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CHKR - Q2 2012 Chesapeake Granite Wash Trust Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Nick Dell'Osso** *Chesapeake Granite Wash Trust - EVP and CFO*

**Steve Dixon** *Chesapeake Granite Wash Trust - EVP and COO*

## CONFERENCE CALL PARTICIPANTS

**Justin Albert** *Raymond James - Analyst*

**Ted Durbin** *Goldman Sachs - Analyst*

**Aaron Terry** *Kayne Anderson - Analyst*

## PRESENTATION

### Operator

Good day and welcome to the 2012 second-quarter Chesapeake Granite Wash Trust earnings call. As a reminder today's call is being recorded. At this time I'd like to turn the call over to Nick Dell'Osso. Please go ahead sir.

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### Nick Dell'Osso - Chesapeake Granite Wash Trust - EVP and CFO

Good morning and welcome to the Chesapeake Granite Wash Trust's conference call. Also joining me this morning is Steve Dixon, Executive Vice President and Chief Operating Officer of Chesapeake, and via teleconference is Michael Ulrich, Vice President of Bank of New York Mellon Trust Company, the trustee for the Chesapeake Granite Wash Trust. Also here and who may assist with some Q&A is John Kilgallon of the Investor Relations Group in Chesapeake. I have a few prepared remarks and then we will take any questions you may have.

Please note that today's conference call will contain certain forward-looking statements and assumptions that are subject to inherent risks and uncertainties. The actual results may differ materially from those projected in the forward-looking statements. Additional information about risk factors and other factors that could potentially affect the Trust and its financial results are included in the Trust's press release issued last Friday and in the Trust's filings with the SEC. As a reminder, CHKR is a statutory trust which is required to distribute all cash flow after expenses. The Trust has no employees or officers and Chesapeake Energy as the sponsor of the Trust is responsible for operating the properties in which the Trust has an interest, and fulfilling certain drilling commitments, which is also detailed in the Trust's filings with the SEC.

As stated in the press release last Friday, the distribution for the three month period ended June 30 2012 from CHKR will be \$0.61 per common unit, and approximately \$0.48 per subordinated unit. Worth noting, Chesapeake Energy owns 100% of these subordinated units. The distribution will be paid on August 30, 2012 to unit holders of record at the close of business on August 20, 2012. The calculated distribution for this period is approximately \$0.58 per unit. However, since this is below the predetermined subordination threshold for the quarter of \$0.61 per unit, the distribution per subordinated unit will be reduced in order to make a distribution of \$0.61 per common unit. The lower distribution was driven by lower natural gas and natural gas liquids prices.

For the three month period of March 1 through May 2012, total sales volumes attributed to the Trust royalty interest were 168,000 barrels of oil, 328,000 barrels of natural gas liquids, and 3.14 billion cubic feet of natural gas, for total sales of 1.02 billion barrels of oil equivalent or BOE. This is slightly above the previous projected sales volumes for the period of 972,000 BOE. Realized prices for the period were \$97.96 per barrel of oil, \$32.83 per barrel of natural gas liquids, and \$1.17 per Mcf of natural gas. These prices include the effects of transportation and third party deductions. When comparing quarter-over-quarter changes in realized prices for the 2012 second quarter, unhedged realized oil prices are higher by \$0.93 per barrel. However, this is offset by unhedged realized natural gas liquids prices, which were lower by \$3.73 per barrel, and natural gas prices, which were also lower by \$0.73 per Mcf.



Turning to hedges. Actual NYMEX oil prices were above swap contract prices held by the Trust, resulting in a realized loss on oil contracts of approximately \$2.6 million for the period. These fixed oil swap contracts were initially established to help hedge approximately 50% of oil and natural gas liquids volumes. However, historically low natural gas prices coupled with strong domestic natural gas liquids growth ahead of existing infrastructure, has resulted in reduced prices of natural gas liquids as a percentage of NYMEX oil. The Trust had forecasted 2012 second-quarter natural gas liquids to WTI oil ratio of 49%, and actual results for the quarter were 34%. Additionally, the Trust has no natural gas hedges in place.

Turning to drilling results in the Trust AMI, Chesapeake brought online 14 gross wells, which included 12 operated and two non-op in the three month period from March 1, through May 31, 2012 at varied networking interest. These 14 gross wells equated to approximately 11.7 development wells towards Chesapeake's overall commitment of 118 development wells under the development agreement with the Trust. With this activity, Chesapeake is on pace with its planned drilling activity in order to satisfy the 118 development well commitments to the Trust having drilled or participated in 35 development wells since inception. Chesapeake plans to operate five to six rigs in the Trust AMI and this level of drilling is consistent with the original plans outlined in the Trust's SEC filings.

We will now take any questions you have. Operator, please open up the line for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Justin Albert, Raymond James.

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**Justin Albert** - *Raymond James - Analyst*

You guys mentioned that you brought online 14 gross wells during the quarter. Is it fair to assume that for May you brought on seven?

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**Steve Dixon** - *Chesapeake Granite Wash Trust - EVP and COO*

I think it was six in May, if I remember right.

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**Justin Albert** - *Raymond James - Analyst*

Okay. Six in May. And then as far as the rig count, I know you guys mentioned five to six rigs. But for this previous quarter, was it more six rigs than five rigs or -- ?

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**Steve Dixon** - *Chesapeake Granite Wash Trust - EVP and COO*

Yes. We averaged six, maybe six plus even for this past quarter.

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**Justin Albert** - *Raymond James - Analyst*

Six plus. And then for the second half, just the five to six rigs going forward?



**Steve Dixon** - Chesapeake Granite Wash Trust - EVP and COO

Yes, sir.

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**Justin Albert** - Raymond James - Analyst

And then regarding NGL prices, once again they were weak this past quarter but they've rebounded pretty significantly in the third quarter. I was just hoping to get some color on your thoughts for the second half of the year.

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**Nick Dell'Osso** - Chesapeake Granite Wash Trust - EVP and CFO

Remember that the quarter in discussion now would include the months of June, July and August, the more significant rebound in NGL prices has just been in the last two weeks or so. So we'll see some benefit of that towards the very end of the current quarter, but most of the quarter in fact saw NYMEX prices at Conway, or sorry NGL prices at Conway in the 27% range, and so it will be another relatively weak quarter of NGL prices. We don't yet have an estimate of where we came out on realized prices for July, but suffice to say, given where quoted prices were for that month, it won't be terribly attractive.

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**Justin Albert** - Raymond James - Analyst

All right. Great. Thanks, guys.

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**Operator**

Ted Durbin, Goldman Sachs.

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**Ted Durbin** - Goldman Sachs - Analyst

Question on your oil volumes here. You're down pretty significantly sequentially versus the first quarter of '12, and pretty far below where you were in the prospectus. I think were you looking for about 181,000 barrels of oil, and you did 168,000. Is there anything in the quarter we ought to be aware of whether it's one-time stuff or whatnot? Can you explain the sequential drop there?

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**Nick Dell'Osso** - Chesapeake Granite Wash Trust - EVP and CFO

There are just a little bit different results across the wells, some wells are a little gassier than others. Looks like this quarter we may have drilled some wells that had little more gas oil content, a little less oil content. But no, there's nothing broadly moving there.

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**Steve Dixon** - Chesapeake Granite Wash Trust - EVP and COO

No, and I only show that we're 3% below forecast.

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**Ted Durbin** - Goldman Sachs - Analyst

Okay. Yes. Just looked like you're a lot higher versus your gas forecast versus what was in the prospective. Again, down 8% sequentially on the oil side. I'm just wondering on a go-forward basis maybe this was just gassier wells that we drilled this quarter and we'll come back and kind of hit the type curve we were looking for, I'm thinking multi-quarter, multi-years here.



**Steve Dixon** - *Chesapeake Granite Wash Trust - EVP and COO*

I think it's more this wellset.

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**Ted Durbin** - *Goldman Sachs - Analyst*

That's it from me. Thanks.

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**Operator**

(Operator Instructions)

Aaron Terry, Kayne Anderson.

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**Aaron Terry** - *Kayne Anderson - Analyst*

Just wanted to get a little color. Looks like on your gas realizations and gas prices, you guys have continued to see a little bit of a drop off, maybe a little bit faster than the Henry Hub reference prices. Is there anything that would be driving that? Am I looking at those numbers right?

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**Nick Dell'Osso** - *Chesapeake Granite Wash Trust - EVP and CFO*

We have pretty good differentials out here where we bake in some of the processing costs of NGLs onto the gas differentials just by the virtue of the way those contracts are structured, as well as there's quite a bit of transportation cost in this part of the country. There's nothing different this quarter versus last other than NGL prices.

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**Aaron Terry** - *Kayne Anderson - Analyst*

As far as realizations relative to Henry Hub, is there a percentage that you guys expect or are seeing? You're not seeing much of a difference quarter over quarter.

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**Nick Dell'Osso** - *Chesapeake Granite Wash Trust - EVP and CFO*

No, nothing structural, no.

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**Aaron Terry** - *Kayne Anderson - Analyst*

Thank you guys.

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**Operator**

There are no additional questions in queue at this time.

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**Nick Dell'Osso** - *Chesapeake Granite Wash Trust - EVP and CFO*

Thank you everyone for joining us for our call. We will look forward to speaking with you in the future. Thank you.

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**Operator**

Thank you, ladies and gentlemen. That will conclude today's presentation.

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