royalties on the Buck Well, which averages $49,393 per month. Assuming the amount of the deductions remained constant thereafter, Chesapeake will have deducted $2,025,113 from the NGL royalties on the Buck well by June 30, 2017. [Calculation: $49,393 x 41 months].

141. Claimants do not presently know the amount of costs deducted from the NGL royalties on the Paige Well. The costs deducted from the NGL royalties on the Buck Well were $0.65 per gallon. [Calculation: $246,967 in costs during the five-month of Buck Well production ÷ 382,544 gallons]. This per gallon deduction amount yields deductions of $3,612,033.57 from the Paige Well NGL royalties from October 1, 2015 through September, 30, 2016. This data can be used to estimate the amount of costs deducted from the NGL royalties on the Paige Well. The Paige Well produced 5,556,954.74 gallons of NGLs through 3Q 2016, yielding an average monthly production of 463,079.56 gallons of NGLs from the Paige Well. This average monthly production x 21 months (October 1, 2015 through June 30, 2017) yields 9,724,670.76 gallons.

9,724,670.76 gallons multiplied by 0.65/gallon (the Buck Well average) yields total deductions from the Paige Well NGLs of $6,321,035.99.

D. Deduction of Inflated NGL Costs

142. The cost deductions from the NGL royalties breached the leases because they were fraudulent in their amounts, as they exceeded the value of the NGLs before the deductions.

143. During the five months reported on Chesapeake's 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.

144. It is inconceivable that the NGL costs so grossly exceeded the value of the NGLs themselves. If they did, Chesapeake would (or should) have stopped producing NGLs to prevent further losses to themselves and the royalty owners. Instead, Chesapeake increased its production of NGLs in 3Q 2015 by 31% and has continued to sharply increase production since.

145. As a result of the inflated cost deductions from the NGLs, Chesapeake paid no royalty on the $179,376.62 of NGLs from the Buck well over five months reported on Chesapeake's Buck Well Spreadsheet. It then applied the $46,350.68 of costs not used to cancel the NGL royalties against the positive royalties on oil and oil.

TOTAL E&P'S UNDERPAYMENT OF THE NGL ROYALTIES

146. Total E&P, like Chesapeake Exploration, sold its NGLs to a marketing affiliate that resold the NGLs to third-party buyers. See ¶¶ 52-54 above. Total E&P underpaid the gas royalties in the same ways that Chesapeake did because Chesapeake Operating calculated and paid the royalties on behalf of both lessees in the same way. See ¶ 56 above.

CAUSES OF ACTION

COUNT I -- BREACH OF CONTRACT (CHESAPEAKE EXPLORATION)

147. Claimants re-allege and incorporate by reference paragraphs 1-146 of this Arbitration Demand.

148. Oil, gas and NGLs were produced under Claimants' Leases.

149. Claimants were and are entitled to royalty payments on these products.

150. Respondent made periodic royalty payments to Claimants through its affiliates, Chesapeake Energy and Chesapeake Operating.

151. Respondent breached the leases by allowing Chesapeake Energy and Chesapeake Operating to underpay the royalties on all three products – oil, natural gas and NGLs.

152. Respondent, through its affiliates, underpaid the oil royalties by (1) calculating the royalties on less than the amount of oil sold; (2) calculating the royalties on less than the total consideration paid," including payments from derivatives; (3) deducting costs incurred to place the oil in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; and (5) deducting non-deductible NGL costs.

153. Respondent, through its affiliates, underpaid the gas royalties by (1) calculating the royalties on less than the volume of gas sold; (2) calculating the royalties on less than the "total consideration paid," including payments from derivatives; (3) deducting costs to place the gas in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; (5) deducting non-existent fuel charges; (6) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; and (7) deducting non-deductible NGL costs.

154. Respondent, through its affiliates, underpaid the NGL royalties by (1) calculating the royalties on less than the full amount of NGLs sold; (2) calculating the royalty on less than "total consideration paid," including payments from derivatives; (3) deducting costs incurred to place the NGLs in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; (5) deducting NGL fractionation costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; and (5) deducting fraudulent costs that exceeded the NGL royalties (thereby paying no NGL royalties).

155. Respondent's breaches of the Leases proximately caused damages to Claimants because, as a direct and proximate result of the breaches, Respondent paid Claimants royalties on oil, gas and NGLs that were less than the royalties due them.

WHEREFORE, Claimants request judgment in their favor for breach of contract against Respondent Chesapeake Exploration and the award of compensatory damages, with interest.

COUNT II -- BREACH OF CONTRACT (TOTAL E&P)

156. Claimants re-allege and incorporate by reference paragraphs 1-155 of this Arbitration Demand.

157. Oil, gas and NGLs were produced under Claimants' Leases.

158. Claimants were and are entitled to royalty payments on these products.

159. Respondent made periodic royalty payments to Claimants through Chesapeake Energy and Chesapeake Operating.

160. Respondent breached the leases by allowing Chesapeake Energy and Chesapeake Operating to underpay the royalties on all three products – oil, natural gas and NGLs.

161. Respondent, through its Chesapeake Energy and Chesapeake Operating, underpaid the oil royalties by (1) calculating the royalties on less than the amount of oil sold; (2) calculating the royalties on less than the total consideration paid," including payments from derivatives; (3) deducting costs incurred to place the oil in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; and (5) deducting non-deductible NGL costs.

162. Respondent, through Chesapeake Energy and Chesapeake Operating, underpaid the gas royalties by (1) calculating the royalties on less than the volume of gas sold; (2) calculating the royalties on less than the "total consideration paid," including payments from derivatives; (3) deducting costs to place the gas in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; (5) deducting non-existent fuel charges; (6) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; and (7) deducting non-deductible NGL costs.

163. Respondent, through Chesapeake Energy and Chesapeake Operating, underpaid the NGL royalties (1) calculating the royalties on less than the full amount of NGLs sold; (2) calculating the royalty on less than "total consideration paid," including payments from derivatives; (3) deducting costs incurred to place the NGLs in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; (5) deducting NGL fractionation costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; and (5) deducting fraudulent costs that exceeded the NGL royalties (thereby paying no NGL royalties).

164. Respondent's breaches of the Leases proximately caused damages to Claimants because, as a direct and proximate result of the breaches, Respondent paid Claimants royalties on

oil, gas and NGLs that were less than the royalties due them.

WHEREFORE, Claimants request judgment in their favor for breach of contract against Respondent Total E&P and the award of compensatory damages, with interest.

COUNT III -- CONVERSION (CHESAPEAKE ENERGY AND CHESAPEAKE OPERATING)

165. Claimants re-allege and incorporate by reference paragraphs 1-164 of this Arbitration Demand.

166. Oil, gas and NGLs were produced under the Claimants' Leases.

167. Claimants were and are entitled to royalty payments on these products.

168. Respondents received, held and controlled the proceeds of the sale of the oil, gas, and NGLs sold by both Chesapeake Exploration, CEMLLC, Total E&P and Total G&P in which Claimants had and have a royalty interest.

169. Respondents calculated the amount of the royalties to be paid Claimants.

170. Respondents prepared the royalty checks issued to Claimants.

171. Respondents prepared the Royalty Statements issued to the Claimants.

172. Respondents issued the royalty checks and royalty statements to Claimants.

173. Respondents converted the oil royalties by (1) calculating the royalties on less than the amount of oil sold; (2) calculating the royalties on less than the total consideration paid," including payments from derivatives; (3) deducting costs incurred to place the oil in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; and (5) deducting non-deductible NGL costs.

174. Respondents converted the gas royalties by (1) calculating the royalties on less than the volume of gas sold; (2) calculating the royalties on less than the "total consideration

paid," including payments from derivatives; (3) deducting costs to place the gas in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; (5) deducting non-existent fuel charges; (6) deducting gathering costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; and (7) deducting non-deductible NGL costs.

175. Respondents converted the NGL royalties by (1) calculating the royalties on less than the full amount of NGLs sold; (2) calculating the royalty on less than "total consideration paid," including payments from derivatives; (3) deducting costs incurred to place the NGLs in marketable condition; (4) deducting costs incurred after Chesapeake Exploration no longer held title; (5) deducting NGL fractionation costs that were inflated through collusion and self-dealing with Access Midstream Partners, L.P.; and (5) deducting fraudulent costs that exceeded the NGL royalties (thereby paying no NGL royalties).

176. Respondents' conversion of the royalties was deliberate, willful, intentional and with actual malice, entitling Claimants to punitive damages.

177. Respondents' acts of conversion proximately caused damages to the Claimants because the acts of conversion caused Claimants to receive less royalties on oil, gas, and natural gas liquids than the royalties due them.

WHEREFORE Claimants request judgment in their favor against Respondents Chesapeake Energy and Chesapeake Operating and the award compensatory and punitive damages, with interest.

<u>COUNT IV -- VIOLATIONS OF THE OHIO CORRUPT PRACTICES ACT</u>
(CHESAPEAKE ENERGY AND CHESAPEAKE OPERATING)

178. Claimants re-allege and incorporate by reference paragraphs 1-177 of this Arbitration Demand.

179. Section 2923.34(E) of the Corrupt Practices Act, R.C. § 2923.31, et seg. (the "Act"), provides that "any person directly or indirectly injured by conduct in violation of section 2923.32" of the Act shall have "a cause of action for triple the actual damages the person sustained," and that recoverable damages "may include, but are not limited to, competitive injury and injury distinct from the injury inflicted by corrupt activity."

180. Section 2923.32 of the Act provides that "[n]o person employed by, or associated with, any enterprise shall conduct or participate in, directly or indirectly, the affairs of the enterprise through a pattern of corrupt activity…."

181. Section 2923.31(C) of the Act defines "[e]nterprise" as "any individual, sole proprietorship, partnership, limited partnership, corporation, trust, union, governmental agency, or other legal entity, or any organization, association, or group of persons associated in fact, although not a legal entity."

182. Section 2923.31(E) of the Act provides that "[p]attern of corrupt activity" as "two or more incidents of corrupt activity, whether or not there has been a prior conviction, that are related to the affairs of the same enterprise, are not isolated, and are not so closely related to each other in time and place that they constitute a single event."

183. Section 2923.31(I) defines "[c]orrupt activity" as "engaging in, attempting to engage in, conspiring to engage in, or soliciting, coercing, or intimidating another person to engage in" certain acts specified in Section 2923.31(I) of the Act. Under Section 2923.31(I)(1) of the Act, acts constituting "corrupt activity" include "[c]onduct defined as 'racketeering activity' under the

'Organized Crime Control Act of 1970,' 84 Stat. 941, 18 U.S.C. 1961(1)(B), (1)(C), 1(D), and 1(E), as amended."

184. Conduct defined as "racketeering activity" under 18 § U.S.C. 1961(1)(B) includes acts indictable under 18 U.S.C. § 1341 (mail fraud), which prohibits the use of the U.S. mail or any interstate carrier to execute, or attempt to execute, "any scheme or artifice to defraud, or for obtaining money by means of false or fraudulent pretenses, representations, or promises," and acts that are indictable under 18 U.S.C. § 1343 (wire fraud), which prohibits the use of interstate wire communications to execute, or attempt to execute, "any scheme or artifice to defraud, or for obtaining money by means of false or fraudulent pretenses, representations, or promises."

185. Under Section 2923.31(I)(2)(a) of the Act, acts constituting "corrupt activity" include violations of R.C. § 2913.05, "Telecommunications Fraud," which provides, in pertinent part, that "[n]o person, having devised a scheme to defraud, shall knowingly disseminate, transmit, or cause to be disseminated or transmitted by means of a wire, radio, satellite, telecommunication, telecommunications device, or telecommunications service any writing, data, sign, signal, picture, sound, or image with the purpose to execute or otherwise further the scheme to defraud."

186. Under Section 2923.31(I)(2)(c) of the Act, acts constituting "corrupt activity" include a violation of R.C. § 2913.02, "Theft," which provides that "[n]o person, with the purpose to deprive the owner of property or services, shall knowingly obtain or exert control over either the property or services…without the consent of the owner or person authorized to give consent … [or] …[b]y deception;….."

187. Section 2923.34 of the Act provides that a plaintiff who prevails in a civil action under the Act "shall recover reasonable attorney fees in the trial and appellate courts."

188. Claimants have standing to bring a civil action against Respondents Chesapeake Energy and Chesapeake Operating under Section 2923.34(E) of the Act because Claimants are persons who were "directly or indirectly injured" by Respondents' violations of Section 2923.32 of the Act.

189. Each Respondent is a "person" within the meaning of Section 2923.32 of the Act.

190. Each Respondent is an "enterprise" within the meaning of 2923.31(C) of the Act. Additionally, the two Respondents on this Count are collectively an "enterprise" within the meaning of 2923.31(C) of the Act.

191. Each Respondent was "employed by" or "associated with" the "enterprise" and each Respondent "conduct[ed] or participate[d] in, directly or indirectly, the affairs of the enterprise through a pattern of corrupt activity" in violation of Section 2923.32 of the Act.

192. Respondents' "pattern of corrupt activity" consisted of multiple predicate acts perpetrated by them singly and in concert from August of 2010 to the present, including acts of conspiracy, wire fraud, mail fraud, theft and theft by deception.

193. In devising and implementing their scheme to defraud Claimants of the royalties due them, Respondents communicated with one another and with other affiliated companies using the telephone wires, the United States mail, electronic email, and shared electronic communications and databases.

194. Respondents conspired to mail, and did mail, royalty checks to the Claimants using the United States mail, with full knowledge that the dollar amounts on the checks were fraudulent and that the accounting on the check stub was fraudulent.

195. In devising and implementing this fraudulent scheme, Respondents defrauded Claimants of royalties due them on oil, natural gas and NGLs in the ways detailed in this

Arbitration Demand and, in so doing, repeatedly and continuously violated the Act.

196. Respondents' violations of the Act were deliberate, intentional, willful and with actual malice.

197. Respondents' violations of the Act proximately caused damages to Claimants because those acts caused Claimants to receive less oil and gas royalties than were due them.

WHEREFORE Claimants respectfully request judgment in their favor against Respondents Chesapeake Energy and Chesapeake Operating for violations of the Ohio Corrupt Practices Act and the award compensatory damages with interest and statutory trebling.

Respectfully submitted,

/s/ James A. Lowe
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