

# HANDBOOK OF HAYNESVILLE SHALE LANDOWNERS

## The Association Program

So, you're ready to join the Association and become a Member. What else do you need to know?

The Association is for Landowners. This includes Lot owners in town as well as acreage. If you own Land and Minerals, or just Minerals, you may become a Member. We welcome any owner with land and/or minerals that are in the Haynesville Shale Play.

The goal of Membership is to join with others of like circumstances to vie for a better deal than you could get on your own, and to share the expense of representation so that you get a fair lease at an affordable price. The Board of the Association is composed of experienced people who are familiar with the special problems of Leasing for mineral development.

### **MEMBERSHIP FEES:**

The initial cost of joining is \$50.00 non-refundable, paid when you sign up. This fee is used to set up your account and pay operational expenses the first year. You will pay dues of \$25.00 in years two and three on your anniversary date. We hope that your property will be leased within this time frame. If not, you will have the option of renewing for the payment of annual dues. These dues cover the administrative and direct costs such as accounting costs, cost of website and web services that will keep you notified of the status of news-worthy items, costs of advertisements and publicity to keep the Association growing to meet future needs, costs of personnel to operate the Association and the costs of rental of meeting sites. The Association encourages the Members to grow the Association because the broader the scope of coverage, the better deals the Association can negotiate. The costs of acquiring this base of Members and their support is kept low by the Members telling friends, family and associates. This is mostly a word-of-mouth effort.

### **LEASING COSTS:**

The effort to get your property leased includes the cost of locating and bundling the tracts, Informing the Members of developments (including following the geology as the play develops), hiring competent counsel to negotiate the price and terms of your lease, administration of data and employees and execution costs. The Association has contracted the services of competent legal counsel experienced in negotiations of Mineral Leases and drafting special provisions for Landowners' protection. The costs for these services will be passed along to the Members in the following manner. As Leases are negotiated in blocks, an Oil, Gas

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and Mineral Lease with the negotiated terms will be prepared for each Member in the bundle. To make sure that the terms are as agreed upon, this Lease will be signed in the offices of the Association under the supervision of the attorney(s) for the Association.

### **FEE OPTIONS (Your Choice):**

**A) 5% of the bonus.**

**OR,**

**B) At lease signing, Member shall pay 3% of any bonus negotiated and execute an assignment to Association of 3/4 of 1% ORRI;**

At signing, each Member will endorse the check issued jointly in the names of the Association and the Member.

Option (A):

The check of the Association will be issued to the Member under Option (A) for 95% of the Lease Bonus (“front money”).

EXAMPLE: Under Option (A) If your negotiated lease bonus is \$2,500.00, your share @ 95% is \$2,375.00; the Association retains \$125.00 for its operations.

The check of the Association will be issued to the Member under Option (B) for 97% of the Lease Bonus (“front money”) and the Association will retain 3% of the Lease Bonus for its operations. Each Member will contemporaneously (at the same time) execute an Overriding Royalty Deed for  $\frac{3}{4}$  of 1%.

EXAMPLE: Under Option (B) If your negotiated lease bonus is \$2,500.00, your share @ 97% is \$2,425.00; the Association retains \$75.00 for its operations. If your negotiated Royalty is 25%, your share @ 97% will be 24.25%; the Association retains  $\frac{3}{4}$  of 1% (.75%) as an overriding royalty interest.

You will not owe any fee until your Lease is negotiated. However, we cannot control the desirability of a lease for your property. If a Lease is never negotiated, you will not pay anything beyond the initial Membership fee and association dues. We believe this is a very low cost for what you receive.

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### **TITLE ISSUES AND EXECUTION.**

You are responsible for assuring that title to your minerals is good. The Association will make initial efforts (e.g., check the tax records) to be sure your name and property description are matched up. However, the Association will not run your title, nor be responsible for any defect. The oil company will do that examination for themselves. However, if your title fails for any reason, your lease may be suspended until the title defects are cleared up. To get your money, you will have to cooperate in any clearing work. You may have expenses for title clearing work. The Association will not be responsible for those expenses. **The Association shall not be responsible for post leasing representation for damages or other issues.**

We anticipate that the Association will have closing offices set up at the time for execution of leases, so that you will not have to deal with oil companies or their agents directly. You will go to the designated office, sign your lease and receive your check for the bonus. You will be required to supply your Social Security Number (or other TIN) at execution of your Lease and prove your identity to safeguard all concerned.

If your property is mortgaged, you will also be required to cooperate with the Oil Company to get the Mortgage subordinated to the Oil & Gas Lease.

### **PITFALLS AND WARNINGS.**

It is quite possible that the oil companies will not choose to develop each and every section in the Play Area. There are no guarantees in joining the Association, except that every reasonable effort will be made to lease all lands committed to the Association at the highest and best rate available. If no oil company can be found that desires to lease your land, it will not be leased, but you run that risk anyway. The advantage is that several tracts that the Association could join together give the Association a better chance to lease than you acting alone. Locating gas reserves such as those in the Haynesville Shale is difficult under the best of circumstances. As this Play develops, the area of underlying gas-bearing Shale will be determined. However, no one knows now just where the limits are of this Play at this time. There are also many other problems including (a) the necessity for a drill site in the section where your land is located, (b) the ability to pipe the gas out to interstate pipelines for transport to buyers, (c) multiple environmental concerns for drilling and pipeline operations, and (d) other owners' issues (e.g., all streets and other public lands in the Section that

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must be leased). ALL the pieces have to come together for the Minerals to be fully developed in any section in the Play area. There will undoubtedly be areas that the oil companies simply cannot drill for any one of these reasons. Just because the land is leased, there is no guarantee that the minerals will ever be drilled and produced. Likewise, if these problems surface early, there may be no interest on the part of oil companies to lease some of the Lands committed to the Association, so some Lands may never get leased.

Caution is advised in over-estimating the value of your particular tract as there are many variables to the equation before you get paid anything. Also, timing is critical. As many saw in the few months since the news broke about the Haynesville Shale Play, leases taken mere days prior to the announcement of this discovery looked very good at \$250 per acre bonus and 20% royalty. However in hindsight, those leases pale before the leases negotiated after March 24<sup>th</sup>, 2008. None of us can tell the future, not you, not the Association. If someone else gets a better deal than you, there can be many reasons why. Undoubtedly, there will be necessary delays between the end of negotiations and Lease signing due to preparation and scheduling of closings. If the facts change between “cutting the deal” and signing, you will nevertheless be asked to sign, unless the negotiator can dump the entire deal without negative consequences. You are not entitled to any remedy if your *Monday morning quarterbacking* is better than the deal negotiated for you.

**COMMITMENT:** You are committing your Land and Minerals to the Association for a period of three years for negotiation. We advise patience. It is necessary that you allow the Association to negotiate your lease terms along with other Members’ Leases to achieve the benefits of negotiating together. If you are not agreeable to this method, there is no reason to join the Association. We intend to keep abreast of developments in this area. One way you can help is to advise the Association of news that is CREDIBLE. There are already lots of rumors about all sorts of matters regarding this Play. Talk of ever-bigger bonuses and, likewise, “nay saying” about the end of the feeding frenzy abounds. If you have good and credible information that you can share with the Association, you are invited to do so. However, make sure your “intel” is good and attempt to verify all news before passing it to the Association. The plan is to disseminate credible news, however, we must have a reasonable belief that it is credible before we can pass it along to the other Members.

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## **MEMORANDUM.**

Evidence Of this Agreement may, at the option of the Association, be recorded in the Conveyance Records of the Parish (county) where the Minerals are located to evidence your agreement. The Association is granted the right to make this public declaration on its own signature. The Memorandum shall expire three years from the date shown therein as the execution date of your Binding Agreement.

## **OTHER BENEFITS:**

In addition to an Attorney and a Geologist for the leasing operations, the Association has brought in other licensed, experienced professionals in the fields of Tax Practice and Financial Planning. We believe in the motto: "It's not what you make, but what you keep that counts." Those services will be available to Members on a private basis only, as individual circumstances differ widely. Ask an HSLA Staff Member for further information and referral.

There is a market for Minerals as well as leases. We are aware of several companies which are actively seeking to buy Minerals, either before or after Leasing. The sale of Minerals in place is not the focus of the Association, however, the attorneys for the Association are available for assistance in negotiations for the sale, if any Member is interested. The sale of Minerals has special and individual tax consequences and the use of the other professionals is advised as well. All fees for such services will be by individual agreements.

## **CONCLUSION:**

We sincerely hope that our Members get the best Leases possible. We will be giving our best efforts to negotiate that end. As this Play gets warmed up, keep in mind that there are many opinions about the Play. Only time will tell how things will turn out. If this Play is truly bigger than the Barnett Shale, this area of our Nation will truly be blessed. Everybody will prosper. We hope the prosperity will be spread around to all in the community. We believe this model of people helping people is the best ever used. Help us make this effort a success by enlisting others to the cause. This will help the Association keep costs down.

## **HANDBOOK OF HAYNESVILLE SHALE LANDOWNERS**

Information is Power. After you have read the information in this HANDBOOK about the Program of the Association, you are ready to join and start building with power.

This HANDBOOK is made a part by reference to the Binding Agreement for Representation you will sign to join the Association. Thanks for joining with us.

Haynesville Shale Landowners Association

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[www.haynesvilleshalelandowners.org](http://www.haynesvilleshalelandowners.org)