UNITED STATES DISTRICT COURT

MIDDLE DISTRICT OF PENNSYLVANIA

ANGELO R. RESCIGNO, SR., Executor of the Estate of CHERYL B. CANFIELD, Plaintiff, vs. STATOIL USA ONSHORE PROPERTIES INC., STATOIL NATURAL GAS LLC and STATOIL ASA, Defendants.	Case No. 3:16-cv-00085-MEM

DECLARATION OF FRANCIS P. KARAM
IN SUPPORT OF LEAD PLAINTIFF'S MOTION FOR FINAL APPROVAL
OF CLASS ACTION SETTLEMENT AND PLAN OF ALLOCATION

Francis P. Karam, an attorney admitted to practice law in the Commonwealth of Pennsylvania and in the United States District Court for the Middle District of Pennsylvania, declares under penalty of perjury:

1. I am of counsel to the Law firm of Robbins Geller Rudman & Dowd LLP. I am, together with Douglas A. Clark of The Clark Law Firm, PC and John F. Harnes of the firm Law Offices of John F. Harnes, who was previously a member of Chitwood Harley Harnes LLP, counsel for Lead Plaintiff Angelo R. Rescigno Sr., Executor of the Estate of Cheryl B. Canfield ("Lead Plaintiff").

2. I submit this Declaration in support of Lead Plaintiff's motion for final approval of the proposed class action settlement, set forth in the Stipulation and Agreement of Settlement dated March 6, 2018 (the "Settlement"), and of the Plan of Allocation.

3. Lead Plaintiff has agreed to settle all claims asserted against Statoil USA Onshore Properties Inc. (n/k/a Equinor USA Onshore Properties Inc.) ("Statoil/Equinor") in the above-captioned action ("Action") in exchange for the payment of Seven Million Dollars ($7,000,000) in cash (the "Settlement Amount") that has been deposited into an escrow account for the benefit of the Class.

4. As set forth more fully below, Lead Plaintiff agreed to the terms of the Settlement on the basis of (1) a thorough pre-filing investigation of the facts and law, (2) an aggressive pursuit of his claims throughout the litigation, (3) a comprehensive

evaluation of the strengths and weaknesses of his claims, and, (4) an arms'-length negotiation.

5. For the reasons set forth below, Lead Plaintiff submits that the proposed Settlement and Plan of Allocation are fair and reasonable, and should be approved.

STATEMENT OF THE PROCEEDINGS

6. Lead Plaintiff filed this Action on January 15, 2016. ECF No. 1. The principal allegations of the Complaint are that Statoil/Equinor improperly employed a methodology of calculating Royalties based on an Index Price rather than the actual price received by Statoil/Equinor's marketing subsidiary SNG. *Id.*, ¶¶22-27.

7. Defendants moved to dismiss the Complaint on June 9, 2016 on the grounds of lack of personal and subject matter jurisdiction on behalf of Statoil/Equinor's parent, Statoil ASA, and for failure to state a claim on behalf of all Defendants. The motion was fully briefed by September 30, 2016. ECF Nos. 25-46.

8. While the motion was pending, in February 2017, Lead Plaintiff engaged in a phased discovery, the first phase of which included the principal information relevant to the elements of Lead Plaintiff's claim: (1) information setting forth the lease language between EOP and various Landowners, including those with an L-29 Lease Form (the "L-29 Group"); (2) information setting forth the proceeds actually paid to Landowners utilizing the index prices; and (3) information

setting forth the actual proceeds received by Statoil/Equinor from third parties. Lead Plaintiff's counsel studied this information over a period of months.

9. On March 22, 2017, the Court granted Statoil ASA's motion to dismiss in its entirety and with prejudice on the grounds that the Court lacked personal and subject matter jurisdiction over Statoil ASA. *See* Order, dated March 22, 2017, ECF No. 73. The Court also granted, in its entirety and with prejudice, the motion of Statoil/Equinor's affiliate. *Id*. The Court granted in part, and denied in part Statoil/Equinor's motion to dismiss. *Id*. Specifically, the Court dismissed with prejudice Plaintiff's first, second, third, fifth and sixth claims for relief against Statoil/Equinor. *Id*. Among other things, the Court found that Statoil/Equinor complied with the lease terms by using an Index Pricing Methodology. *See* Memorandum, dated March 22, 2017, ECF No. 72, at 40. Putting aside Lead Plaintiff's request for accounting, after the Court's opinion the only remaining claim was for breach of implied duty to market, through which Lead Plaintiff alleged a "sham transaction" theory.

10. On April 5, 2017, Lead Plaintiff moved for reconsideration and re-argument of the Court's March 22, 2017 decision as it related to Statoil/Equinor. ECF No. 75. Statoil/Equinor opposed that motion on April 26, 2017, and on June 12, 2017, after a complete round of briefing, the Court denied Lead Plaintiff's motion. *See* Order, dated June 12, 2017, ECF No. 86.

11. Statoil/Equinor answered the Complaint on June 26, 2017, and thereafter the parties engaged in further document discovery. ECF No. 87. In connection therewith, Lead Plaintiff obtained more documents related to the topics set forth above, as well as information setting forth production costs that Statoil/Equinor had incurred.

12. During this further phase of discovery, the parties broached the subject of settlement, and they initiated settlement discussions in the summer of 2017.

13. Over the next few months, counsel for Lead Plaintiff retained an expert in the oil and gas industry, who assisted counsel in reviewing, in detail, the data underlying the information already received.

14. After months of review, in October 2017, Counsel reached an agreement in principle with Statoil/Equinor to settle the case. There were further negotiations of the specific terms of the settlement. Counsel advised the Court of the settlement discussions in December 2017 and executed a formal agreement on March 26, 2018.

THE TERMS OF THE SETTLEMENT

15. The Settlement provides for an all cash payment of $7 million to settle all claims relating to Statoil/Equinor's use of an Index Pricing Methodology on which to base its calculation of Royalties in the Northern Pennsylvania area. The payments are distributed equally except for members of the L-29, who receive a

distribution equal to twice as much as Class member who hold other types of leases. The Class grants a release that allows Statoil/Equinor to continue using the Index Pricing Methodology to calculate Royalties for a period of five years from the Effective Date of the Settlement for certain Royalty Owners. Lead Plaintiff and Class Counsel were able to negotiate a sunset provision in the release, which terminates at the conclusion of that five-year period.

16. For the L-29 Group, Statoil/Equinor agrees to base the Royalty on the Resale Price and will no longer use the Index Pricing Methodology going forward for the lifetime of all L-29 Group Leases. Upon final approval of the Settlement, Statoil/Equinor will make this change effective retroactively to the first full production month after preliminary approval. The L-29 Group comprises approximately 7% of the Class by hydrocarbon volumes on which royalties are based.

The Claims Asserted

17. As alleged in the Complaint, Lead Plaintiff and other members of the Class leased natural gas rights to Statoil/Equinor pursuant to gas leases which provide a uniform royalty calculation:

> Lessee . . . shall pay the Lessor on gas, including casinghead gas and other gaseous substances, produced and sold from the premises [15%] of the amount realized from the sale of gas at the well. (¶ 18)

18. The Complaint alleges that Statoil/Equinor purchased gas produced from the Lead Plaintiff's and other Class members' gas wells at an index price and then immediately sold the gas to an affiliate. That affiliate then contracted with third parties to transport the gas through the interstate pipeline system and resold it at a profit to unaffiliated third-party buyers at a higher price. *Id*.

19. The complaint alleges that Statoil/Equinor did not pay Landowners their share of what it *actually* received from the ultimate sale of gas to bona fide third parties. Instead, Statoil/Equinor accounted for the intra-corporate transfer as an arm's-length, fair market transaction. Statoil/Equinor's sales to its affiliate were not bona fide, arm's-length sales of the Landowners' gas that reflected a genuine arm's-length price. (¶¶ 27, 33). Landowners did not receive the price Statoil "*actually received*,", but a price based purportedly on an index that represented an estimate of the price at which different gas, subject to different leases, is sold to different third parties.[1] (¶ 27).

20. Based upon the facts set forth above, Lead Plaintiff, on behalf of all Landowners, asserted seven claims for relief against Defendants, against Statoil/Equinor for breach of contract, against its affiliate and parent for tortious

[1] As the Complaint alleges, certain Landowners are paid an index price for a hub point different from that where their gas is transported. (¶26 n.2)

interference with contract, against all defendants for civil conspiracy, and against all defendants for unjust enrichment.

Lead Plaintiff's Litigation of the Action and Negotiation of the Settlement

1. Lead Plaintiff's Pre-filing Investigation

21. As previously set forth in the Declaration of Douglas A. Clark, dated April 23, 2020, (ECF No. 146) (the "Clark Declaration"), submitted in connection with the motion by certain plaintiffs (the "Arbitration Plaintiffs") in an arbitration proceeding (the "Marbaker Arbitration"), the investigation of the claims asserted by Lead Plaintiff began more than two and a half years before the filing of the Complaint.

22. This investigation was conducted by Mr. Clark, who, through his representation of many landowners is extremely well-versed and experienced in royalty litigation, and by myself, who together with Mr. Clark, had previously litigated a class arbitration in connection with the action entitled *Demchak Partners Limited Partnership v. Chesapeake Appalachia, LLC*, No. 3:13-2289 (M.D. Pa.) ("*Demchak*"). During that investigation, Messrs. Clark and I approached Mr. Harnes to work with us in any forthcoming litigation. Mr. Harnes and I had previously served as co-counsel on another litigation, and he had long experience in class action litigation, including lawsuits that involved the oil and gas industry.

23. Counsel's pre-filing factual investigation was lengthy and exhaustive. First, as set forth in the Clark Declaration, it involved inquiries directed at Statoil/Equinor. Counsel repeatedly questioned Statoil/Equinor as to the manner in which it calculated the royalty paid to Lead Plaintiff and other members of the Class, ultimately confirming that such Company utilized an index price to calculate Class members' royalty.

24. Second, counsel engaged in a broad pre-filing inquiry into the activities of both Statoil/Equinor and its competitors in order to better frame any complaint as to the conduct of the former Company. Counsel compiled a comprehensive data set of royalty prices paid by Statoil/Equinor and a number of its competitors, creating spreadsheets to compare prices and establish the unfairness of the price paid by Statoil/Equinor. Counsel compiled an extensive collection of lease forms to determine the similarities, and any dissimilarities among them. Counsel reviewed industry data, including historical pricing data, and monitored both traditional media, such as news articles, and social media, including online bulletin boards, to mine any information relevant to the lawsuit.

25. Counsel also engaged in a thorough legal analysis of the claim, including an examination of the law of Pennsylvania, as well as that of numerous other jurisdictions, concerning the duties of producers of natural gas to royalty holders. Paramount among the legal issues reviewed by counsel was the effect of

arbitration provisions set forth in the vast majority of leases to which Class members were parties.

26. Although Mr. Clark and I had attempted to litigate a class arbitration in connection with the *Demchak* litigation, it was the unanimous view of counsel that subsequent decisions by both the Supreme Court and the Third Circuit had rendered the likelihood of successfully certifying a class arbitration negligible. *See, e.g.*, *Opalinski v. Robert Half Int'l, Inc.*, 761 F.3d 326 (3d Cir. 2014).

27. Because the overwhelming majority of class members had economic interests too small to make an arbitration worthwhile, counsel determined that a class action was the only viable means to effect a recovery on their behalf. Counsel recognized that the filing of a class action in this Court on behalf of lease-holders subject to arbitration presented its own problems. Nevertheless, counsel believed that a class action in this Court provided the only possible means for recovery for the vast majority of lease-holders.

2. The Litigation of this Action

28. Lead Plaintiff's litigation of this matter over a period of almost five years has been as vigorous and comprehensive as its pre-filing inquiry. After filing the complaint, Lead Plaintiff engaged in extensive motion practice against Statoil/Equinor, its parent, and its affiliate, filing several briefs in connection with Defendants' motions to dismiss.

29. While those motions were pending, Lead Plaintiff began broad and far-reaching discovery against Statoil/ Equinor. In February 2017, Lead Plaintiff initiated a phased discovery, the first phase of which included the principal information relevant to the elements of Lead Plaintiff's claim: (1) information setting forth the lease language between EOP and various Landowners, including that of the L-29 leases; (2) information setting forth the proceeds actually paid to Landowners utilizing the index prices; and (3) information setting forth the actual proceeds received by Statoil/Equinor from third parties. Lead Plaintiff's counsel studied this information over a period of months.

30. In connection therewith, Lead Plaintiff obtained more documents related to the topics set forth above, as well as information setting forth production costs that Statoil/Equinor had incurred.

31. During this further phase of discovery, the parties broached the subject of settlement, and they initiated settlement discussions in the summer of 2017.

32. Over the next few months, Lead Plaintiff's counsel retained an expert in the oil and gas industry and reviewed in detail the data underlying the information she had already received. Documents and information obtained from Statoil/Equinor and reviewed by Class Counsel and their expert consultants included: monthly index pricing data and back-up; monthly resale pricing calculations, worksheets and supporting data; sales invoices and statements; lease

records; pipeline invoices and statements; royalty payment records; and index price methodology supporting documentation. This data set forth in granular detail the difference between the index price utilized by Statoil/Equinor, the price it actually received from the resale of gas, and the costs associated therewith. Records and data were reviewed in person with Statoil/Equinor technical personnel and consultants for Statoil/Equinor and Lead Plaintiff. An analysis of that data is set out in the Expert's Report In Support of Settlement Agreement of Ammonite Resources Company dated September 24, 2020 (the "Ammonite Report") which is attached hereto as Exhibit A.[2]

33. The information concerning Statoil/Equinor's costs was significant, because during settlement negotiations, Statoil particularized its affirmative defenses, calculating what costs it had not deducted when selling Class members' natural gas but which they believed would necessarily be deducted if the royalty was based upon the actual sales to third parties.

34. The difference between the gross proceeds from actual sales and the proceeds of the intra-corporate transfers at index prices, in aggregate for all Class leases, was approximately $58 million, without any offset for uncharged costs. *See*

[2] Lead Plaintiff has moved to file the exhibits to the Ammonite Report under seal, to be made available to any Class Member who agrees to confidentiality.

Ex. A (Ammonite Report). That figure represents the maximum Lead Plaintiff could recover after trial and appeals.

35. However, Statoil/Equinor had interposed a counterclaim and offset defenses as discussed above based on its interpretation of the Market Enhancement Clause or its equivalent in the Addendum of most class leases. Such offsets, if proven at trial, totaled approximately $53.4 million (89% of Lead Plaintiff's claim), possibly leaving Lead Plaintiff with damages of approximately $4.5 million.

36. Before any settlement was finalized, Lead Plaintiff's experts directed numerous inquiries at Statoil/Equinor, ensuring that they had a thorough understanding of the figures at issue, including not just the sales figures, but the post-production cost figures as well.

3. The Negotiation of the Settlement

37. While discovery was ongoing, Counsel began negotiations with Statoil to settle the case. The considerations that factored into Lead Plaintiff's thinking were three-fold:

38. First, Lead Plaintiff and his counsel were aware of the risk that Lead Plaintiff might not prevail upon his claims. This Court had already dismissed the majority of Lead Plaintiff's claims, leaving only a claim for a breach of the duty to market. This risk was a factor in Lead Plaintiff's calculations.

39. Second, Lead Plaintiff and his counsel were aware of the risk that Statoil/Equinor might prevail on its claimed offsets. The calculation of costs has been the subject of numerous litigations, including most notably the *Demchak* litigation. The Market Enhancement Clause been interpreted unfavorably to landowners by certain courts. *See, e.g., Potts v. Chesapeake Exploration, L.L.C.*, 760 F.3d 470, 474-75 (5th Cir. 2014).

40. At a minimum, litigation over the appropriate calculation of costs would be difficult, costly, and lengthy. This was a considerable factor in Lead Plaintiff's calculations.

41. Third, Lead Plaintiff and his counsel were acutely aware that there was a significant likelihood that class members subject to an arbitration provision would be excluded from any class that might be certified after litigation by this Court. As set forth in Lead Plaintiff's accompanying Memorandum of Law, courts, particularly in more recent decisions, have consistently refused to certify a class that includes parties to an arbitration agreement.

42. Counsel reviewed data that detailed the economic interests and potential recoveries by each individual Class member. Based upon that review, Counsel determined that only a handful of Class members had an economic interest sufficiently large to make feasible the bringing of an individual arbitration proceeding. As a result, if no Class were to be certified, the overwhelming majority

of class members would be left without any recovery, regardless of the merits of their claim. This factor was, by far, the most significant in Lead Plaintiff's decision to settle.

43. Statoil pressed in negotiations for a permanent release. Lead Plaintiff's counsel and experts examined price differential data between the index price and the achieved price and observed that the difference lessened and became minimal toward the end of the class period. Although it is not known whether the index price will again diverge significantly lower than the achieved price, Lead Plaintiff was able to negotiate a 5 year sunset provision for the release, from the effective date of the settlement.

44. After months of review, in October 2017, based upon these considerations, Counsel reached an agreement in principle with Statoil/Equinor to settle the case. Thereafter, the parties engaged in negotiation of the specific terms of the settlement. Counsel advised the Court of the settlement discussions in December 2017, and executed a formal agreement on March 26, 2018.

THE PLAN OF ALLOCATION

45. Based upon the same considerations, the plan of allocation provides that all class members receive an equal distribution of the Settlement proceeds except for the L-29 Group, which is to receive twice as much. This determination was reached by counsel based upon its review of the lease language of virtually all class members.

With the exception of the L-29 Group, any difference between the lease language among Class members does not warrant a different distribution, particularly when tempered by the presence of an arbitration provision.

46. Lead Plaintiff and his counsel recognized that the lease language of the L-29 Group was the strongest among Class Members and calculated a greater distribution accordingly. At the same time, Counsel noted that virtually every member of the L-29 Group is subject to an arbitration provision that rendered any potential recovery highly contingent, notwithstanding the lease language. Class Counsel believe that the distribution arrived at, considering all these factors, provides an equitable distribution.

47. Because of the L-29 lease terms on prohibiting affiliate sales pricing of the royalty, the L-29 group, going forward will receive royalties based on the achieved price. This change will be permanent for the lifetime of Statoil/Equinor's obligation to pay royalties under the leases and will apply retro-actively to the date of preliminary approval of the settlement if the Court grants final approval of the settlement.

CONCLUSION

48. For all of the reasons set forth above, Lead Plaintiff believes that the Settlement and Plan of allocation are fair and reasonable, and that they should be approved.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 25th day of September, 2020, at Melville, New York.

Dated: September 25, 2020

FRANCIS P. KARAM

CERTIFICATE OF SERVICE

The undersigned counsel does hereby certify that he has this day caused to be served a true and correct copy of the above and foregoing via electronic mail on all counsel of record registered to receive filings via ECF.

Francis P. Karam

FRANCIS P. KARAM
Pennsylvania Bar # 77910

EXHIBIT A

UNITED STATES DISTRICT COURT

MIDDLE DISTRICT OF PENNSYLVANIA

ANGELO R. RESCIGNO, SR., Executor of the Estate of CHERYL B. CANFIELD, Plaintiff, vs. STATOIL USA ONSHORE PROPERTIES INC., STATOIL NATURAL GAS LLC and STATOIL ASA, Defendants.	Case No. 3:16-cv-00085-MEM EXPERTS' REPORT IN SUPPORT OF SETTLEMENT AGREEMENT

1. On March 22, 2017, this Court issued an opinion in above cited litigation that granted in part, and denied in part, the defendants' motions to dismiss.

2. Plaintiff's counsel has retained Ammonite Resources Company ("Ammonite"), a firm of petroleum consultants, to review the data and documents produced in discovery by defendants Statoil USA Onshore Properties Inc. ("SOP"), Statoil Natural Gas LLC ("SNG"), and Statoil ASA, and to verify the data sources, methodology and computations of defendants in determining the monetary damages agreed in settlement of the *Rescigno v. Statoil et al*. litigation. On May 15, 2018 Statoil changed its corporate name to Equinor (collectively "Statoil/Equinor").

3. Mr. Rescigno is the executor of the estate of Cheryl B. Canfield, the original plaintiff in this matter, who passed away after the settlement was agreed on, but before preliminary approval.

4. This litigation concerns a claim by mineral lessors/owners that defendant Statoil breached the terms of mineral leases. Plaintiff alleged that royalty payments were less than the lease required because the average monthly gas price, on which the royalty payment was determined by Statoil based on what was alleged to be an arbitrary "index price", and not the higher price which Statoil actually received for the gas it delivered to customers on interstate pipelines.

5. Mr. Rescigno is one of thousands of mineral lessors who allegedly suffered similar damages as claimed by Mr. Rescigno regarding royalty payments made by SOP for production of natural gas from mineral leases in the Marcellus Shale trend in Northeastern Pennsylvania. The Complaint included certain putative class action claims. The class of royalty owners has been preliminarily certified by the Court for purposes of the settlement. Ammonite has further been tasked with assisting in the creation of a plan of allocation to distribute the settlement damages to the aggrieved royalty owners.

6. Ammonite has extensive professional experience in oil and gas exploration and production, including experience in the Marcellus play in Pennsylvania, and is qualified to render this opinion. No conflicts of interest were created in accepting this engagement, and Ammonite's compensation has been at the firm's normal hourly rate for such services. Ammonite's compensation is not in any way contingent on the outcome of this litigation. The professional qualifications of the Ammonite experts who prepared this report are attached here as Appendix 1.

7. The time-frame for the damages calculation for the purposes of settlement is from the inception of gas production by Statoil from its Northern Pennsylvania Marcellus wells in April 2010 through September 2017 (the "Settlement Period").

8. There are a total of approximately 13,445 mineral leases involved in the putative class action claim. Multiple lease forms with different terms and conditions were used by the companies that acquired leases in the Northern Marcellus Trend. The leases were ultimately assigned to SOP by Chesapeake Energy and Anadarko Petroleum for purposes of a joint venture exploration program. Statoil counsel has analyzed the leases and has identified 30 different forms of lease.

9. These 30 lease forms have been aggregated by counsel into five groups with reasonably similar terms. Differences between the leases include: determination of the point of sale; determination of the price of the oil and gas sold; whether deductions may be made, or not,[1] from the gross royalty amount for post-production expenses such as the cost for gathering, treating, compressing, transporting and marketing the production; and terms regarding sales to an affiliated company. Ammonite renders no opinion regarding the grouping of these lease forms.

10. SOP sells the gas it produces at the lessor's wellhead to SNG, an affiliated company. SNG subsequently aggregates the gas produced from multiple

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[1] One of the considerations in the settlement of this case is the counter claim by Statoil for post-production costs. Statoil did not during the class period deduct a large portion of those costs from royalties. The counter claim alleges that Statoil has the right to deduct these costs and to recover past deductions that it did not take out of royalties.

wells, and pays third-party operators of five local gathering gas pipeline systems to deliver the gas to sales points on several major interstate gas pipelines that transverse Northern Pennsylvania. SNG is paid for the gas by its customers either upon delivery to the interstate pipeline, or by customers, such as a local gas utility on the mainline, downstream from the connection point.

11. The price per million BTU's (MMBtu) heating value of the gas sold by SOP to SNG during the Settlement Period, and the price on which the mineral owner's royalty was based, is called the "transfer price" by Statoil. The transfer price was based on a daily spot "index price" posted by the regional interstate pipelines for specific geographic connection points to the interstate pipeline, less any post-production fees billed by the gathering system to deliver the gas to the interstate pipeline. The daily index price at each delivery point is published by S&P Global Platts "*Inside FERC's Gas Market Report*", available by subscription.

12. Interstate pipelines charge a variety of fees to transport natural gas from the producer's gathering system connection point to the customer, who might be hundreds of miles downstream. These fees include: a demand or "reservation" fee for pipeline capacity, which is paid whether the capacity is used or not; a commodity price, which is based on the actual gas volume delivered and transported by the pipeline; a fuel and/or electricity cost; and a Federal Energy Regulatory Commission (FERC) Annual Charges Adjustment or ACA surcharge.

These fees are based on cents or fractions of a cent per MMBtu or Dekatherm (Dth) of throughput.

13. Statoil has defined what it calls its net "achieved price" (also called its "resale price") as the gross price paid by the end customer for the delivered natural gas, less any gathering and interstate charges described in the preceding paragraph. There were five major gathering systems used by Statoil, each with different interstate mainline connection points. Each system had its own price structure.

14. Because of the significant differences in monthly gas volume sold, and gas commodity price volatility during the Settlement Period, weighted averages were used by Statoil in determining an average index price and the achieved prices. Calculations were made for each royalty group, and for each of the five different gathering systems. The database is extensive and archived electronically. Statoil utilizes what it calls a "personal royalty accounting", or PRA software, which shows the pay history by royalty owner and well. The difference between the transfer price paid by SOP to the lessors for gas produced, and the net achieved or resale price obtained by SNG, is called the "Delta". Statoil made a determination of the cumulative Settlement Period Delta for each individual royalty owner.

15. Annexed as Exhibits 1(*a*) through 1(*i*) are a series of graphs prepared by Ammonite which show the transfer and net resale price and the difference

between them (Delta) during the Settlement Period for each of the five gathering systems utilized by SNG. Exhibit 1(*a*) is the aggregate weighted average of the sales prices for all five systems. Exhibit 1(*b*) includes a plot of the benchmark Louisiana Henry Hub spot gas price for comparison. The Marcellus gas prices were generally much lower than the Henry Hub price beginning in late 2013 as rapidly increasing Marcellus production was constrained by a lack of sales pipeline takeaway capacity. Note that the SOP transfer price declined significantly from mid-2013 to late 2016, and then improved significantly during the period October 2016 through July 2017.

16. The five royalty groups as defined by counsel are listed in Exhibits 2 and 3. Exhibit 2 tabulates sales data through August 2016. It is Ammonite's understanding from Plaintiff's counsel that the settlement amount was negotiated on the basis of the data available through August 2016. As the settlement period extends through September 2017, Ammonite has evaluated the available data through July 2017 - essentially an additional year of data, to determine whether there are any material changes in the sales that might affect the settlement. Exhibit 3 summarizes the data through July 2017.

17. Column 2 of Exhibits 2 and 3 lists the general terms which the leases have in common. Also indicated in the table is the royalty volume by million BTU sold during the Settlement Period and the percent of the total volume by royalty

group[2] indicated in column 1; the gross royalty paid to lessors by the production company SOP; the average price paid by SOP to lessors for the gas produced; the price at which SNG sold the gas to interstate pipelines; the total difference in sales between the two gas prices (the "Delta"); gathering deductions incurred by Statoil; cumulative deductions charged against lessor royalties; cumulative deductions paid by SOP and SNG to third parties, but not deducted from lessor royalty payments. The second last column to the right titled "affiliate claim less deducts not taken", is the difference between the SOP transfer price and the SNG resale price (Delta), less gathering deductions not charged to the royalty owners. This is the number on which the settlement negotiations have been based.

18. Statoil engaged Applied Economics Consulting Group, Inc., Austin, Texas, to analyze the production and pricing data for purposes of determining the Delta, and to prepare the summaries presented in Exhibits 2 and 3. As the exhibits are color coded by royalty category, they have been referred to as the "Rainbow Chart" during settlement discussions.

19. The damages claim of Plaintiff in this litigation is based on the assertion that lessors should have been paid the resale price obtained by SNG, an

[2] There is an error in Exhibit 3 as produced by Statoil. Differences in the production of the different lease groups in the period after August 2016 changed the relative percent of cumulative total produced gas volume during the Settlement Period from 16% to 13% for the Miscellaneous Form; from 16% to 18% for the L3 Form; and from 7% to 9% for the L29 Form.

affiliate of SOP, not the alleged arbitrary transfer price they were paid by SOP. The cumulative Delta through August 2016 was $58,964,980. Statoil has counterclaimed that it is entitled to deduct from the lessor's royalty payment all gathering and transportation charges to the point of sale, but has not done so. Deductions not charged by SOP and SNG through August 2016 were $43,333,059.

20. If Statoil were to prevail in its counterclaim, the "affiliate claim less deducts not taken" would be $15,631,921 ($58,964,980 underpayment claim less $43,333,059 non-deducts). The $15.6 million figure would be the amount available for damages if Statoil were to prevail in its counterclaim, as of August 2016.

21. Exhibit 3 is an update of the Rainbow Chart summary table through July 2017. As part of its analysis in preparation of this opinion letter, Ammonite examined the impact of basing a settlement on the data available as of July 2017 instead of August 2016. Exhibits 4(a) through 4(h) summarize this analysis. The data are broken out by lease category. Statoil did not provide us with data through September 2017 as their counsel said that the additional two months of data had not been added to the Rainbow Chart summary, and would not make any material difference to the settlement.

22. As indicated in Exhibit 4(a), during the period August, 2016 through July 2017, an additional 22,945,066 MMBtu was sold on behalf of the lessors with

payment of an additional royalty in the amount of $62,072,803. The average transfer price was $0.63/MMBtu, which was significantly (37%) higher than the proceeding 6-year average transfer price. Gas prices increased substantially nationally and regionally during the latter half of 2016 into 2017 as shown in Exhibit 1(b).

23. During the additional year, the average SNF resale price declined by $0.02/MMBtu, and the cumulative Delta actually declined by a total of $1,022,225 to a cumulative $57,942,755. Gathering deductions incurred by Statoil increased by $13,261,846, of which only $3,209,546 was charged against royalties, resulting in a net increase of $10,082,712 in deducts not charged. This brought the cumulative deductions not charged to lessor royalties to a total of $53,415,771 as of the end of July 2017. The increase in deductions not charged to royalty is a material difference between Exhibits 2 and 3, and would be the basis for a significant reduction in the funds available for damage payments if Statoil prevailed in its counterclaim.

24. The relative proportion of gas sold under the five lease categories experienced only a 2% to 3% variance in the additional year as shown in Exhibit 4(b). Notably, the L29 leases increased from 7% to 9% of total production, which is an increase of 28%. L29 lessors also benefited from a 17% increase of the transfer price from an average $1.68/MMBtu to $1.97/MMBtu in Exhibit 4(c).

Gross royalty paid to the L29 lessors increased 70% from a cumulative $13,293,045 to $22,578,243 as a result of increased monthly production and higher gas prices. The Delta faced by L29 lessors was reduced 46% from $0.61/mcf to $0.33/mcf. The average Delta for all lessors declined $0.10/mcf in the additional year, or 19.5% compared with the 46% reduction experienced by the L 29 lessors.

25. As shown in Exhibit 3, the cumulative Delta had decreased to $57,942,755 by July 2017. The cumulative deductions not charged had increased to $53,415,771, resulting in a net $4,526,984 "affiliate claim less deducts not taken". Accordingly, if settlement negotiations had taken place after July 2017, and the Statoil counterclaim prevailed, the amount available for damages would have been reduced to $ 4.5 million. L1 and L29 lessors would owe Statoil money as of the end of July 2017 if Statoil prevailed in its counterclaim as shown in the column titled "affiliate claim less deducts not taken" in Exhibit 3. As of August 2016, all lease categories would receive some damage payment if Statoil were to prevail in its counterclaim as shown in Exhibit 2.

26. An important factor in settlement discussions was the risk that Statoil could prevail on its counterclaim and offset by a significant amount, recovery by the Plaintiff on his claims. Further, as described in the preceding Paragraph 14 of this opinion, the Plaintiff and the class will benefit if the Settlement is based on

data available as of August 2016, compared with the end of the Settlement Period in 2017, should Statoil prevail with its counterclaim.

27. The parties involved in this litigation have agreed to a settlement that is based on a proportion of the difference (the "Delta") between the transfer price utilized by SOP for paying its royalty owners, and the actual gas price achieved by SNG from its customers. Post-production or market enhancement expenses charged by the gathering systems are no longer in dispute. Accordingly, the transfer price for purposes of the settlement, is the same as the index price.

28. Counsel for Statoil and plaintiff Rescigno and the putative class of royalty owners have agreed to settle this litigation in the amount of $7 million.

29. Ammonite, as technical expert in this settlement, has had full access to all documentation relevant to this litigation. We have reviewed the Complaint and Judge Mannion's March 22, 2017 ruling. In August and September 2017, Statoil counsel provided Ammonite: hard copy and online access to the entire Statoil gas marketing database for the Settlement Period; access to the S&P Global Platts "*Inside FERC's Gas Market Report*" with pricing data for each pipeline sales point; reports prepared by the consulting firm Compass Lexecon for Statoil, which explained the gas market dynamics in Northern Pennsylvania in 2010 and subsequent years, and the rationale for using an index gas price; gathering system and interstate pipeline maps covering Statoil's Northern Marcellus leasehold; and

the sales summary through August 2016, included herein as Exhibit 2. We were also sent 79 lease forms as representative of the different lease categories. Ammonite has also examined interstate pipeline operator monthly invoices showing the fees charged to Statoil, from which SNG calculated its achieved price.[3]

30. Between August and December 2017, we had numerous conference calls with counsel for both Statoil and the Plaintiff to request further data and to ask for clarification of certain operational and market issues.

31. A meeting was held in Stamford, Connecticut on December 12, 2017 with counsel for Statoil and the Plaintiff, Statoil's marketing representatives, and Statoil's expert consultant Angela Paslay of Applied Economics Consulting Group, Inc, to answer remaining questions that we had about the market data and computations prepared by Statoil and its consultant. Follow-up e-mail communications and telephone calls were made to the Statoil consultant following the December 12th meeting for further information. All our questions were answered without hesitation and all requested follow-up data were sent to us in a timely manner.

[3] The extensive production and marketing data produced by the Statoil defendants, and as discussed and reproduced in this Expert's Opinion, is subject to a Confidentiality Agreement between the parties dated June 22, 2017.

32. Between January 2018 and July 2020 there was a hiatus in Ammonite's work on this litigation as the case moved through the court system. In July 2020, Ammonite was re-engaged to verify that the production, sales and pricing data, and the methodology and conclusions of Statoil in preparing the summary of Statoil royalty volumes and payments in the Northern Marcellus, as presented in Exhibits 2 and 3, are accurate and verifiable. A conference call was held on August 28, 2020 in which counsel for both parties and their consultants participated. Counsel for Plaintiff provided Ammonite with an updated summary Rainbow Chart through July 2017 (Exhibit 3); an update of the FERC pricing for each sales point, and renewed access to the updated Statoil online market database.

33. Because of the voluminous amount of market data over the seven-year Settlement Period, it simply was not possible for Ammonite to fully audit the Statoil database, nor, we believe, necessary to do so. We reviewed and confirmed the FERC index price used by SNG for each month for the Rome, Liberty, General, Leidy, PVR Wyoming pipeline system points of sale during the April 2010 through July 2017 period; and randomly selected and examined 18 interstate pipeline invoices to confirm the charges made on each of the different gathering systems. We tracked 200 individual pipeline charges and gross sales figures through the Statoil Excel spreadsheets to verify the Statoil monthly achieved-price calculation. The random checks of monthly invoices we made across multiple

years are believed to be a representative sampling of the data. We confirmed that the aggregate average index and transfer price for the settlement period were indeed weighted averages by manually recalculating the weighted average from price data shown in Exhibits 2 and 3. Ammonite has assumed that the gas production figures are correct as reported. Our investigation did not cause Ammonite to suspect or conclude that Statoil had omitted material information or misrepresented its market data.

34. Based on (i) the material we have reviewed; (ii) our discussions with counsel, and Statoil's consultant; as well as our (iii) extensive experience in the petroleum industry; Ammonite has developed a good comprehension of the issues in the subject litigation. We understand the differences in the lease terms and how the lease forms have been grouped; the rationale for the use of index pricing given gas market conditions in Northern Pennsylvania when the Marcellus was initially drilled and produced, and as Marcellus development and infrastructure has evolved; and we understand the Statoil marketing process and price structure. Statoil has a comprehensive gas sales database, and has used an experienced independent market consultant to analyze the data to compute potential damages. Our analysis of the data permits us to confirm that for purposes of the damages calculations: a) the index prices utilized by SNG are consistent with those reported by Platts; and b), the achieved prices calculated by SNG are correct. The

aggregate gas resale less transfer price (Delta) sum of $58,964,980, less deductions not taken in the amount of $43,333,059, resulting in the amount of $15.6 million as of August 2016, the calculation on which the settlement is based, is correct as far as Ammonite can determine.

35. A total settlement in the gross amount of $7 million has been agreed by the parties to this litigation. This amount is 45% of the total $15.6 million calculated in the preceding paragraph (royalty owners underpayment claim less Statoil claim for deducts not taken) as of August 2016.

36. The L29 lease category listed in Exhibit 2 has terms which specified that sales through an affiliate would be treated the same as if the sale had been by the lessee. Accordingly, mineral owners with Statoil L29 leases should have been paid the net achieved (resale) price, not the transfer price. Nevertheless, a Delta in the amount of $ 4,855,056 as of August 2016 was deducted from payments to L29 royalty owners as indicated in Exhibit 2. As shown in Exhibit 4(h) the L29 lessors had the highest proportional deductions taken against royalty paid. The $4,855,065 Delta divided by the royalty paid of $13,293,045 was 36.5% for the L29 lessors, versus an average of 24% for the other lessors. The production from L29 mineral owners was a total 7,917,568 MMBtu, representing only 7.3 % of the total royalty gas volume sold; however, the L29 lessors were penalized by the

difference between the transfer price and net achieved price more than any other lessor group.

37. Plaintiff's counsel has advised Ammonite that the holders of L29 leases will receive 18% of the Settlement Fund, and that the remaining lessors will receive 82% of the settlement funds distributed proportionally. Co-lead counsel arrived at a judgement for the allocation of the funds between L-29 lessors and other leases in the class after considering the L-29 lease terms relating to affiliate sales, and compulsory arbitration clauses, as well as the proportion of recoverable damages. Ammonite's analysis supports the fairness of this allocation.

Respectfully submitted to the Court by,

AMMONITE RESOURCES COMPANY

Dated this 24th day of September, 2020

By: G. Warfield Hobbs

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By: Betsy M. Suppes

Betsy M. Suppes
Senior Geoscience Consultant
AAPG Certified Petroleum Geologist CPG #6138
Certified Minerals Appraiser CMS #2020-1

Appendix 1

Expert's Qualifications

Ammonite Resources was founded in 1982 to provide geotechnical and economic due diligence to corporate, institutional and private investors in global petroleum and mineral resources. We are a group of very experienced independent geologists, geophysicists, engineers, landmen, and financial analysts, with a presence in Connecticut, Pennsylvania, Texas, Louisiana, Colorado, Utah, Alaska, Alberta, and in the United Kingdom. We routinely review lease agreements for petroleum and mineral exploration, division orders for payment of the extracted resource, and contracts regarding transportation and sales of the produced hydrocarbons. Ammonite's services also include the preparation of fair market valuations of developed and undeveloped mineral properties. In addition to our evaluation of natural resource investment opportunities, the firm also has extensive experience as expert consultants to counsel and as testifying witnesses in litigation involving petroleum and mineral interests, and the publicly traded securities of oil & gas and mining companies. Our litigation clients have included many large national and small regional law firms, the Internal Revenue Service, and the United States Department of Justice. Information about Ammonite, our services, and our consultants and their qualifications is available at our website www.ammoniteresources.com.

This report was prepared by G. Warfield Hobbs, Founder and Managing Partner of Ammonite, and Betsy Suppes, Senior Consultant.

Hobbs has 50 years of experience as a petroleum geologist. He holds a B.S. Degree in Geology from Yale College and a M.S. Degree in Petroleum Geology from the Royal School of Mines, University of London. Prior to founding Ammonite in 1982, Mr. Hobbs worked ten years as an international exploration geologist for Texaco, Inc. and then the Amerada Hess Corporation. He is a licensed Professional Geologist in the states of Pennsylvania (PG#2685) and Texas (PG#4323), , and is a Certified Petroleum Geologist (CPG#2844) of the 35,000 member American Association of Petroleum Geologists (AAPG). Hobbs has served as the President of the Division of Professional Affairs of the AAPG, as Secretary of the AAPG, and as president of the American Geosciences Institute, and he is a Fellow of the Geological Society of America. Mr. Hobbs has extensive experience in the Marcellus Shale natural gas play in Pennsylvania, and is a member of the Pittsburgh Association of Petroleum Geologists and of the Pittsburgh Geological Society. He holds working and royalty interests in oil and gas wells located in the United States Gulf Coast and Rocky Mountains.

Betsy Suppes has 33 years of oil and gas experience as a petroleum and minerals geoscientist and business analyst. Ms. Suppes holds Masters degrees in

Geology, and in Business Administration from Tulane University, and a B.S. in geology from Dickinson College. She is a licensed professional geologist in Louisiana (PG#505), a Certified Petroleum Geologist (CPG# 6138) and a Certified Minerals Appraiser (CMA #2020-1). Ms. Suppes is a member of The American Association of Petroleum Geologists, New Orleans Geological Society, Houston Geological Society, and the Pittsburgh Association of Petroleum Geologists. Suppes is a past Vice President and Treasurer of the New Orleans Geological Society. Prior to becoming an independent consultant in 2002 in Pennsylvania, Ms. Suppes worked three years as a minerals exploration geologist for Freeport McMoRan, and then joined Texaco, where she worked for twelve years, initially as a petroleum exploration geologist in the Gulf Coast, and then as an international project business analyst. She has extensive experience in the Marcellus Shale natural gas play in Pennsylvania.

EXHIBITS

The exhibits to this report are included as a separate addendum that is subject to a Court sealing order.