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Operator Survey Questionnaire - Results

Industry Reviews the Surface Land Compensation Database

May 3, 2010

Introduction

The Surface Land Compensation Database ("the DB") (www.wdmarriott.com) is currently undergoing a comprehensive review by the industry as represented by the largest drilling operators. The main supporters and sponsors of the DB have requested a review of the objectives, principles, and operation of the DB. The purpose of this review is to determine what (if any) improvements can be made to the DB to increase its acceptance and participation or whether the ongoing operation of the DB can be justified. In addition, the review did a formal survey of operators (and will do a survey of brokers, if necessary) to determine their views on surface compensation issues, policies and practices, and whether they feel the DB and aggregate analysis will help in addressing those issues.

This document is the results of the formal survey questionnaire for operators.

While the views expressed in the survey are obviously not binding we feel they give us a clear indication of industry opinion and thus will help decide the best way forward.

The survey was distributed at the April 13, 2010 meeting of operators and was completed by 20 companies. An additional 20 surveys were sent out to cover the rest Top 40 operators, however, none of those surveys were returned.

Executive Summary

The survey clearly showed ongoing support by the industry to control surface access costs and to provide adequate pricing information for field agents. However, it fell short in terms of indicating widespread support for a centralized compensation DB as a means to achieve those ends. It seems that while everyone can agree on the 'motherhood' principles it is another story when 'push comes to shove' and companies actually have to make the motherhood work in the real world.

Fully 80% of respondents indicated that they agreed with the DB objectives of market efficiency and research efficiency. 95% agreed with the underlying DB principles and 85% indicated that the most effective method for price research is the DB augmented with word-of-mouth networking. There was virtually universal agreement with the IRWA position on field pricing and research. 95% of companies recommend a specific approach to compensation that would be most effectively achieved by a comprehensive DB.

And yet. Only 65% felt that the existing issues with the DB could be solved, although another 10% were unsure whether they could be solved or not. When asked if based on the discussion at the April 13 meeting, their companies would supply data to the DB only 45% said yes (and some of those with conditions) while 25% said no, and 25% said they would have to have to take the question back for a corporate review.

A majority (65-70%) of respondents felt that a DB subscription would be enhanced by additional services or a change in governance with users more directly in control.

Other findings include over 70% of drilling occurs on freehold lands and over 70% of all takings are done by brokers.

Based on the results of the discussion and the survey it was decided that the DB still has enough life to warrant another meeting. At this next meeting a concrete proposal to address the issues will be presented to industry and based on feedback at this meeting, a decision would be taken to proceed with a 'new and improved' DB or to shut down the existing operation.

See below for the details of the questions asked and the responses.

Company Specific Survey

1. What percentage of total 2009 drilling was on freehold surface:___________%
(includes Crown with occupant)
Using the percentages given and the actual 2009 drilling statistics it was determined that around 70% of all the drilling took place on freehold lands.

2. What percentage of 1) had unique surface leases behind them:___________%
(eg. 10 wells, 4 single well leases, 2 – 3 well pads = 4+2 or 60%)
This was a badly asked question as we were trying to determined how many 'wells' in the drilling statistics were actually pad sites that only had a single surface lease behind them. The numbers reported were so low that it was clear the question was not understood.

3. What % of your surface takings are done by brokers:___________%
Except in the larger, more traditional companies, virtually all surface leases are taken by brokers, with a 92% average. In total, including the in-house takings by the bigger companies, brokers accounted for over 70% of all takings.

4. Do you agree to supply your company's AB and SK data starting today:______(y/n)
While the meeting tended to focus on problems rather than solutions there was clarity for the majority of companies. 45% said they would provide data, 25% said they would not and 30% were unsure. Of the 30% unsure (6 companies) 5 companies (25% of the total) said they would have to take the question back for a corporate review.

5. If your company decides to supply data, would they mind being identified as such on the website:______ (y/n)
Where companies were supplying data, 65% had no objections to being identified as such. The other 35% were blank or were unsure of their corporate position because they were also unsure of whether or not their companies would be supplying data.

6. If your company decides <u>not</u> to supply data would they mind being identified as such on the website:_______(y/n)
Where companies were not supplying data there was a bit more sensitivity to being identified as such. 25% didn't want to be identified as being absent from the DB while 50% didn't mind being identified and 25% where blank or did not know.

Underlying Fundamentals

"As we all should know, going to the Surface Rights Board and other tribunals is getting more difficult, costly and risky in this environment, and so we agents have to be even more prepared for the questions we are getting and more prudent in the decisions we are making in the field. One or two bad deals can change a rate or pattern in an area because landowners are communicating better than we are. So let's all do our research, talk to one another and see if we can collectively improve the perception of our business and the oil and gas industry in general out in the communities in which we operate."

IRWA Surface Rights Committee, Newsline, November 2005

7. Do you agree with the IRWA position on pricing/research?
   - ‘Even more preparation’ is needed Agree____ Disagree_____
   - ‘More prudent decisions’ - too many bad deals Agree____ Disagree_____
   - A few ‘bad deals’ change patterns Agree____ Disagree_____
   - Landowners communicating better Agree____ Disagree_____
   - ‘Let’s all do our (price) research’ Agree____ Disagree_____
   - Industry communication is paramount Agree____ Disagree_____
   - This is a ‘collective’, co-operative venture Agree____ Disagree_____

   There was virtually universal agreement on the IRWA position. Six people disagreed that ‘a few bad deals change patterns’ and 2 people disagreed that there were ‘too many bad deals’.

8. Which do you think is the most effective price research method? (pick one)
   Word-of-mouth alone :_____ 5%
   DB alone :_____ 0%
   DB plus word-of-mouth :_____ 85%
   Only one person felt that word-of-mouth alone was the most effective way to do price research. 85% felt that the DB plus word-of-mouth networking was the best way to research prices. Two respondents felt that reviewing the original documents was the best way.

9. Do you agree with the DB objectives: Market efficiency: _______(y/n)
   Research efficiency: ______(y/n)
   80% of respondents agreed with the objectives of the DB, while only one respondent disagreed. 2 surveys were blank and 1 was both y and n.

10. Do you agree with the DB principles:
    - Landowners compensated for losses Agree____ Disagree_____
    - Use heads of compensation Agree____ Disagree_____
    - Equal treatment for all landowners Agree____ Disagree_____
    - Full disclosure; all leases, all details Agree____ Disagree_____
    - Professional approach Agree____ Disagree_____
    - Industry Co-operation Agree____ Disagree_____

    95% of respondents agreed with the underlying principles of the DB. One survey was blank while one respondent disagreed with equal treatment and one disagreed with full disclosure.

Compensation Policy

11. Does your company have a recommended compensation approach for:
    In-house takings:_____ (y/n)
    Broker takings:______(y/n)
    90% of respondents indicated that they have a recommended method for arriving at compensation.

12. Which best describes your approach to determine compensation? (pick one)
    Fundamentals – empirical:____ 0%
    Survey ‘going’ rates:____ 55%
    Detailed comparable review:____ 45%

One respondent said all three. It is significant that no one uses the fundamentals to establish compensation but rather all seek to establish compensation based on what is being paid in the 'market'.

13. What is your company policy on 'extra' payments? (pick one)
    Contained on the lease document as 'other':_____ 15%
    Side payment not summarized on the lease:_____ 75%
    One respondent said both and one respondent said neither.

14. What is your company's approach to rent reviews? (pick one)
    Notification letters not sent:_____ 15%
    Letters sent, wait for landowner to request review:____ 80%
    Automatically increase rent on review date:____ 0%
    One respondent did not answer the question.

15. Which best describes your approach to determine new rent rates? (pick one)
    Fundamentals – empirical:____ 5%
    Survey 'going' rates:____ 45%
    Detailed comparable review:____ 45%
    One respondent said all of the above.

Data Management

16. Does your company use Surface project management software: ____(y/n)
    If so, what software do you use?
    iLand's Tracker:_____ (y/n)
    Other (name):________________________
    50% of the companies do not use any project management software. Six companies use iLand and 4 others have other software.

17. Do you capture lease compensation details on in-house data systems:____ (y/n)
    If so, what system do you use?
    CS Explorer:_____ (y/n)
    Other (name):_________________________
    In addition to iLand companies are using CS Explorer, Landrite, CGI Landman and others. For at least 3 companies the details, eg heads of compensation are not being captured.

Issues

18. Do you think the legitimate DB concerns can be solved:____ (y/n) Y – 65%
    If no, which issues are fatal to your use of the DB? N – 25%
    ____ ? - 10%
    ____
    ____
    The respondents who said that not enough data was fatal were also, ironically, the same ones who said they would not supply data. Two respondents felt there must be universal buy-in, while another felt that accuracy and consistency could not be assured.

19. Of all the industry issues facing industry please list the most important:
    ____
    ____
    ____
    This was a badly asked question in that the list of industry surface access issues was not circulated. So everything from the ERCB to the environment to gas prices was included in the answers. However most respondents spoke to access and compensation issues so the next question is not entirely meaningless.

20. Do you think the aggregate DB analysis can be useful to help solve the above issues:
    ______(y/n) Y – 45%
    N – 30%
    Blank – 15%
    Maybe – 10%

Governance

21. Would a subscription to the DB be more appealing if it included quarterly meetings with all subscribers to review trend or other aggregate analysis:____(y/n)? Y – 70%
    N – 30%

22. Would the DB be more appealing if it were governed more directly by the users or the administration handled by one of the trade associations:____(y/n)? Y – 65%
    N – 25%
    Don't know – 10%