

CHESAPEAKE ENERGY CORP

Form S-1

July 07, 2011

Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on July 7, 2011

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FORM S-1

Chesapeake Granite Wash Trust

(Exact name of co-registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1311

(Primary Standard Industrial Classification Code Number)

45-6355635

(I.R.S. Employer Identification No.)

919 Congress Avenue, Suite 500

Austin, Texas 78701

(512) 236-6599

FORM S-3

Chesapeake Energy Corporation

(Exact name of co-registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of incorporation or organization)

1311

(Primary Standard Industrial Classification Code Number)

73-1395733

(I.R.S. Employer Identification No.)

6100 North Western Avenue

Oklahoma City, Oklahoma 73118

(405) 848-8000

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(Address, including zip code, and telephone number, including

area code, of registrant's principal executive offices)
The Bank of New York Mellon Trust Company, N.A.
919 Congress Avenue, Suite 500

Austin, Texas 78701

(512) 236-6599

Attention: Michael J. Ulrich

(Name, address, including zip code, and telephone number, including area code, of agent for service)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jennifer M. Grigsby
Senior Vice President, Treasurer

and Corporate Secretary

6100 North Western Avenue

Oklahoma City, Oklahoma 73118

(405) 848-8000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Michael S. Telle

Bracewell & Giuliani LLP

711 Louisiana Street, Suite 2300

Houston, Texas 77002-2770

(713) 221-1327

(713) 221-2113 (fax)

Joshua Davidson

Baker Botts L.L.P.

One Shell Plaza

910 Louisiana Street

Houston, Texas 77002-4995

(713) 229-1234

(713) 229-1522 (fax)

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Chesapeake Granite Wash Trust

Large accelerated filer	..		Accelerated filer	..
Non-accelerated filer	x	(Do not check if a smaller reporting company)	Smaller reporting company	..

Chesapeake Energy Corporation

Large accelerated filer	x		Accelerated filer	..
Non-accelerated filer	..	(Do not check if a smaller reporting company)	Smaller reporting company	..

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Amount to be Registered ⁽¹⁾	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price ⁽¹⁾⁽²⁾	Amount of Registration Fee
Common Units representing Beneficial Interests in Chesapeake Granite Wash Trust	29,181,250	\$20.00	\$583,625,000	\$67,759

⁽¹⁾ Includes trust units issuable upon exercise of the underwriters' over-allotment option.

⁽²⁾ Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o).

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Index to Financial Statements

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued July 7, 2011

25,375,000 Common Units

Chesapeake Granite Wash Trust

REPRESENTING BENEFICIAL INTERESTS

This is an initial public offering of common units representing beneficial interests in Chesapeake Granite Wash Trust. The trust is selling all of the common units offered hereby. Chesapeake Energy Corporation (Chesapeake) will convey to the trust certain royalty interests in exchange for common and subordinated units collectively representing a 50% beneficial interest in the trust (without giving effect to the exercise of the underwriters' over-allotment option), as well as all of the net proceeds of this offering.

Prior to this offering, there has been no public market for the common units. Chesapeake anticipates that the initial public offering price will be between \$ and \$ per common unit. The trust intends to apply to have the common units approved for listing on the New York Stock Exchange under the symbol CHKR.

***The Trust Units.** Trust units, consisting of common and subordinated units, are units representing undivided beneficial interests in the property of the trust. They do not represent any interest in Chesapeake.*

***The Trust.** The trust will own term and perpetual royalty interests in oil, natural gas and natural gas liquids properties leased by Chesapeake in the Colony Granite Wash play, located in Washita County, Oklahoma. These royalty interests will entitle the trust to receive, after the deduction of post-production expenses and taxes, (a) 90% of the proceeds attributable to Chesapeake's net revenue interest in the sale of production from 60 horizontal producing wells and (b) 50% of the proceeds attributable to Chesapeake's net revenue interest in the sale of production from 122 horizontal development wells to be drilled within an Area of Mutual Interest consisting of approximately 45,400 gross acres (28,700 net acres) held by Chesapeake. The number of wells required to be drilled may increase or decrease in proportion to Chesapeake's actual net revenue interest in each well and other factors described herein. The trust will not be responsible for any costs related to the drilling of these wells. The trust will be treated as a partnership for U.S. federal income tax purposes.*

***The Trust Unitholders.** As a trust unitholder, you will receive quarterly distributions of cash from the proceeds that the trust receives from Chesapeake's sale of oil, natural gas and natural gas liquids from properties subject to the royalty interests to be held by the trust. The amount of the distributions will be impacted by oil and natural gas hedges to which the trust will be a party.*

***Ownership of Trust Units by Chesapeake.** After the completion of this offering (without giving effect to the exercise of the underwriters' over-allotment option), Chesapeake will own 12,687,500 common units and 12,687,500 subordinated units, together representing 50% of all outstanding trust units. If the underwriters exercise their over-allotment option in full, Chesapeake will own 8,881,250 common units and 12,687,500 subordinated units, together representing 42.5% of the total trust units outstanding.*

***Incentive Distributions and Subordinated Units.** Chesapeake will be entitled to receive incentive distributions equal to 50% of the amount, if any, by which the cash available for distribution on all of the trust units in any quarter during the subordination period described herein exceeds certain target distribution levels by more than 20%. Trust unitholders, including Chesapeake, will be entitled to receive the remaining 50% of such excess amount on a pro rata basis. A portion of the trust units owned by Chesapeake will be subordinated units and will not be entitled to receive distributions to the extent necessary to support specified distribution levels on the common units. The subordinated units will convert into common units following satisfaction of Chesapeake's drilling obligation. Please see Target Distributions and Subordination and Incentive Thresholds.*

Investing in the common units involves a high degree of risk. See Risk Factors beginning on page 20.

	<i>PRICE \$</i>	<i>A COMMON UNIT</i>	
			<i>Underwriting Discounts and Commissions⁽¹⁾</i>
<i>Per Common Unit</i>	<i>Price to Public</i>		<i>Proceeds to Trust⁽²⁾</i>
	\$		\$
<i>Total</i>	\$		\$

⁽¹⁾ Excludes a structuring fee equal to 0.50% of the gross proceeds of this offering, or approximately \$ million, payable to Morgan Stanley & Co. LLC and Raymond James & Associates, Inc.

⁽²⁾ The trust will deliver all of the proceeds it receives in this offering to a wholly owned subsidiary of Chesapeake. The trust has granted the underwriters the right to purchase up to an additional 3,806,250 common units to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common units to purchasers on , 2011.

MORGAN STANLEY
, 2011

RAYMOND JAMES

Table of Contents

Index to Financial Statements

Table of Contents**Index to Financial Statements****TABLE OF CONTENTS**

<u>IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS</u>	i
<u>SUMMARY</u>	1
<u>RISK FACTORS</u>	20
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	40
<u>USE OF PROCEEDS</u>	41
<u>CHESAPEAKE ENERGY CORPORATION</u>	42
<u>THE TRUST</u>	43
<u>TARGET DISTRIBUTIONS AND SUBORDINATION AND INCENTIVE THRESHOLDS</u>	49
<u>THE UNDERLYING PROPERTIES</u>	62
<u>DESCRIPTION OF THE ROYALTY INTERESTS</u>	76
<u>DESCRIPTION OF THE TRUST AGREEMENT</u>	80
<u>DESCRIPTION OF THE TRUST UNITS</u>	86
<u>TRUST UNITS ELIGIBLE FOR FUTURE SALE</u>	90
<u>U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	92
<u>STATE TAX CONSIDERATIONS</u>	108
<u>ERISA CONSIDERATIONS</u>	109
<u>UNDERWRITING</u>	110
<u>LEGAL MATTERS</u>	115
<u>EXPERTS</u>	115
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	115
<u>GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS AND TERMS RELATED TO THE TRUST</u>	117
<u>FINANCIAL STATEMENTS</u>	F-1
<u>ANNEX A: SUMMARY OF RESERVE REPORTS</u>	A-1
<u>ANNEX B: QUARTERLY TARGET DISTRIBUTIONS</u>	B-1

IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS

You should rely only on the information contained in this prospectus or in any free writing prospectus the trust may authorize to be delivered to you. Until _____, 2011 (25 days after the date of this prospectus), federal securities laws may require all dealers that effect transactions in the common units, whether or not participating in this offering, to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

The trust and Chesapeake have not, and the underwriters have not, authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell or a solicitation of an offer to buy the common units in any jurisdiction where such offer and sale would be unlawful. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this document unless otherwise specified herein. The trust's and Chesapeake's business, financial condition, results of operations and prospects may have changed since such date.

Table of Contents**Index to Financial Statements****SUMMARY**

This summary provides a brief overview of information contained elsewhere in this prospectus. To understand this offering fully, you should read the entire prospectus carefully, including the risk factors, the summary reserve reports and the financial statements and notes to those statements. Definitions for certain terms relating to the oil and natural gas business can be found in Glossary of Certain Oil and Natural Gas Terms and Terms Related to the Trust. Ryder Scott Company, L.P., referred to in this prospectus as Ryder Scott, an independent engineering firm, provided the estimates of proved oil and natural gas reserves as of March 31, 2011 included in this prospectus. These estimates are contained in summaries prepared by Ryder Scott of its reserve reports for (a) the Underlying Properties held by Chesapeake and (b) the royalty interests to be held by the trust. These reports are included as Annex A to this prospectus and are referred to in this prospectus as the reserve reports. References to Chesapeake in this prospectus are to Chesapeake Energy Corporation and, where the context requires, its subsidiaries. The royalty interests to be held by the trust are sometimes referred to herein as the trust properties. Unless otherwise indicated, all information in this prospectus assumes an initial public offering price of \$ per common unit and no exercise of the underwriters over-allotment option.

Chesapeake Granite Wash Trust

Chesapeake Granite Wash Trust is a Delaware statutory trust formed in June 2011 to own (a) royalty interests to be conveyed to the trust by Chesapeake in 60 horizontal wells producing from the Colony Granite Wash play located in Washita County in western Oklahoma (the Producing Wells), and (b) royalty interests in 122 horizontal development wells (as described in The Trust Development Agreement and Drilling Support Lien) to be drilled exclusively in the Colony Granite Wash (the Development Wells) on properties within an Area of Mutual Interest, or AMI. The AMI is limited to only the Colony Granite Wash formation and is depicted by the area identified in the inside front cover of this prospectus where Chesapeake presently holds approximately 45,400 gross acres (28,700 net acres). The Colony Granite Wash is a formation encountered at depths between approximately 11,500 feet and 13,000 feet that lies between the top of the Des Moines formation (or top of Colony Granite Wash A) and the top of the Prue formation (or base of Colony Granite Wash C). Chesapeake intends to drill, or cause to be drilled, the Development Wells from proved undeveloped (PUD) drilling locations in the AMI by March 31, 2015 and is obligated to complete such drilling by March 31, 2016.

The royalty interests will be conveyed from Chesapeake s interest in the Producing Wells and the Development Wells (the Underlying Properties) effective as of April 1, 2011. The royalty interest in the Producing Wells (the PDP Royalty Interest) entitles the trust to receive 90% of the proceeds (exclusive of any production or development costs but after deducting post-production expenses and any applicable taxes) from the sale of production of oil, natural gas and natural gas liquids attributable to Chesapeake s net revenue interest in the Producing Wells. The royalty interest in the Development Wells (the Development Royalty Interest) entitles the trust to receive 50% of the proceeds (exclusive of any production or development costs but after deducting post-production expenses and any applicable taxes) from the sale of oil, natural gas and natural gas liquids production attributable to Chesapeake s net revenue interest in the Development Wells.

As of March 31, 2011 and after giving effect to the conveyance of the PDP Royalty Interest and the Development Royalty Interest to the trust, the total reserves estimated to be attributable to the trust were 43.2 mmboe (47.0% oil and natural gas liquids by volume). This amount includes 16.6 mmboe attributable to the PDP Royalty Interest and 26.6 mmboe attributable to the Development Royalty Interest.

Generally, the percentage of production proceeds to be received by the trust with respect to a well will equal the product of (a) the percentage of proceeds to which the trust is entitled under the terms of the conveyances (90% for the Producing Wells and 50% for the Development Wells) multiplied by (b) Chesapeake s net revenue interest in the well. Chesapeake on average owns a 54.3% net revenue interest in the Producing

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Wells. Therefore, the trust will have an average 48.8% net revenue interest in the Producing Wells. Chesapeake on average owns a

Table of Contents

Index to Financial Statements

51.2% net revenue interest in the properties on which it expects to drill the Development Wells, and based on this net revenue interest, the trust would have an average 25.6% net revenue interest in the Development Wells. Chesapeake's actual net revenue interest in any particular Development Well may differ from this average.

Chesapeake will retain 10% of the proceeds from the sale of oil, natural gas and natural gas liquids attributable to its net revenue interest in the Producing Wells, and 50% of the proceeds from the sale of future production attributable to its net revenue interest in the Development Wells. Chesapeake initially will own 50% of the trust units (without giving effect to the exercise of the underwriters' over-allotment option). By virtue of Chesapeake's retained interest in the Producing Wells and the Development Wells, as well as its ownership of 50% of the trust units, it would have an effective average net revenue interest of 29.8% in the Producing Wells and 38.4% in the Development Wells, compared with an effective average net revenue interest for the holders of trust units other than Chesapeake of 24.4% in the Producing Wells and 12.8% in the Development Wells.

The trust will not be responsible for any costs related to the drilling of the Development Wells or any other operating and capital costs. The trust's cash receipts in respect of the trust properties will be determined after deducting post-production expenses and any applicable taxes associated with the PDP Royalty Interest and the Development Royalty Interest. These post-production expenses will generally consist of costs incurred to gather, store, compress, transport, process, treat, dehydrate and market the oil, natural gas and natural gas liquids produced. However, the trust will not be responsible for costs of marketing services provided by Chesapeake. Cash distributions to unitholders will be increased or decreased by the effect of the trust's hedging arrangements related to oil and natural gas production and reduced by trust administrative expenses.

The trust will be a party to hedging arrangements with unaffiliated counterparties covering a portion of production through March 31, 2016. As a party to these contracts, the trust will receive payments directly from its counterparties and be required to pay any amounts owed directly to its counterparties. The trust will hedge approximately % of the expected production and % of the expected revenues (based on NYMEX strip oil and natural gas prices as of June 20, 2011) upon which the target distributions from April 1, 2011 through March 31, 2016 are based. Following this offering, except in limited circumstances involving the restructuring of an existing hedge, the trust will have no ability to terminate its hedging arrangements or enter into additional hedges of its own. No production after March 31, 2016 will be hedged. Substantially all of the trust's assets will be pledged to the hedge counterparties to provide credit support for the hedge transactions. Please see "The Trust Hedging Arrangements and Target Distributions and Subordination and Incentive Thresholds."

The trust will make quarterly cash distributions of substantially all of its cash receipts, after deducting the trust's administrative expenses, approximately 60 days following the completion of each quarter through (and including) the quarter ending March 31, 2031. The first distribution, which will cover the second and third quarters of 2011 (consisting of proceeds attributable to five months of production), is expected to be made on or about November 30, 2011 to record unitholders as of November 15, 2011. The trustee intends to withhold \$1.0 million from the first distribution to establish a cash reserve available for trust administrative expenses. The trust will dissolve and begin to liquidate on March 31, 2031 (the Termination Date) and will soon thereafter wind up its affairs and terminate. At the Termination Date, 50% of the PDP Royalty Interest and 50% of the Development Royalty Interest will revert automatically to Chesapeake. The remaining 50% of each of the PDP Royalty Interest and the Development Royalty Interest will be sold by the trust, and the net proceeds of the sale, as well as any remaining trust cash reserves, will be distributed to the unitholders pro rata. Chesapeake will have a right of first refusal to purchase these royalty interests retained by the trust at the Termination Date.

Chesapeake currently operates 95% of the Producing Wells and expects to operate approximately 93% of the Development Wells until the completion of its drilling obligation. Chesapeake will market or cause to be marketed oil, natural gas and natural gas liquids produced from the Underlying Properties. The conveyance instruments obligate Chesapeake to conduct operations and market production in good faith and in accordance with the Reasonably Prudent Operator Standard described below under "The Development Wells."

Table of Contents

Index to Financial Statements

The business and affairs of the trust will be managed by The Bank of New York Mellon Trust Company, N.A., as trustee. The trustee will have no ability to manage or influence the operation of the Underlying Properties. Chesapeake will have no ability to manage or influence the management of the trust except through its limited voting rights as a holder of trust units. Please see Description of the Trust Units Voting Rights of Trust Unitholders.

The principal offices of the trust are located at 919 Congress Avenue, Suite 500, Austin, Texas 78701, and its telephone number is (512) 236-6599.

The Development Wells

Pursuant to a development agreement with the trust, Chesapeake intends to drill, or cause to be drilled, 122 Development Wells on PUD drilling locations in the AMI by March 31, 2015 and is obligated to complete such drilling by March 31, 2016. Chesapeake will be credited for drilling one full Development Well if the perforated length of the well is equal to or greater than 3,500 feet and Chesapeake's net revenue interest in the well is equal to 51.2%. For wells with a perforated length that is less than 3,500 feet, and for wells in which Chesapeake has a net revenue interest greater than or less than 51.2%, Chesapeake will receive proportionate credit. As a result, Chesapeake may be required to drill more or less than 122 wells in order to fulfill its drilling obligation. See The Trust Development Agreement and Drilling Support Lien. As of the date of this prospectus, there were five wells within the AMI awaiting completion by Chesapeake. Assuming the successful drilling, completion and equipping of these wells, such wells will count toward the satisfaction of Chesapeake's drilling obligation.

Until Chesapeake has satisfied its drilling obligation, it will not be permitted to drill or complete any well on lease acreage included within the AMI for its own account. For the life of the trust, Chesapeake will not be permitted to drill or complete any well that will have a perforated segment within 600 feet of any perforated interval of any Development Well or Producing Well.

In drilling the Development Wells, Chesapeake is required to act diligently and as a reasonably prudent oil and gas operator would act under the same or similar circumstances as if it were acting with respect to its own properties, disregarding the existence of the royalty interests as burdens affecting such properties. We refer to this standard as the Reasonably Prudent Operator Standard. Where Chesapeake does not operate the Underlying Properties, Chesapeake is required to use commercially reasonable efforts to exercise its contractual rights to cause the operators of such Underlying Properties to adhere to the Reasonably Prudent Operator Standard. Chesapeake expects that the drilling and completion techniques used for the Development Wells will be generally consistent with those used for the Producing Wells and other Colony Granite Wash producing wells outside of the AMI. The proved undeveloped reserves reflected in the reserve reports assume that Chesapeake will drill and complete the 122 Development Wells with the same completion technique as the 60 Producing Wells. Chesapeake Exploration, L.L.C. (Chesapeake Exploration), an indirect wholly owned subsidiary of Chesapeake that holds the interests in the AMI, will grant to the trust a lien on its interest in the AMI (except the Producing Wells and any other wells that are already producing and not subject to the royalty interests) in order to secure the estimated amount of the drilling costs for the trust's interests in the Development Wells (the Drilling Support Lien). The amount obtained by the trust pursuant to the Drilling Support Lien may not exceed \$277.2 million. As Chesapeake fulfills its drilling obligation over time, the total dollar amount that may be recovered will be proportionately reduced and completed Development Wells will be released from the lien. After Chesapeake has satisfied its drilling obligation under the development agreement, it may sell, without the consent or approval of the trust unitholders, all or any part of its interest in the Underlying Properties, as long as such sale is subject to and burdened by the trust's royalty interests.

As of the date of this prospectus, Chesapeake's drilling activity with respect to the Development Wells is consistent with the drilling schedule contemplated by the development agreement. The drilling schedule provides that approximately 30 wells are expected to be drilled each year

until the drilling obligation is fulfilled.

Table of Contents

Index to Financial Statements

Underlying Properties

The Underlying Properties are located in the Colony Granite Wash play in Washita County in western Oklahoma. The Colony Granite Wash is a subset of the greater Granite Wash plays of the Anadarko Basin. The Colony Granite Wash is situated at the eastern end of a series of Des Moines-age granite wash fields that extend along the southern flank of the Anadarko basin, approximately 60 miles into the Texas Panhandle. These granite wash fields were generally deposited as deep-water turbidites that result in relatively low risk, laterally extensive and hydrocarbon liquids-rich reservoirs. The productive members of the Colony Granite Wash are encountered between approximately 11,500 and 13,000 feet and lie stratigraphically between the top of the Des Moines formation (or top of Colony Granite Wash A) and the top of the Prue formation (or base of Colony Granite Wash C). The individual productive members within the Colony Granite Wash may reach 200 feet or more in gross interval thickness and the targeted porosity zones within these individual members are generally 20 to 75 feet thick.

Chesapeake began drilling horizontal wells in the Colony Granite Wash in 2007. Chesapeake is the largest leaseholder in the Colony Granite Wash, with approximately 61,100 net acres (of which 28,700 net acres will be subject to the trust's royalty interests), the most active driller in the play, based on rig count, and the largest producer in the play. Since 2007, there have been 164 Des Moines horizontal wells drilled in the Colony Granite Wash. Of those 164 wells, Chesapeake has drilled 122 wells and participated in another 37 wells. As of March 31, 2011, there were 12 rigs drilling horizontal wells in the formation, with nine of those rigs drilling for Chesapeake. While horizontal wells are more expensive than vertical wells, a horizontal well increases the production of hydrocarbons and adds significant recoverable reserves per well. In addition, an operator can achieve better returns on drilling investments with horizontal drilling because the production from one horizontal well is equal to the production from several vertical wells. While Chesapeake is the most active company in this play, other operators in the Colony Granite Wash include publicly-listed companies such as Penn Virginia Corporation, Apache Corporation, QEP Resources, Inc., SM Energy Company and Marathon Oil Corporation, and privately-held companies such as Samson Oil & Gas Limited, Chaparral Energy, Inc. and Ward Petroleum Corporation.

Target Distributions and Subordination and Incentive Thresholds

Chesapeake has established quarterly target levels of cash distributions to unitholders for the life of the trust as set forth in Annex B to this prospectus. Actual cash distributions to the trust unitholders will fluctuate quarterly based on the quantity of oil, natural gas and natural gas liquids produced from the Underlying Properties, the prices received for such production, when Chesapeake receives payment for such production, payments under the hedge arrangements, the trust's administrative expenses and other factors. As shown in Annex B, while target distributions initially increase as Chesapeake completes its drilling obligation and production increases, over time target distributions decline as a result of the depletion of the reserves in the Underlying Properties. While these target distributions do not represent the actual distributions you will receive with respect to your common units, they were used to calculate the subordination and incentive thresholds described in more detail below. The target distributions were derived by assuming that oil, natural gas and natural gas liquids production from the trust properties will equal the volumes reflected in the reserve reports included as Annex A to this prospectus and that prices received for such production will be consistent with settled NYMEX pricing for April through June 2011, monthly NYMEX forward pricing as of June 20, 2011 for the remainder of the period ending March 31, 2014 and assumed price increases after March 31, 2014 of 2.5% annually, capped at \$120.00 per bbl of oil and \$7.00 per mmbtu of natural gas. Using these assumptions, the price of oil would reach the \$120.00 per bbl cap in 2022 and the price of natural gas would reach the \$7.00 per mmbtu cap in 2023. The target distributions also give effect to estimated post-production expenses and projected trust administrative expenses.

In order to provide support for cash distributions on the common units, Chesapeake has agreed to subordinate 12,687,500 of the trust units it will retain following this offering, which will constitute 25% of the outstanding trust units. The subordinated units will be entitled to receive pro rata distributions from the trust each

Table of Contents

Index to Financial Statements

quarter if and to the extent there is sufficient cash to pay a cash distribution on the common units that is no less than the applicable quarterly subordination threshold. If there is not sufficient cash to fund such a distribution on all of the common units, the distribution to be made with respect to the subordinated units will be reduced or eliminated for such quarter in order to make a distribution, to the extent possible, of up to the subordination threshold amount on all the common units, including the common units held by Chesapeake. Each quarterly subordination threshold is 20% below the target distribution level for the corresponding quarter (each, a subordination threshold).

In exchange for agreeing to subordinate a portion of its trust units, and in order to provide additional financial incentive to Chesapeake to satisfy its drilling obligation and perform operations on the Underlying Properties in an efficient and cost-effective manner, Chesapeake will be entitled to receive incentive distributions equal to 50% of the amount by which the cash available for distribution on all of the trust units in any quarter is 20% greater than the target distribution for such quarter (each, an incentive threshold). The remaining 50% of cash available for distribution in excess of the incentive thresholds will be paid to trust unitholders, including Chesapeake, on a pro rata basis.

By way of example, if the target distribution per unit for a particular quarterly period is \$0.80, then the subordination threshold would be \$0.64 and the incentive threshold would be \$0.96 for such quarter. This means that if the cash available for distribution to all holders for that quarter would result in a per unit distribution below \$0.64, the distribution to be made with respect to subordinated units will be reduced or eliminated in order to make a distribution, to the extent possible, up to the amount of the subordination threshold, on the common units. If, on the other hand, the cash available for distribution to all holders would result in a per unit distribution above \$0.96, then Chesapeake would receive 50% of the amount by which the cash available for distribution on all the trust units exceeds \$0.96, with all trust unitholders (including Chesapeake on a pro rata basis) sharing in the other 50% of such excess amount. See Target Distributions and Subordination and Incentive Thresholds.

At the end of the fourth full calendar quarter following Chesapeake's satisfaction of its drilling obligation with respect to the Development Wells, the subordinated units will automatically convert into common units on a one-for-one basis and Chesapeake's right to receive incentive distributions will terminate. After such time, the common units will no longer have the protection of the subordination threshold, and all trust unitholders will share on a pro rata basis in the trust's distributions. Chesapeake currently intends to complete its drilling obligation on or before March 31, 2015 and accordingly, Chesapeake expects the subordinated units will convert into common units on or before March 31, 2016. Chesapeake is obligated to complete its drilling obligation by March 31, 2016, in which event the subordinated units would convert into common units on or before March 31, 2017. The period during which the subordinated units are outstanding is referred to as the subordination period.

Chesapeake's management has prepared the prospective financial information set forth below to present the target cash distributions to the holders of the trust units based on the estimates and assumptions described under Target Distributions and Subordination and Incentive Thresholds. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines of the U.S. Securities and Exchange Commission (SEC) or the guidelines established by the American Institute of Certified Public Accountants with respect to preparation and presentation of prospective financial information. More specifically, such information omits items that are not relevant to the trust. Chesapeake's management believes the prospective financial information was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the royalty interests. However, this information is based on estimates and judgments, and readers of this prospectus are cautioned not to place undue reliance on the prospective production or financial information.

Table of Contents

Index to Financial Statements

The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, Chesapeake's management. PricewaterhouseCoopers LLP, the trust's and Chesapeake's independent registered public accountant, has neither examined, compiled nor performed any procedures with respect to the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The reports of PricewaterhouseCoopers LLP included or incorporated by reference in this prospectus relate to the Statement of Assets and Trust Corpus of the trust, the historical Statements of Revenues and Direct Operating Expenses of the Underlying Properties and the historical financial statements of Chesapeake. The reports do not extend to the prospective financial information and should not be read to do so.

Table of Contents**Index to Financial Statements**

The following table sets forth the target distributions and subordination and incentive thresholds for each calendar quarter through the first quarter of 2017 (the last quarter for which subordinated units would be outstanding if Chesapeake were to complete its drilling obligation on March 31, 2016). The effective date of the conveyance of the royalty interests is April 1, 2011, which means that the trust will be credited with the proceeds of production attributable to the royalty interests from that date even though the trust properties will not be conveyed to the trust until the closing of this offering. Please see [Calculation of Target Distributions](#) below. The first distribution, which will cover the second and third quarters of 2011, is expected to be made on or about November 30, 2011 to record unitholders as of November 15, 2011. Due to the timing of the payment of production proceeds to the trust, the trust expects that the first distribution will include sales for oil, natural gas and natural gas liquids for five months (April 1, 2011 through August 31, 2011). Thereafter, quarterly distributions will generally include royalties attributable to sales of oil, natural gas and natural gas liquids for three months, including the first two months of the quarter just ended as well as the last month of the immediately preceding quarter. The trustee intends to withhold \$1.0 million from the first distribution to establish a cash reserve available for trust administrative expenses.

Period	Subordination Threshold ⁽¹⁾	Target Distribution (per unit)	Incentive Threshold ⁽¹⁾
2011:			
Second and Third Quarters ⁽²⁾	\$ 0.85	\$ 1.06	\$ 1.27
Fourth Quarter	0.52	0.65	0.78
2012:			
First Quarter	0.57	0.72	0.86
Second Quarter	0.58	0.72	0.87
Third Quarter	0.65	0.81	0.97
Fourth Quarter	0.74	0.93	1.12
2013:			
First Quarter	0.71	0.89	1.07
Second Quarter	0.64	0.80	0.96
Third Quarter	0.67	0.84	1.01
Fourth Quarter	0.71	0.88	1.06
2014:			
First Quarter	0.73	0.91	1.10
Second Quarter	0.71	0.88	1.06
Third Quarter	0.72	0.90	1.08
Fourth Quarter	0.70	0.88	1.05
2015:			
First Quarter	0.70	0.87	1.05
Second Quarter	0.68	0.85	1.01
Third Quarter	0.58	0.73	0.88
Fourth Quarter	0.53	0.66	0.79
2016			
First Quarter	0.48	0.60	0.72
Second Quarter	0.45	0.56	0.68
Third Quarter	0.42	0.53	0.63
Fourth Quarter	0.40	0.50	0.60
2017			
First Quarter	0.38	0.48	0.57

Table of Contents

Index to Financial Statements

- (1) The subordination and incentive thresholds terminate after the fourth full calendar quarter following Chesapeake's completion of its drilling obligation.
- (2) Includes proceeds attributable to the first five months of production from April 1, 2011 to August 31, 2011, and gives effect to the establishment of \$1.0 million of reserves for administrative expenses withheld by the trustee.

For additional information with respect to the subordination and incentive thresholds, please see Target Distributions and Subordination and Incentive Thresholds and Description of the Royalty Interests.

Table of Contents**Index to Financial Statements****Calculation of Target Distributions**

The following table presents the calculation of the target distributions for each quarter through and including the quarter ending June 30, 2012. The target distributions were prepared by Chesapeake based on assumptions of production volumes, pricing and other factors. The production forecasts used to calculate target distributions are based on estimates by Ryder Scott contained in the reserve reports. Payments to unitholders will be made approximately 60 days following the end of each calendar quarter. Please read Target Distributions and Subordination and Incentive Thresholds Significant Assumptions Used to Calculate the Target Distributions.

Period	Five Months Ending September 30, 2011 ⁽¹⁾	December 31, 2011 ⁽¹⁾	Three Months Ending March 31, 2012 ⁽¹⁾	June 30, 2012 ⁽¹⁾
	(In thousands, except volumetric and per unit data)			
<i>Estimated production from trust properties</i>				
Oil sales volumes (mmbbls)	245	154	168	168
Natural gas liquids sales volumes (mmbbls)	438	273	284	289
Natural gas sales volumes (mmcf)	4,222	2,634	2,754	2,782
Total sales volumes (mboe)	1,386	866	911	921
% PDP sales volumes	92%	70%	59%	53%
% PUD sales volumes	8%	30%	41%	47%
% Oil volumes	18%	18%	19%	18%
% Natural gas liquids volumes	31%	31%	31%	31%
% Natural gas volumes	51%	51%	50%	51%
<i>Commodity price and derivative contract positions</i>				
NYMEX futures price ⁽²⁾				
Oil (\$/bbl)	\$ 100.12	\$ 94.47	\$ 95.51	\$ 96.44
Natural gas (\$/mmbtu)	\$ 4.32	\$ 4.46	\$ 4.81	\$ 4.70
Assumed realized weighted unhedged price ⁽³⁾				
Oil (\$/bbl)	\$ 96.54	\$ 90.89	\$ 91.93	\$ 92.86
Natural gas liquids (\$/bbl)	\$ 46.76	\$ 44.04	\$ 44.56	\$ 45.01
Natural gas (\$/mcf)	\$ 2.99	\$ 3.11	\$ 3.40	\$ 3.28
Assumed realized weighted hedged price ⁽⁴⁾				
Oil (\$/bbl)*				
Natural gas (\$/mcf)*				
Percent of oil volumes hedged*				
Oil hedged price (\$/bbl)*				
Percent of natural gas volumes hedged*				
Natural gas hedged price (\$/mmbtu)*				
<i>Estimated cash available for distribution</i>				
Oil sales revenues	\$ 23,613	\$ 13,967	\$ 15,418	\$ 15,623
Natural gas liquids sales revenues	20,472	12,022	12,657	13,007
Natural gas sales revenues	12,639	8,193	9,366	9,119
Realized gains (losses) from derivative contracts*				
Operating revenues and realized gains (losses) from derivative contracts	56,724	34,182	37,441	37,749
Production taxes	(1,437)	(814)	(863)	(872)
Trust administrative expenses	(1,417) ⁽⁵⁾	(250)	(250)	(250)

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Total trust expenses	(2,854)	(1,064)	(1,113)	(1,122)
Cash available for distribution	\$ 53,870	\$ 33,118	\$ 36,328	\$ 36,627
Trust units outstanding	50,750	50,750	50,750	50,750
Target distribution per trust unit	\$ 1.06	\$ 0.65	\$ 0.72	\$ 0.72
Subordination threshold per trust unit	\$ 0.85	\$ 0.52	\$ 0.57	\$ 0.58
Incentive threshold per trust unit	\$ 1.27	\$ 0.78	\$ 0.86	\$ 0.87

Table of Contents

Index to Financial Statements

- (1) The five months ending September 30, 2011 include proceeds attributable to five months of production from April 1, 2011 to August 31, 2011. Thereafter, quarterly distributions will generally include royalties attributable to sales of oil, natural gas and natural gas liquids for three months, including the first two months of the quarter just ended as well as the last month of the immediately preceding quarter.
- (2) Average NYMEX settled and futures prices, as reported June 20, 2011. For a description of the effect of lower NYMEX prices on target cash distributions, please read Target Distributions and Subordination and Incentive Thresholds Sensitivity of Target Distributions to Changes in Oil, Natural Gas and Natural Gas Liquids Prices and Volumes.
- (3) Sales price net of forecasted gravity quality, btu content, transportation costs, and marketing costs. For information about the estimates and assumptions made in preparing the table above, see Target Distributions and Subordination and Incentive Thresholds Significant Assumptions Used to Calculate the Target Distributions.
- (4) No hedging arrangements will cover natural gas liquids.
- (5) Includes the establishment of a cash reserve of \$1.0 million for trust administrative expenses.
- * Information with respect to assumed realized weighted hedged price for oil (\$/bbl) and natural gas (\$/mcf), percent of oil volumes hedged, oil hedged price (\$/bbl), percent of natural gas volumes hedged and natural gas hedged price (\$/mmbtu) will be provided after hedging arrangements are finalized with respect to estimated future production attributable to the royalty interests.

Chesapeake Energy Corporation

Chesapeake is the second-largest producer of natural gas, is among the top 15 producers of oil and natural gas liquids and is the most active driller, based on rig count, of new oil and natural gas wells in the U.S. Chesapeake's operations are focused on discovering and developing unconventional natural gas and oil fields onshore in the U.S. Chesapeake owns leading positions in the Barnett, Haynesville, Bossier, Marcellus and Pearsall natural gas shale plays and in the Granite Wash, Cleveland, Tonkawa, Mississippian, Bone Spring, Avalon, Wolfcamp, Wolfberry, Eagle Ford, Niobrara, Three Forks/Bakken and Utica unconventional liquids plays. It has also vertically integrated its operations and owns substantial midstream, compression, drilling and oilfield service assets. As of March 31, 2011, Chesapeake had total assets of approximately \$34.8 billion and total estimated net proved reserves of 15.6 tcf. Chesapeake has approximately 61,100 net acres leased in the Colony Granite Wash and as of March 31, 2011, Chesapeake was operating nine rigs in the Colony Granite Wash.

Chesapeake's principal executive offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118 and its telephone number is (405) 848-8000. Chesapeake's website is www.chk.com; however, the information contained on Chesapeake's website is not incorporated by reference into this prospectus.

The trust units do not represent interests in or obligations of Chesapeake.

Key Investment Considerations

The following are some key investment considerations related to the Underlying Properties, the royalty interests and the common units:

The royalty interests being contributed to the trust are from the highly-productive Colony Granite Wash Play. The existing Producing Wells and the Development Wells to be drilled target the Colony Granite Wash play within the broader Granite Wash formation of the Anadarko Basin. This highly-productive play has been a focus area for recent development, with 164 horizontal wells targeting the Des Moines formation drilled in the Colony Granite Wash since 2007. Of those 164 wells, Chesapeake has drilled

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122 wells and participated in another 37 wells. As of March 31, 2011, there were 12 active rigs drilling horizontal wells in the play, with nine of those rigs drilling for Chesapeake.

Liquids-weighted revenue and production profiles provide long-term exposure to oil prices. Over the 20-year producing life of the trust, 73% of net revenues (based on June 20, 2011 strip prices) and 47% of production are projected to be derived from oil and natural gas liquids. As a result, the unhedged portion of liquids revenues during the hedge period and all liquids revenues beyond the hedge period are directly exposed to oil prices, and the amount of trust distributions and consequently trust performance is expected to be highly correlated to fluctuations in the price of oil.

Table of Contents

Index to Financial Statements

Royalty interests not burdened by operating or capital costs. The trust will not be responsible for any operating or capital costs associated with the Underlying Properties, including the costs to drill the Development Wells. The trust will bear its proportionate share of post-production expenses, any applicable taxes and trust administrative expenses.

Exposure to oil and natural gas price volatility mitigated through March 31, 2016. The trust will be a party to hedging arrangements with unaffiliated counterparties covering a portion of expected production through March 31, 2016. The trust will hedge approximately % of the expected production and approximately % of the expected revenues (based on NYMEX strip oil and natural gas prices as of June 20, 2011) upon which the target distributions from April 1, 2011 through March 31, 2016 are based. These hedging arrangements are expected to reduce the trust's exposure to fluctuations in the prices of oil and natural gas through the first quarter of 2016.

Alignment of interests between Chesapeake and the trust unitholders. Chesapeake has significant incentives to complete its drilling obligation and increase production from the Underlying Properties as a result of the following factors:

Chesapeake will have a significant economic interest in the Underlying Properties through its 50% retained interest in the Development Wells, 10% retained interest in the Producing Wells and its ownership of approximately 50% of the trust units.

A portion of the trust units that Chesapeake will own, constituting 25% of the total outstanding trust units, will be subordinated units that will not be entitled to receive distributions unless there is sufficient cash to pay the subordination threshold amount to the common units. In addition, these subordinated units will only convert into common units at the end of the fourth full calendar quarter following Chesapeake's satisfaction of its drilling obligation to the trust.

To the extent that the trust has cash available for distribution in excess of the incentive thresholds during the subordination period, Chesapeake will be entitled to receive 50% of such cash as incentive distributions, plus its pro rata share of the remaining 50% of such cash by virtue of its ownership of 25,375,000 total units.

Chesapeake will not be permitted to drill or complete any wells for its own account within the AMI or sell the Underlying Properties until it has satisfied its drilling obligation.

If Chesapeake does not fulfill its drilling obligation by March 31, 2016, the trust may foreclose on its lien on the Underlying Properties. See The Trust Development Agreement and Drilling Support Lien.

The Colony Granite Wash represents a core asset for Chesapeake. The approximately 61,100 net acres held by Chesapeake in the Colony Granite Wash represent one of its core assets. Chesapeake has grown its position in the Colony Granite Wash since it began drilling horizontal wells there in 2007 based on its belief that the formation can provide attractive returns on invested capital and its belief that the play will further Chesapeake's goal of increasing the proportion of its liquids production. As of March 31, 2011, Chesapeake had nine rigs drilling horizontal wells in the Colony Granite Wash.

Chesapeake is an experienced operator in the Colony Granite Wash. Since 2007, Chesapeake has drilled, as operator, 122 of the 164 horizontal wells drilled by the industry in the Colony Granite Wash to date, 117 of which are completed and the remaining five of which are awaiting completion and expected to be productive. Of the 122 horizontal wells drilled by Chesapeake in the Colony Granite Wash, 117 are located in Washita County, in which the Underlying Properties are located. Chesapeake expects to operate approximately 93% of the Development Wells until the completion of its drilling obligation, allowing Chesapeake to control the timing and amount of discretionary expenditures for operational and development activities with respect to the majority of the Development Wells.

Table of Contents

Index to Financial Statements

The Colony Granite Wash is serviced by well-developed gathering systems and transportation pipelines. Chesapeake's affiliate, Chesapeake Midstream Partners, L.P. (Chesapeake Midstream Partners), provides Chesapeake with gathering, treating and compression services for natural gas produced in the Colony Granite Wash and is expected to continue to provide these services with respect to substantially all of the natural gas and natural gas liquids produced by the Underlying Properties. The natural gas gathering systems are connected to an extensive intrastate natural gas transportation pipeline system owned by Enogex LLC (Enogex), a subsidiary of publicly-held OGE Energy Corp. Chesapeake's wholly owned subsidiary, Chesapeake Midstream Development, L.P. (Chesapeake Midstream Development), gathers oil production from the Colony Granite Wash through its gathering systems and third parties gather other oil by truck. The oil is further transported to Plains All American Pipeline, L.P. (Plains), a publicly-held master limited partnership, through its pipeline and by truck. The well-developed gathering systems in the Colony Granite Wash and Chesapeake's affiliation with the primary service providers allow close coordination regarding the availability of midstream services and reduce the risk that such services would not be available as Development Wells are drilled.

Rigs and services readily available to allow timely drilling and completion of wells. Chesapeake's substantial oilfield service operations, including drilling rigs, pressure pumping equipment, trucking, oilfield tools, location and road construction and roustabout services, support its drilling activities and will allow Chesapeake to manage the development of the trust's leasehold efficiently and strategically. As of March 31, 2011, Chesapeake had nine drilling rigs operating in the Colony Granite Wash and owned or leased a total of 91 drilling rigs, which it uses to drill wells for its own account. Chesapeake estimates that only four to five rigs will be required to complete its drilling obligation within its contractual commitment to the trust. Chesapeake may use a combination of its own rigs and oilfield service businesses and third party rigs and services to drill and complete the Development Wells. Chesapeake's direct access to drilling rigs and related oilfield services should substantially mitigate any potential shortage of drilling and completion equipment and enable Chesapeake to achieve its projected drilling schedule.

Potential for initial depletion to be offset by results of development drilling. Chesapeake intends to drill, or cause to be drilled, all of the Development Wells on PUD drilling locations in the AMI by March 31, 2015 and is obligated to complete such drilling by March 31, 2016. Furthermore, Chesapeake is incentivized to increase production in the near term due to its substantial ownership of trust units, the subordination and incentive distribution provisions of those units and its retained interest in the Underlying Properties. While production from the trust properties will decline over the long term, the anticipated production from the Development Wells is expected to more than offset depletion of the Producing Wells during the drilling period.

Recognized sponsor with a successful track record and active drilling program. Chesapeake maintains the industry's most active drilling program, based on rig count. In 2010, Chesapeake drilled 1,445 gross (938 net) operated wells and participated in another 1,586 gross (211 net) wells operated by other companies. Chesapeake's drilling success rate in 2010 was 98% for both company-operated and non-operated wells. Daily production for 2010 averaged 2.836 bcf, an increase of 355 mmcf, or 14%, over the 2.481 bcf of daily production for 2009, and consisted of 2.534 bcf of natural gas (89% on a natural gas equivalent basis) and 50,397 bbls of oil and natural gas liquids (11% on a natural gas equivalent basis). 2010 was Chesapeake's 21st consecutive year of production growth.

Table of Contents**Index to Financial Statements****Proved Reserves**

Proved Reserves of Underlying Properties and Royalty Interests. The following table sets forth certain estimated proved reserves and the PV-10 value as of March 31, 2011 attributable to the Underlying Properties, the PDP Royalty Interest and the Development Royalty Interest, in each case derived from the reserve reports. The reserve reports were prepared by Ryder Scott in accordance with criteria established by the SEC.

Proved reserve quantities attributable to the royalty interests are calculated by multiplying the gross reserves for each property attributable to Chesapeake's interest by the royalty interest assigned to the trust in each property. The reserves related to the Underlying Properties include all proved reserves expected to be economically produced during the life of the properties. The reserves attributable to the trust's interests include only the reserves attributable to the Underlying Properties that are expected to be produced within the 20-year period prior to the Termination Date as well as the residual 50% interest in the royalty interests that the trust will own on the Termination Date and subsequently sell. A summary of the reserve reports is included as Annex A to this prospectus.

	Proved Reserves ⁽¹⁾			Total (mboe)	PV-10 Value ⁽²⁾ (In thousands)
	Natural Gas (mmcf)	Oil (mdbl)	Natural Gas Liquids (mdbl)		
Underlying Properties:					
Developed	67,948	2,292	6,916	20,533	\$ 296,600
Undeveloped	185,762	8,506	19,458	58,924	\$ 447,736
Total	253,710	10,798	26,374	79,457	\$ 744,336
Royalty Interests:					
PDP Royalty Interests (90%)	54,517	1,935	5,552	16,573	\$ 276,534
Development Royalty Interests (50%)	82,888	4,106	8,676	26,597	\$ 469,688
Total	137,405	6,041	14,228	43,170	\$ 746,222

- (1) The proved reserves were determined using a 12-month unweighted arithmetic average of the first-day-of-the-month prices for oil, natural gas and natural gas liquids for the period from April 1, 2010 through March 1, 2011, without giving effect to derivative transactions, and were held constant for the life of the properties. The prices used in the reserve reports, as well as Chesapeake's internal reports, yield weighted average prices at the wellhead, which are based on first-day-of-the-month reference prices and adjusted for transportation and regional price differentials. The reference prices and the equivalent weighted average wellhead prices are presented in the table below.

Trailing 12-month average (SEC) pricing		Weighted average wellhead prices
Natural gas (per mcf)	Oil (per bbl)	