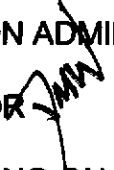


MEMORANDUM

TO: COUNTY FARMLAND PRESERVATION ADMINISTRATORS
FROM: DOUGLAS M. WOLFGANG, DIRECTOR 
RE: NATURAL GAS LEASING AND DRILLING ON EASED FARMS
DATE: AUGUST 15, 2008

Dear County Administrator:

The recent activities surrounding natural gas leasing and drilling across the Commonwealth creates a significant financial opportunity for Commonwealth land owners. However, it is important that land owners are well informed on issues surrounding natural gas leasing and drilling and that a balance approach is taken between gas development and preserving our farm lands.

For our preserved farms, leasing for natural gas is permitted under the terms of the agricultural conservation easement. Landowners should understand that a gas lease is legally binding and may have implications well beyond the initial or primary lease period. This lease document should provide the landowner with adequate protections and contain the terms on which the landowner will be paid for the gas.

The Department shares the concerns that many of you have expressed over how gas drilling may affect our preserved farms. The farmer should clearly understand all the terms of the lease and be comfortable with them. Because of this the Department is sending a letter to each eased landowner that recommends contacting an attorney experienced in oil and natural gas leasing and/or the county board before signing a lease agreement.

The most important thing a landowner can do is contact an attorney who is knowledgeable in gas leasing law. The attorney can review the lease to ensure that it adequately addresses all concerns.

Should a landowner consult with you regarding a gas lease, it is important to provide information on steps they can take to ensure his or her farmland, as well as the Commonwealth's and County's interest in the ACE are protected. In conversations with landowners, it should be stressed that you are providing them with general information only and not with legal advise on their specific negotiations.

To assist you in providing information on some of the concerns that have been raised regarding oil and gas development on ACE property, the Bureau is providing county administrators with a number of factors that should be considered in a lease. It should be noted the inclusion of any recommended addendum language is voluntary on the part of the landowner. Eased farm owners are encouraged to negotiate language similar to Appendix A into the lease agreement. The enclosed information is intended to protect the farmer's, as well as the County's and the Commonwealth's interest in the ACE. You may advise farmers these are conditions worthy of consideration and discussion with their attorney or advisor.

These provisions are not necessarily inclusive, but do provide for protection of the farmland. There are many other issues not covered here that a farmer may wish to consider addressing in the lease. This information should be shared with eased farm owners who reach out to you for input. When discussing leases with farmers, you may also encourage them to work with several professionals to help plan for possible impacts of the lease on their farming operation. Penn State Extension and the Agricultural Law Resource and Reference Center are excellent starting points for anyone with questions on gas leasing.

It should be understood that in cases where a landowner has already entered into a lease or if the oil and gas rights have previously been severed from the property, the landowner may have little control over directing how these resources will be developed. If you receive questions regarding these situations, it is recommended the landowner consult with an attorney experienced with subsurface rights.

In closing, please do not hesitate to contact me at (717) 783-3167 or dowolfgang@state.pa.us if there are questions related to this issue.

Appendix A

This lease includes areas that are subject to an agricultural conservation easement in favor of the County of XXXXX and the Commonwealth of Pennsylvania. Therefore, except as otherwise provided, the lessee shall not conduct any surface operations on the lease premises. If the lessee determines that surface operation on the lease premises may be required, the lessee shall submit a proposed operating plan to landowner and the County Agricultural Land Preservation Board Administrator describing in detail the proposed operations. No surface activities shall begin on the lease premises until the operating plan is approved by the landowner, in consultation with the County Agricultural Land Preservation Board Administrator. In determining whether to approve the proposed operating plan the landowner should consider the short and long term impacts on the farmer's ability to engage in production agriculture activities on the property, and the alternatives available for extraction and transportation of the gas from the property.

This Lease does not allow for the production of Coal Bed Methane from coal bearing formations without the express written consent of the Lessor.

This Lease shall cover only oil and gas and related hydrocarbons that may be produced through the well bore. All other minerals including, but not limited to, lignite coal, uranium, sulphur, gravel, copper and metallic ores are not included in this Lease.

Lessor agrees to abide by all current rules and regulations of the Commonwealth of Pennsylvania and the United States of America governing oil and gas development and production in the Commonwealth of Pennsylvania. Lessee agrees it will save and keep Lessor harmless and indemnify Lessor against and from any penalty or damage or charges imposed for any violation of any laws or ordinances, whether or not occasioned by the neglect of Lessee or those holding under Lessee.

Lessee shall indemnify and hold Lessor harmless from any and all liability, liens, demands, judgments, suits, and claims of any kind or character arising out of, in connection with, or relating to Lessee's operations under the terms of this Lease, including, but not limited to, claims for injury to or death of any persons, or damage, loss or destruction of any property, real or personal, under any theory of tort, contract, or strict liability. Lessee further covenants and agrees to defend any suits brought against Lessor on any claims and to pay any judgment against Lessor resulting from any suit or suits, together with all costs and expenses relating to any claims, including attorney's fees. Lessor, if it so elects, shall have the right to

participate in its defense in any suit or suits in which it may be a party, without relieving Lessee of the obligation to defend Lessor.

Lessee understands that the land leased hereunder may be under and subject to Federal and/or State agricultural programs and, Lessee, its successors and assigns, accepts responsibility for and agrees to reimburse the landowner any and all roll-back real estate taxes and/or any and all assessments related to Clean & Green, CRP, or CREP (and including, but not limited to, interest and penalties thereon) which are assessed on that portion of the leased lands affected as a result of Lessee's operations hereunder.

Lessee shall be liable and agrees to pay for all damages caused by its operations on the leased premises, including without limitation, damage to all personal property, improvements, crops, grasses, and trees on the leased premises. The payments specified herein shall constitute payment in full for all damages to the leased premises for the drill site(s), associated roads, and gathering pipelines except for the payment for the loss of marketable timber or crops. Lessor shall be paid the fair market value for marketable timber or growing crops (the term crops includes pine trees marketed for Christmas holidays). In the event that Lessee uses existing roads of Lessor, Lessee shall upgrade, if not in such condition, and maintain such roads in a rocked and rut free condition.

All pipelines and electric lines shall be buried and maintained below three feet of depth. No shot-holes for seismic testing will be placed closer than 800 feet to any existing water wells.

Lessee shall consult with Lessor upon the placement of any tanks, pipelines, surface facilities of any type or description, and lease roads necessitated by its operations, and shall obtain Lessor's consent before the placement or construction of any such facilities or roads. Lessee agrees to plan surface operations in a manner that will reduce or minimize the intrusion to crop fields. Any fencing or gate that is removed or damaged by Lessee in the course of Lessee's operations shall be replaced by a fence or gate of like quality. Lessee may install a road gate(s) to any facilities and Lessor will be provided a key to any such gate(s). Lessee will erect and maintain fences around all well heads, tanks, separators, compressors, meters, and all other surface equipment and hazardous conditions resulting from or in connection with Lessee's operations. Lessor's consent will not be unreasonably withheld. In the event that Lessor and Lessee cannot agree the dispute shall be submitted to binding arbitration to be resolved within 45 days.

Lessee shall keep and maintain any production site or facility in a clean and uncluttered condition. Lessee shall remove all its construction debris

and garbage from the leased premises and upon completion of operations restore any drill site and disturbances to the land surface to the condition, as nearly as possible, as existed prior to the commencement of any operations of any type on the leased lands. Further, Lessee shall not use the leased premises for storage of any equipment, pipe, or vehicles unless approved in writing by Lessor.

It is understood that Lessee may require the use of water in the development of the oil and gas resources. Lessee shall not use water from Lessor's wells, ponds, lakes, or reservoirs located on the leased premises without obtaining prior approval from the Lessor. Lessee shall not drill or operate a water well, take water, or inject any substance in the subsurface in such a manner that will damage any of Lessor's water wells, water supply, or which would interfere with or restrict the supply of water to Lessor or its tenants for domestic, livestock, or agricultural (including irrigation) purposes, or which would do injury to any potable ground water supply. Lessor's consent will not be unreasonably withheld. In the event that Lessor and Lessee cannot agree the dispute shall be submitted to binding arbitration to be resolved within 45 days.

Lessee shall test Lessor's domestic water supply (as to quality and quantity) prior to commencement of and following drilling operations on said land in order to ensure that said water supply is not adversely affected by said operations. In the event it is determined that Lessee's operations have adversely affected Lessor's water supply, then Lessee, at its own expense, shall take steps necessary to return Lessor's water supply to pre-drilling conditions.

Without a separate written agreement, pipelines, tank batteries, separators, or compressors shall not be constructed on the leased premises except for those used to transport oil and/or gas from a well(s) drilled on leased premises or land pooled therewith as long as at least one-third (1/3) of the Leasehold is part of a production unit. Lessee shall bury Lessee's pipeline to a depth of four (4) feet or deeper, when possible.

Lessee agrees to plan surface operations in a manner that will reduce or minimize erosion and sedimentation. Lessee further agrees to implement and maintain any best management practices required under the Erosion and Sedimentation Control Plan prepared for the site. If Lessee uses crop or grazing lands to lay pipelines, Lessee agrees to use a double ditch method for laying pipelines, which is topsoil to one side and subsoil to the other. When filling the ditch, the subsoil is replaced first and top soil is placed on the top.

Lessee agrees to abide by all reasonable bio-security measures and procedures required by Lessor to and including tire washes. All such

measures or requirements currently known and being practiced by Lessor shall be disclosed in an addendum to this lease. If the Lessor and Lessee cannot agree on what constitutes a reasonable measure or procedure the matter shall be submitted to binding arbitration to be resolved within 45 days.

Notwithstanding anything to the contrary in this lease, drilling operations on a pooled unit or units established as provided herein or by government authority shall maintain this lease in force only as to that portion of the leased premises included in such unit or units, and production from a pooled unit or units shall maintain this lease in force only as to the reservoir or reservoirs from which production is obtained by the unit well or wells. This lease may be maintained as to the remainder of the leased premises in any manner herein provided. If a unit or units as originally established be changed after the expiration of the primary term, all portions of the leased premises not included in the newly prescribed unit will be released and surrendered.