



**ROYALTY OWNER HANDBOOK
TALISMAN ENERGY USA INC.**

Frequently asked questions

NOTE: This handbook is intended only to provide general information regarding typical oil and gas leases and royalties. Individual lease terms can vary greatly. Nothing herein shall be construed to modify or amend the terms of your lease agreements with Talisman. If you have specific questions, please contact Talisman directly.

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LEASING AND DEVELOPMENT

1. What is an oil and gas lease?

An oil and gas lease is a written agreement in which a mineral owner (the “lessor”) allows another person or company (the “lessee”) to explore for, drill, and produce oil or gas on a specified unit of land for a certain period of time, in exchange for the payment of royalties. The lease provides a legal description of the property, the amount of royalty to be paid (typically expressed as a fraction, e.g., 1/8 or one-eighth of the volume produced by the well) the length of the lease, and the rights and obligations of the lessor and lessee.

2. How much is my property worth?

Due to the variables involved in determining the estimated value of your property, we recommend you contact an oil and gas broker in the area where your property is located in order to obtain this type of evaluation.

3. What is a drilling unit?

A drilling unit is the area from which an actual well would draw its oil or gas. The “spacing unit” is designated by the company (lessee) and is based on the geology of the area, the terms of the lease, and/or the regulations applicable to the property. The royalties from a well drilled within a spacing unit must be shared between all mineral owners within the unit based on the amount of the mineral owners’ acreage in the unit compared to the total acreage in the unit. This means that you and other owners in the unit share the royalty money from the oil or gas well on a prorated basis.

For example, if the spacing unit contains 640 acres and a particular mineral owner owns 10 acres within the boundaries established for the 640-acre unit, the mineral owner would be entitled to credit for 10/640ths (0.015625) of the production from the spacing unit, no matter where in the unit the well(s) is/are drilled. This decimal is referred to as tract participation and is one component of the formula used to calculate a mineral owner’s net revenue interest in a well. Please refer to the royalties section of this document for further information.

4. What happens when a well starts producing?

When a well is proposed to be drilled, Talisman typically contacts a land broker to conduct a title examination of the properties that will be included in the spacing unit for the well. An examination is made of the public records from the local courthouse. In some instances, title to a particular interest may be unclear or incomplete. In that case, curative documents may be requested from the apparent owner in order to “prove up” title. Some examples of curative documents are death certificates, probate documents, affidavits of heirship, etc. This process can take some time to complete.

When production is obtained from a well a division order title opinion is requested from a title attorney. A title attorney examines the title and calculates interest based on the ownership or mineral interest; the number of net mineral acres contributed by each party to the spacing unit, and the royalty percentage as determined by the oil and gas lease covering the interest. Once the division order title opinion is received the division order department will verify the interests and prepare a division of interest for the well/unit, and division orders will be mailed to all owners that will receive revenue from the production proceeds.

OWNERSHIP AND TITLE

5. What are the different types of oil and gas interests?

Royalty interest is typically the interest in production or sales from the well retained by the lessor in the royalty clause of an oil and gas lease. This is the mineral interest owner's compensation under the lease for production. This interest is free from operating costs, but can be subject to various taxes, post production costs, or other expenses. This also can be referred to as landowner's royalty, lessor's royalty, LOR or RI.

Overriding royalty interest is a royalty interest carved out of the lessee's lease hold interest. As with the royalty interest, overriding royalty is most generally free from any operating costs, but can be subject to various taxes, post production costs, or other expenses. This type of interest can be referred to as gross overriding royalty, ORR, or GORR

Working interest is the right to the mineral interest granted by an oil and gas lease. The owners of this type of interest are the parties that operate the property and pay for the costs of drilling, completing and operating any wells. This can also be called leasehold interest, operating interest, WI, or GWI.

6. What is "clearing title"?

Before an oil and gas company acquires an oil and gas lease, drills a well, or makes payments under a lease or division order, the company determines who owns the title to the surface, minerals, oil and gas rights, royalty and working interests. Title is typically determined by a title opinion, which is an attorney's written legal opinion, based upon an examination of the real property records in the county where the land is located. The opinion often requires that curative instruments be obtained before the property interest is purchased, drilled on, or revenue payments made.

There are some title discrepancies that may arise as a result of the title opinion: discrepancies in deeds, estates that are not probated where an interest has been inherited, unrecorded documents in the chain of title, and uncertainties of identity with respect to owners. These are some examples of issues that may occur with respect to title discrepancies and is not intended to be a comprehensive list.

If a curative action is required for your oil and gas interest, Talisman or an assigned land broker will notify you of the documentation legally required to clear title. Royalty payments will not be made until title has been cleared. Should your interest require curative action, the funds will be held until all of the required documents have been received.

If you have questions regarding a title requirement or curative action and/or how to resolve the requirement, please contact an attorney practicing in the respective state in which the property is located.

7. What is a division order?

A division order is a directive signed by the interest owner that sets out the net revenue interest of production owned by the interest owner. Also, it provides the interest owner's address and tax identification number (TIN) or social security number.

Once title has been “cleared” and a producing well has been drilled, a division order authorizing the sale of production from the well is sent to all royalty and working interest owners for their signatures. The division order sets forth the decimal interest of production owned by each party, their addresses, and a legal description of the property on which the well is located. A tax identification number or social security number is also required on the form; if the interest owner fails to provide that number, Talisman is required to make backup tax withholding deductions under existing IRS regulations. The owner may make an address correction on the division order. The owner’s signature on the form will allow us to make the address change on our records prior to making a royalty payment. Attached to the division order may be an exhibit showing the breakdown of tracts in the unit, the interest of the party and the calculations determining the decimal interest.

The division order department will prepare and send out division orders. A division order is a statement executed by all parties who claim an interest in the well, stating how proceeds of production are to be distributed. The division order is a statement of the well location, the party's interest, address, and tax identification number.

A division order is an agreement executed by the lessor and lessee or a third party payor (pipeline, well operator, or gathering company) that details how royalties are to be paid and accepted by the lessor. Royalty is the lessor’s share of production free of the cost of production. The division order allows the operator to calculate the exact dollar amount to be paid to the royalty owner as well as various working interest owners.

8. What is the effect of signing a division order?

A division order cannot vary the terms of the underlying oil and gas lease. In most states, royalty payments may not be withheld from a royalty owner who refuses to sign a division order. However, in Texas royalty payments may be withheld if an appropriate division order has not been signed. The primary function of a division order is to verify name, address, and social security number.

ROYALTIES

9. What are royalties?

Royalties are the mineral owner’s share of production sold. The royalty amount is usually expressed as a fraction of the total amount of hydrocarbons produced and sold from the leased premises.

10. How is my revenue interest calculated?

The division of interests, set out in the division order, is the result of a division order title opinion, which is compiled by an attorney who practices law in the jurisdiction in which the property is located. The examining attorney will review all documents in the chain of title pertaining to the ownership by the royalty owner; this ownership will be used in the division order by the producer.

Example:

Mr. Landowner owns a 50% mineral interest in 100 acres, he leases for a 1/4 (25%) royalty. His 100 acres are included in a 640 acre gas unit therefore his interest is calculated as follows:

Mineral Interest X Royalty Interest X Tract Participation = Net Revenue Interest
50% x 25% x 100/640 = 1.953125%

11. Why does my payment differ from other members of my family?

This can occur when ownership between family members is not equal, because one party has not provided Talisman with a taxpayer identification number, or because individual family members may own interests in other properties.

12. What does it mean to have an interest suspended?

For your protection, payments are not made upon notification of a title dispute, the assignment of interest, notice of death; transfer of property, or in the event of no known address. Once all proper documentation has been received to resolve such issues, funds will be released and paid to the proper parties. Keeping your information current can prevent this inconvenience.

Texas Natural Resources Code Section 91.402(b) and (f) provides as follows:

Payments can be suspended without interest (provided the lease does not provide otherwise) if:

- A dispute concerning title exists that would affect distribution of payments
- A reasonable doubt exists that the payee has sold or authorized the sale of its share of the oil or gas rights to the purchaser
- A reasonable doubt exists that the payee has clear title to the interest in the proceeds of production
- A title opinion requirement placing the title, identity, or whereabouts of the payee at issue remains unsatisfied after a reasonable request for curative has been made
- Payments are aggregated as provided by statute

13. I own the same interest in a property as other owners, but our payments are for different amounts. Why?

Typical reasons may include; but are not limited to:

- One owner may own interest in other properties
- One owner may have federal taxes withheld from their payment
- The terms of the oil and gas lease may not be the same

NOTIFICATIONS – OWNERS CHANGE IN ACCOUNT

14. What am I required to provide to Talisman to change my address?

Please notify Talisman Energy USA Inc. promptly of any change in address. This notice must be in writing and include your name, old address, new address, owner number, Social Security Number, and owner's signature. If your account has more than one name on it, all owners must sign the notification. For your protection, address changes are not accepted by telephone or email.

Pennsylvania and New York landowners, please provide all notifications to:

Talisman Energy USA Inc.
Attn: Land Services Department
50 Pennwood Place
Warrendale, PA 15086

Texas landowners, please provide all notifications to:

Talisman Energy USA Inc.
Attn: Land Services Department
2445 Technology Forest Blvd.
The Woodlands, TX 77381

15. What do I provide to Talisman to change my name?

Please send documentation to support a change in your legal name. Should additional information be required you will be contacted by a Talisman representative.

16. What do I provide to Talisman when I transfer or acquire an interest?

When transferring or acquiring an interest in a property under lease to Talisman, the lessor has an obligation to notify the lessee of a transfer of ownership. A copy of the recorded documentation must be provided to Talisman in order to process the transfer and update our internal records. Should additional information be required, you will be contacted by a Talisman representative.

Talisman recommends that you seek legal advice when preparing these documents.

17. What do I provide to Talisman when I change my name in Talisman's records if I get married or divorced?

Please provide Talisman with a written request to change your name. Your request should include your old name as it appears in our records, your new name, and a court certified copy of the marriage certificate or divorce decree.

18. What happens if an interest owner passes away?

Please contact Talisman's division order department in writing so that we may place the account in suspense pending the outcome of probate.

If the owner died with a will (testate) and probate proceedings have been or will be conducted in the state where the property is located, please provide the following:

- Certified copy of death certificate
- Order issuing letters testamentary
- Order admitting will to probate
- Final decree, judgment or personal representative deed distributing the estate

If the owner died with a will (testate) and probate proceedings are conducted in a state other than the state where the property is located, please provide the following:

- Certified copy of death certificate
- Documentation of ancillary probate proceedings opened in all affected jurisdictions
- Final decree, judgment or personal representative's deed distributing the estate

If the owner died without a will (intestate), please provide the following:

- Certified copy of death certificate
- If an owner died intestate please contact an attorney in the state in which the property is located to determine requirements for settling the estate and transferring the owner's interest

All documents affecting change of ownership must be filed of record in the country where the property is located.

ROYALTY PAYMENTS

19. What is the purpose of my owner number?

Talisman Energy USA Inc. assigns a unique owner number in order to identify each interest owner. When corresponding with Talisman Energy USA Inc. please always include your owner number. This number may be different from the owner number remitted by other working interest owners.

20. When will I begin receiving royalty payments?

Talisman pays royalties once production of the well has been established and revenue is received. This is typically 90 days after the beginning of production. Talisman will confirm the rate and payment schedule for your royalties in a timely manner

Texas Natural Resources Code Section 91.402(a) and (f) state that unless the oil, gas and mineral lease dictates otherwise:

Initial payment are to be made

- 120 days after end of month of first sale

Ongoing payments are to be made

- 60 days after end of calendar month in which oil production sold
- 90 days after end of calendar month in which gas production sold

Payments must be paid when the payment reaches \$100, or

- If payments do not reach \$100 within 12 months and are greater than \$10, the aggregated amount must be paid
- Amounts that do not aggregate to \$10 must be paid upon the sale or plugging of the property or at the owner's request
- If an owner requests payment more frequently, only aggregate to \$25

21. When will I receive my revenue payment?

Revenue payments are mailed by the fifth work day of the month, or per specific dates set out in your oil and gas lease or other agreements.

22. Why have I not received my revenue payment?

Your interest may be in suspense for one of the reasons outlined previously or your account has not reached Talisman Energy USA Inc.'s minimum pay amount of \$25. These amounts are paid annually in December.

23. What should I do if I don't receive my payment when I think it's due?

If you have not received your payment within 15 business days of the ninth of the month, please call 1-866-566-4747.

24. What do I do if my check is lost, stolen or becomes outdated?

Please allow 15 business days for delivery before reporting a missing check. If your check is stolen or lost, please call 1-866-566-4747 so a stop payment can be issued. Checks cannot be re-issued until 30 days after the issue date of the check. Checks must be cashed within 180 days of issue date. If your check is outdated, please write VOID on the check and return to Talisman Energy USA Inc. at the address below for reissue.

Talisman Energy USA Inc.
Attn: Revenue Accounting
50 Pennwood Place
Warrendale, PA 15086

25. I received my interest owner statement but not my payment; when will I receive my payment?

Your payment is mailed around the same time as your interest owner statement; however please allow 15 days after the payment date for your payment to arrive. Your statement is also available electronically at www.talismanusa.com > Landowners > Owner relations. For a user name and password, please contact Talisman at 1-866-566-4747.

26. Why does my payment amount vary from month to month?

Many factors contribute to your payment. Changing market conditions may cause fluctuations in commodity prices on a monthly basis, while mechanical or operational problems or routine maintenance may temporarily affect production and cause downtime. Also, over time, production volumes from an individual well will experience a natural decline. So, while this may be offset with additional wells being drilled on your property, the decline in production volumes from individual wells is inevitable.

Typical reasons may include, but are not limited to:

- Oil and gas volumes and/or prices may vary month to month
- Operational occurrences such as:
 - Routine repairs
 - Weather conditions that may impact the volumes produced and sold
- Ad-valorem tax deductions that may have been applied, or other regulatory or contractual changes
- Adjustments on prior months' volumes or values that may have been applied
- Natural decline in production

If you have reason to believe an error in payment has occurred, please contact us in writing at the address listed in contact information.

27. What type of annual statements will I receive?

In addition to revenue payments, royalty interest owners receiving more than \$10 and working interest owners receiving more than \$600 annually receive IRS Form 1099. This summarizes your total payments and tax withholdings for the previous year.

28. What is a 1099?

A 1099 is a form required by the IRS to report various types of income other than wages, salaries, and tips (for which a form W-2 is used instead). The payer of royalties (usually the oil and gas company) is required to complete a 1099. Three copies are made: one for the payer, one for the payee, and one for the IRS. If the payer does not have the payee's social security number, the payer must withhold state and federal income taxes. However, if the payee provides a tax ID number, they may elect to collect the gross proceeds and pay the income taxes themselves. It is important to note that certain other taxes, such as transportation taxes (where applicable), will be deducted in any case, as they are not income tax.

29. Can I look at my check detail online?

Yes, in fact we strongly encourage that you do so. You can actually view your upcoming check a day or two (or more, in some cases) before it is mailed.

30. Does Talisman Energy USA Inc. offer direct deposit (ACH)?

Yes. Payments can be directly deposited into to a bank account designated by you. You can elect to receive electronic payments by completing the electronic payment form, available on our website, and returning it by email, fax or mail; you have the option to receive a notice of payment by email when funds are deposited. This payment option will not change how you receive your royalty statement. You will be activated for electronic payment as soon as possible after receipt.

31. Why are adjustments sometimes made to my payment?

Talisman strives to disburse revenues in accordance with each owner's oil and gas lease and all statutes and regulations of the state in which the interest is located. In the event of an error or discrepancy in your payment, we will make the appropriate correction; this may result in an adjustment to your payment. For instance, we may receive adjusted production figures or adjusted pricing from a purchaser. An adjustment to your royalty payment might then be required to ensure that accurate payment is made. Each state has a statute of limitations that governs how far back a company is obligated to make such payment adjustments. Adjustments may sometimes be in the royalty owner's favor.

32. Why are federal taxes being withheld from my payments?

A valid social security number or tax identification number must be provided to Talisman. We request this information in the form of a W9, which is used for reporting and identification purposes. If it is not provided, the Internal Revenue Service requires withholding of 28% of all revenues (30% for foreign residents) until the information is provided.

33. What kind of statement will I receive at the end of the year?

Talisman sends out IRS Form 1099 to interest owners receiving more than \$10 and working interest owners receiving more than \$600 at the end of the calendar year, summarizing payments for the year. Every year, the IRS compares the information you provided to them when applying for your social security number with the information that we provide to them when reporting your income. If the IRS finds a discrepancy, they will require Talisman to contact you in order to resolve the error. Common causes of discrepancies include incorrect addresses, inverted numbers, name changes that were not reported to the IRS and the use of a spouse's social security number.

34. What should I do if I do not receive my royalty check?

For various reasons, a check may arrive a few days late. Please allow 15 business days for delivery before reporting contacting us as 1-866-566-4747. A frequent reason for not receiving a royalty check is that your account has not reached its minimum pay status. Talisman typically remits revenue to owners once an account balance exceeds \$25 or at year-end, whichever comes first or as dictated by the laws of the state the property is in. Occasionally, payments are held due to title matters that create uncertainty as to ownership, such as notice of death, change of address, transfer of property, assignment of interest, or legal dispute. Payments due are accumulated and released when the matter affecting ownership has been resolved. Inquiries regarding suspense balances should be made in writing to Talisman’s division order department.

35. I have a question? Who should I contact?

Please contact Talisman Energy USA Inc. by phone, or email using the contact information below:

Phone: Good Neighbor Call Center at 1-866-566-4747

Email: infous@talismanusa.com

If you wish to contact Talisman Energy USA Inc. by mail; please call the Good Neighbor Call Center in order to obtain the correct mailing address and department for your inquiry.