

PRELIMINARY TERM SHEET AND CONFIRMATION OF GENERAL TERMS OF SETTLEMENT AGREEMENT REGARDING CLAIMS ASSERTED IN:

Branch Banking and Trust Company, et al. v. Cabot Oil & Gas Corporation, et al.;

Civil Action No. 01-C-3912; Circuit Court of Kanawha County, West Virginia

On the 20th day of August, 2007, came the parties, by their duly authorized counsel, and executed this document in order to confirm the preliminary terms of the settlement which has been agreed to resolve any and all claims in the pending litigation. It is understood and agreed that the terms of this settlement are the basic terms and that such other and additional documents as may be necessary will have to be executed, subject to Court approval, to complete and close the settlement of this matter. With that understanding, it is agreed that the parties have reached a settlement and compromise of any and all claims arising from or related to the pending litigation and for and in consideration of One Dollar (\$1.00) cash in hand mutually exchanged, and such other and further mutual consideration exchanged by the parties, receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

A. Definitions:

1. "Post Production Costs" shall mean any costs incurred downstream of the wellhead including, but not limited to any costs for compression, dehydration, gathering, transportation or processing. Attached hereto and marked as "Sample Leases Authorizing Deduction of Post Production Costs" are samples of leases or lease terms which contain phrases authorizing the deduction of "Post Production Costs". The attached are not intended to be inclusive of all such terms and are only representative of lease phrases which are considered to be included with the definition of "Post Production Costs". However, language that only provides for payment or calculation of royalty "at the well", "at the wellhead", "at the mouth of the well" or similar language shall not be deemed to authorize the deduction of Post Production Costs.
2. "Division Orders" shall mean documents, other than leases or lease amendments, that contain information regarding the percentage ownership

or interest a lessor or other owner may have in production from a well or lease and how settlement and distribution of royalties payable under the lease are to be made. "Division Orders" includes, but is not limited to the sample documents attached hereto and marked as "Sample Division Orders".

3. "Line Loss" shall mean gas lost and unaccounted for after it is brought to the surface at the wellhead.
4. "Fuel" shall mean any gas used or consumed downstream of the wellhead for any purpose related to the gathering, dehydration, transportation, compression or processing of the gas. Fuel shall be computed as an annual average of measured, actual fuel use, expressed as a percentage of total receipts of measured, actual natural gas production from Appalachia on the Cranberry system for the preceding year, calculated on July 1 of each year for the preceding 12 month period and shall be used for each ensuing month in the next consecutive 12 month period. It is understood and agreed that with respect to a small percentage of the Fuel use, rather than actual, measured data, Cranberry may use standard published manufacturer data which specifies the fuel consumption for specific types of machinery for specified periods of operation. In such cases where reference is made to such standard published data to determine Fuel use, such will be considered to be actual, measured fuel use.
5. A "Proceeds" lease is a lease which computes royalty based on the sales price received from the sale of the gas produced from the lease, and includes but is not limited to any lease which specifies payment based on such phrases as the "proceeds received", "net proceeds", "gross proceeds", "amount realized" or similar terms. A "Market Value" lease includes but is not limited to leases which computes royalty based on phrases such as the "market value", "market price", "value", "prevailing field price", "market price" or "market value" in the "field", "county" or "region", or similar phrases. A "Hybrid" lease is a lease which computes royalty on

either a Proceeds or Market Value basis depending on whether the gas is sold on or off the lease or depending on the location or terms of the sale. Samples of Proceeds, Market Value and a Hybrid lease are attached hereto for illustration purposes only.

B. Terms:

1. Cash payment of Eleven Million, Six Hundred Thousand Dollars, (\$11,600,000.00), payable into a common settlement trust, fund or account which will be placed in an interest bearing bank custodial account subject to terms to be mutually agreeable to the parties, payable within two business days of the date on which the parties have agreed on and established the common settlement trust, fund or account and the court holds a preliminary fairness hearing and by written court order tentatively approves the issuance of a notice to the class of the terms of the settlement (the "Preliminary Approval"). The account will be established so that funds deposited in the account shall not be released or paid out without the express written authorization of duly authorized representatives of the named parties or their counsel and by court Order. In the event that the court does not give Preliminary Approval, or in the event the court does not ultimately approve the settlement after a hearing for final approval of the settlement ("Final Approval"), then all cash paid into escrow plus any accrued earnings or interest shall be returned within two business days to Cabot Oil & Gas Corporation ("COGC") upon demand.
2. With respect to the calculation of royalty payments prior to Final Approval, COGC shall not deduct when computing royalty any amount for Post Production Costs, Line Loss or Fuel from any leases in the class. It is agreed that upon Final Approval, that with respect to gas production from that date going forward (the "Future Royalties"), it is agreed that COGC will have paid royalties correctly and shall be deemed in compliance with the royalty obligation in each lease in the class and the lease groups noted below provided COGC calculates payment of royalty for each lease in the class in the following manner:

- a. For leases providing for payment based on Market Value and for Hybrid leases, COGC shall compute the royalty payable based on the index price identified as the spot index price for the month of deliveries as published in Inside FERC's Gas Market Report, in the table "Prices of Spot Gas Delivered to Pipelines," under the heading "Columbia Gas Transmission Corp., Appalachia," in the column titled "Index" first published in the delivery month (the "Columbia Price").
- b. For leases providing for payment based on Proceeds, COGC shall continue to compute the royalty payable (in the same manner it has in the past) based on the weighted average price of gas ("WAPOG") for sales by COGC, COGMC, their successors and assigns for sales of aggregated gas from delivery points on the Cranberry Pipeline Corporation system at interconnections with interstate pipeline systems, or such other delivery points as have from time to time been or will in the future be utilized by COGMC to sell its gas supply (the "Cranberry Pool Price"). Attached is a Sample Sheet illustrating the computation of the Cranberry Pool Price.
- c. With respect to gas production from leases not subject to any amendments or Division Orders that have language specifically authorizing the deduction of some or all Post Production Costs (the "First Lease Group"), COGC shall not deduct any Post Production Costs, nor any costs incurred for Line Loss, or Fuel.
- d. With respect to gas production from leases (or any amendments thereto) that have language specifically authorizing the deduction of some or all Post Production Costs (the "Second Lease Group"), COGC may deduct from the Columbia Price or the Cranberry Pool Price Forty Two and one half Cents (\$.425) per thousand cubic feet of gas ("mcf"), plus deduct an amount equal to Fuel. A sample of the agreed to calculation of price and authorized deductions for this group of leases is set forth on the Attachment identified as

“Second Lease Group” Example Calculation of Owner Net Value. No amount will be deducted for Line Loss.

- e. With respect to gas production from existing wells on leases (or any amendments thereto) that would be considered in the First Lease Group, but where the lessor or other owner has executed or had executed on their behalf by any duly authorized agent or trustee a Division Order that has language specifically authorizing the deduction of some or all Post Production Costs from a well or wells on the lease (the “Third Lease Group”), then for the production covered by the Division Order, COGC may deduct from the Columbia Price or the Cranberry Pool Price Fifteen Cents (\$.15) per thousand cubic feet of gas (“mcf”), plus deduct an amount equal to one half of Fuel, but in no event may such deduction for Fuel for the Third Lease Group exceed a rate of Two Percent (2%). Where a lessor or other interest owner has executed a Division Order which states in the form or the property description that it applies generally to the lease or the lands covered by the lease or that it covers any well on the lease (the “Lease Division Orders”) then all production from existing wells on such lease shall be deemed to be in the Third Group even if a specific Division Order was not executed for each existing well on the lease. As to production from future wells to be drilled on a lease, where the lessor has executed a Lease Division Order or where the lessor has executed a Division Order covering each well currently producing on the Lease, then with respect to new wells drilled in the future on the lease, such Future Royalties for any new wells will be treated as being in the Third Lease Group but where a Division Order has been executed specific only to production from a well or wells on a lease and there is no other Division Order covering each of the currently producing wells on the lease then with respect to new wells drilled in the future on the lease such Future Royalties for any new wells will be treated as being in the First Lease Group. A sample of the agreed to calculation of price and authorized deductions for this group of leases is set forth on the Attachment identified as “Third Lease Group”

Example Calculation of Owner Net Value. No amount will be deducted for Line Loss.

- f. It is understood and agreed that there are certain members of the class 1) whose leasehold interest and/or the volume of gas attributable to their interest is so small in relationship to the overall volume of gas in dispute for the class that to attempt to sort and classify their leasehold interest for purpose of computation of their interest in the settlement amount by type of lease (Proceeds, Market Value, or Hybrid) and to determine which lease group they fall in (First, Second or Third) would require an extraordinary amount of time and money and would be burdensome and expensive to the parties and to the detriment of the remaining members of the class, and 2) certain members of the class whose interest is so small and the records regarding their leases and or interests have been sold, assigned or otherwise transferred or their interest has been sold, assigned, or passed by will or intestate succession so that a determination of their lease type and interest would be burdensome and expensive to the parties and to the detriment of the remaining members of the class. Any such interests will be included in the "Fourth Lease Group". Similarly, there are members of the class whose interests in the Future Royalties as compared to the overall volumes of gas production in dispute for the class is so small as to make the task of sorting and classifying their lease and determining whether they have executed amendments or Division Orders burdensome, disproportional and more expensive to the class than the amount to be distributed to such members of the class (the "Fifth Lease Group"). With respect to the Fourth Lease Group solely for purposes of distribution of settlement funds an amount will be allocated by the Plaintiffs, with the approval of the court, as is believed to approximate their collective interest in the overall settlement as if they were members of the First Lease Group, solely for purposes of distribution of settlement funds. Members of the Fourth Lease Group will be advised in the class notice that solely for purposes of distribution of settlement funds they will be paid on a pro rata basis by the total volume of gas attributable to their interest as compared to the total

volume of gas believed to be in dispute for the entire class as if they were members of the First Lease Group. With respect to the Fifth Lease Group, they will be advised in the class notice that they will be classified as having Proceeds leases and be treated as if they were members of the Third Lease Group unless they can by proof of claim duly filed with the court satisfy the parties and the court before the Final Approval that they should be classified otherwise, in which case they will be re-classified.

3. For purposes of determining which of the lease groups each lease in the class falls into, it is agreed the parties shall cooperate in and use their best reasonable efforts to confer and agree on the classification of such leases and will, prior to Final Approval, provide to the court a spreadsheet dividing each lease into one of the groups. In the event the parties cannot agree on the sorting or classification of any such lease, the parties reserve the right to apply to the court for resolution of any such dispute. The parties further agree to cooperate in obtaining and processing data necessary to the distribution of settlement proceeds to class members.
4. It is agreed that execution of any such Division Orders in the future does not and will not amend their lease going forward or change their classification pursuant to the terms of this settlement. For all leases in all groups the Division Order form attached shall not be used in the future for any purpose other than to confirm the ownership interests, division of interests, agents and payment directions and any other general terms as necessary to confirm the division of interests and to whom payments are made.
5. It is understood and agreed that this settlement is a settlement of all claims of all class members and that no option will be allowed for class members to opt out of the class or the settlement. If the settlement is approved by the court at the Final Approval, it shall be binding on all members of the class, regardless of whether they have agreed to or objected to the terms of this settlement at any fairness hearing that may be held by the court. In the event that the court does not approve

the terms of this settlement as set forth herein, then the settlement shall not be binding on the parties hereto and they shall return to the status and in the position they were prior to entering into this agreement. It is further understood and agreed that the fact that the parties engaged in settlement discussions, mediation, this preliminary agreement and all discussions and documents related to the negotiation of this agreement are considered as solely an attempt to compromise and settle this dispute in order to avoid further litigation and to buy peace; that they do not constitute an admission of liability or fault; nor will any such negotiations, mediation, or this preliminary settlement or matters related thereto constitute or be used as evidence in any court of law, arbitration, or other proceeding of any kind as any evidence of fault, wrongdoing or as an admission against interest of any of the parties.

6. The parties agree that the terms of the settlement are fair and reasonable as to all class members and all interests of the class, including the different lease groups. The parties and their counsel agree to use their best efforts to cooperate to draft and obtain court approval for the Preliminary Approval and Final Approval, and both sides covenant to support and take such actions as necessary to obtain court approval of the terms of this settlement and the final dismissal, with prejudice of the civil action and all claims arising from or related thereto.
7. Upon obtaining Final Approval, the plaintiff class members and their counsel agree to execute a full and final broad form release of any and all claims that were asserted or could have been asserted in the pending litigation on behalf of themselves and the class members, and to execute such other and further documents as may be necessary to obtain the dismissal with prejudice of this civil action and any and all claims arising from or relating to the calculation, payment, accounting for and reporting of royalties, gas volumes and all matters arising from or related thereto in any way.
8. Each side will bear their own attorney fees and costs incurred, except that the parties will share the costs incident to issuance of the class notice, including

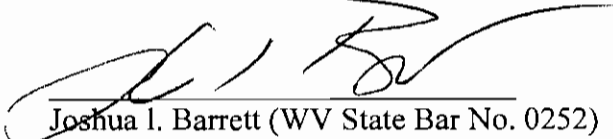
publication costs. All other costs or fees associated with administration of the settlement fund, the fees of the class administrator, any special masters or experts appointed by the court in connection with the administration, evaluation or approval of the settlement, or expenses associated with communicating and resolving or responding to any inquiries by class members or in resolving objections to the settlement shall be borne by the class and/or a part of the fees and expenses to be incurred by Class Counsel. It is understood and agreed that the consideration and cash payment recited above is the total and final amount that will be paid by COGC, and that it shall be up to the Plaintiffs to seek and obtain approval of any fee applications that may be presented to the court for approval.

9. With respect to the reporting of royalty payments going forward on check stubs or settlement statements, that if the property owner has an interest in a lease in the Second or Third lease Group, that the amount deducted for Post Production Costs and Fuel shall be shown on the stub. An acceptable form for such reporting will be attached to the final definitive settlement agreement to be executed by the parties.
10. In the event that the law of West Virginia is changed going forward which would require or allow a different method of computation of royalty, the parties expressly reserve the right to seek a judicial declaration as to the applicability of such legislation and the proper method of implementation of any changes in royalty calculation for the leases in the class that may be allowed as of the effective date of any such legislation.
11. Any inquiries or communications regarding or in response to the class notice, the settlement terms, and any objections or comments from any class members shall be directed to the class administrator or Class Counsel, and not to any of the Defendants or their counsel. In the event any inquiries are directed to the Defendants, they may inform the inquiring party to contact the class administrator

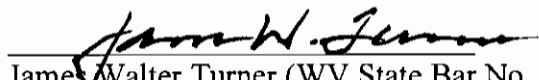
or Class Counsel and the Defendant is under no obligation to respond or provide any documents or information that may be requested.

12. Upon mailing of the class notice, in the event that class notices are returned to the class administrator or the class administrator is unable, despite reasonable efforts, to locate or distribute settlement funds, the class administrator will provide to the court and to counsel for the parties an itemization of such class members and amounts attributable to their interest that the class administrator is unable to distribute. The court may, upon motion by either party, order the return of such money to the Defendants to be held in a suspense account, or distribute such funds after a sufficient period of time has passed in such manner as may be agreed to by the parties, subject to the approval of the court.
13. If the court gives Preliminary Approval and upon deposit of the funds in accordance with this agreement, the parties will thereafter negotiate a final, definitive settlement agreement which shall be described in the class notice to be issued upon approval of the court, and such final definitive settlement agreement shall be made available for inspection to all class members of the before Final Approval.

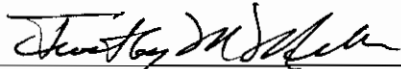
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