

CHESAPEAKE ENERGY CORP
Form S-1/A
August 19, 2011
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As filed with the Securities and Exchange Commission on August 19, 2011

Registration No. 333-175395

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Amendment No. 1
to
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

Amendment No. 1
to
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

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(512) 236-6599

(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

(405) 848-8000

*(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)*

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

Copies to:

Joshua Davidson

Baker Botts L.L.P.

One Shell Plaza

910 Louisiana Street

Houston, Texas 77002-4995

(713) 229-1234

(713) 229-1522 (fax)

Michael S. Telle

Bracewell & Giuliani LLP

711 Louisiana Street, Suite 2300

Houston, Texas 77002-2770

(713) 221-1327

(713) 221-2113 (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	..

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.

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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 August 19, 2011

24,500,000 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 liquids and natural gas 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 69 horizontal producing wells and (b) 50% of the proceeds attributable to Chesapeake's net revenue interest in the sale of production from 118 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 liquids and natural gas 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 liquids hedges to which the trust will be a party. For information on target distributions and related matters pertinent to trust unitholders, including Chesapeake's right to receive incentive distributions and ownership of subordinated units, please see Target Distributions and Subordination and Incentive Thresholds beginning on page [].*

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

These risks include the following:

*Drilling for and producing oil, natural gas liquids and natural gas involves many risks that could delay the anticipated drilling schedule for the development wells and adversely affect future production, which could decrease cash distributions to unitholders.
Price fluctuations for oil, natural gas liquids and natural gas could reduce proceeds to the trust and decrease cash distributions to unitholders.*

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Actual reserves and future production may be less than current estimates.

Estimates of target distributions to unitholders are based on assumptions that are inherently subjective and are subject to significant risks and uncertainties that could cause actual distributions to differ materially from estimates.

Hedging arrangements will cover only a portion of the expected production attributable to the trust, and such arrangements will limit the trust's ability to benefit from commodity price increases for hedged volumes above the corresponding hedge price.

If the trust were treated as a corporation for U.S. federal income tax purposes, then its cash available for distribution to unitholders would be substantially reduced.

If the IRS contests the tax positions the trust takes, the value of the trust units may be adversely affected, the cost of any IRS contest will reduce the trust's cash available for distribution and income, gain, loss and deduction may be reallocated among trust unitholders.

The tax treatment of an investment in trust units could be affected by potential legislative changes, possibly on a retroactive basis.

PRICE \$ A COMMON UNIT

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

⁽¹⁾ Excludes an aggregate 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 3,675,000 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

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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.

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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 beginning on page 117. Ryder Scott Company, L.P., referred to in this prospectus as Ryder Scott, an independent engineering firm, provided the estimates of proved oil, natural gas liquids and natural gas reserves as of June 30, 2011 included in this prospectus. These estimates are contained in summaries prepared by Ryder Scott of its reserve reports for (a) the properties held by Chesapeake from which the royalty interests will be conveyed to the trust 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 69 horizontal wells producing from the Colony Granite Wash play located in Washita County in western Oklahoma (the Producing Wells), and (b) royalty interests in 118 horizontal development wells (calculated as described under The Development Wells beginning on page 3) to be drilled exclusively in the Colony Granite Wash (the Development Wells) on properties within an Area of Mutual Interest (as such area may be extended as described below, the 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 June 30, 2015 and is obligated to complete such drilling by June 30, 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 July 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 liquids and natural gas 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 liquids and natural gas production attributable to Chesapeake s net revenue interest in the Development Wells.

As of June 30, 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 44.3 mmboe (47.0% oil and natural gas liquids by volume). This amount includes 18.6 mmboe attributable to the PDP Royalty Interest and 25.7 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

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interest in the well. Chesapeake on average owns a 52.8% net revenue interest in the Producing Wells. Therefore, the trust will have an average 47.5% net revenue interest in the Producing Wells. Chesapeake on average owns a 52.0% 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 26.0% net revenue interest in the Development Wells. Chesapeake's actual net revenue interest in any particular Producing Well or Development Well may differ from these averages.

Chesapeake will retain 10% of the proceeds from the sale of oil, natural gas liquids and natural gas 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 29.0% in the Producing Wells and 39.0% in the Development Wells, compared with an effective average net revenue interest for the holders of trust units other than Chesapeake of 23.8% in the Producing Wells and 13.0% 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 liquids and natural gas 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 expenses.

The trust will be a party to hedging arrangements with unaffiliated counterparties covering a portion of production through June 30, 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 prices as of August 15, 2011) upon which the target distributions from July 1, 2011 through June 30, 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 June 30, 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" beginning on page 46 and "Target Distributions and Subordination and Incentive Thresholds" beginning on page 49.

The trust will make quarterly cash distributions of substantially all of its cash receipts, after deducting the trust's expenses, approximately 60 days following the completion of each quarter through (and including) the quarter ending June 30, 2031. The first distribution, which will cover the third quarter of 2011 (consisting of proceeds attributable to two months of production), is expected to be made on or about November 30, 2011 to record unitholders on or about November 15, 2011. The Bank of New York Mellon Trust Company, N.A., as trustee, intends to withhold \$1.0 million from the first distribution to establish an initial cash reserve available for trust expenses.

The PDP Royalty Interest and the Development Royalty Interest will each consist of two separate royalty interests conveyed by Chesapeake to the trust: (a) a term royalty interest for a period of 20 years commencing on July 1, 2011 and ending on June 30, 2031 (such date is referred to as the "Termination Date" and such interests are referred to as the "Term Royalties") and (b) a perpetual royalty interest that does not terminate (together, the "Perpetual Royalties"). The trust will dissolve and begin to liquidate on the Termination Date and will soon

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thereafter wind up its affairs and terminate. At the Termination Date, the Term Royalties will revert automatically to Chesapeake. Following the Termination Date, the Perpetual Royalties 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 the Perpetual Royalties from the trust following the Termination Date.

Chesapeake currently operates 94% 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, the oil, natural gas liquids and natural gas 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 under "The Development Wells" below.

Prior to fulfilling its drilling obligation to the trust, Chesapeake may cause the trust to exchange leased acreage in the AMI for other leased acreage in the sections adjacent to the AMI (such adjacent sections are referred to as the "Development Area"). However, the aggregate acreage attributable to the exchanged leases may not exceed five percent of the acreage initially subject to the royalty interests and the reserve profile of the newly burdened acreage must be consistent with the reserve profile of the acreage released by the trust. If additional acreage in the Development Area becomes subject to the royalty interests, then the AMI will automatically expand to include such acreage. In addition, if Chesapeake acquires any additional leases or interests in the AMI, such additional leases or interests will become subject to the royalty interests of the trust. See "Description of the Royalty Interests" "Additional Features of the Royalty Interests" "Exchange and Addition of Acreage" on page 78.

Following the satisfaction of its drilling obligation to the trust, Chesapeake may, without the consent or approval of the trust unitholders, sell all or any part of its retained interest in the Underlying Properties. In any such sale by Chesapeake, the Underlying Properties must be sold subject to and burdened by the trust's royalty interests, except that Chesapeake may require the trust to release the trust's royalty interests on such Underlying Properties with an aggregate value of up to \$5.0 million during any 12-month period. In such event, the trust must receive an amount equal to the fair value to the trust of any royalty interests it sells. See "Description of the Royalty Interests" "Additional Features of the Royalty Interests" "Sale and Release of Underlying Properties" on page 78.

The business and affairs of the trust will be managed by the 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" beginning on page 87.

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, 118 Development Wells on PUD drilling locations in the AMI by June 30, 2015 and is obligated to complete such drilling by June 30, 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 52.0%. 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 52.0%, Chesapeake will receive proportionate credit. As a result, Chesapeake may be required to drill more or less than 118 wells in order to fulfill its drilling obligation. See "The Trust" "Development Agreement and Drilling Support Lien" beginning on page 44. As of

the date of this

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prospectus, there were three Development 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 660 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 118 Development Wells with the same completion technique as the 69 Producing Wells.

Chesapeake 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 \$262.7 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 Drilling Support Lien.

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.

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 166 Des Moines horizontal wells drilled in the Colony

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Wash. Of those 166 wells, Chesapeake has drilled 126 wells and participated in another 35 wells. As of June 30, 2011, there were 15 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 liquids and natural gas 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 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 liquids and natural gas 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 July through August 2011, monthly NYMEX forward pricing as of August 15, 2011 for the remainder of the period ending June 30, 2014 and assumed price increases after June 30, 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 2024 and the price of natural gas would reach the \$7.00 per mmbtu cap in 2027. The target distributions also give effect to estimated post-production expenses, projected trust administrative expenses and actual production for July and August of 2011.

In order to provide support for cash distributions on the common units, Chesapeake has agreed to subordinate 12,250,000 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 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.

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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** beginning on page 49.

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 June 30, 2015 and accordingly, Chesapeake expects the subordinated units will convert into common units on or before June 30, 2016. Chesapeake is obligated to complete its drilling obligation by June 30, 2016, in which event the subordinated units would convert into common units on or before June 30, 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 beginning on page 49. The accompanying prospective financial information was not prepared with a view toward complying with the regulations of the U.S. Securities and Exchange Commission (the 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.**

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.

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The following table sets forth the target distributions and subordination and incentive thresholds for each calendar quarter through the second quarter of 2017 (the last quarter for which subordinated units would be outstanding if Chesapeake were to complete its drilling obligation on June 30, 2016). The effective date of the conveyance of the royalty interests is July 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 third quarter of 2011, is expected to be made on or about November 30, 2011 to record unitholders on or about 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 royalties attributable to sales of oil, natural gas liquids and natural gas for two months (July and August 2011). Thereafter, quarterly distributions will generally include royalties attributable to sales of oil, natural gas liquids and natural gas for three months, including the first two months of the quarter just ended and the last month of the quarter prior to that one. The trustee intends to withhold \$1.0 million from the first distribution to establish an initial cash reserve available for trust expenses.

Period	Subordination Threshold ⁽¹⁾	Target Distribution (per unit)	Incentive Threshold ⁽¹⁾
2011:			
Third Quarter ⁽²⁾	\$ 0.41	\$ 0.51	\$ 0.61
Fourth Quarter	0.56	0.70	0.84
2012:			
First Quarter	0.59	0.73	0.88
Second Quarter	0.59	0.74	0.89
Third Quarter	0.63	0.78	0.94
Fourth Quarter	0.67	0.84	1.01
2013:			
First Quarter	0.70	0.87	1.05
Second Quarter	0.69	0.86	1.04
Third Quarter	0.72	0.90	1.07
Fourth Quarter	0.70	0.88	1.06
2014:			
First Quarter	0.71	0.89	1.07
Second Quarter	0.70	0.87	1.04
Third Quarter	0.71	0.88	1.06
Fourth Quarter	0.68	0.85	1.02
2015:			
First Quarter	0.68	0.85	1.02
Second Quarter	0.70	0.87	1.04
Third Quarter	0.66	0.82	0.99
Fourth Quarter	0.57		