

Special Meeting of the Northmoor Acres Homeowners Association
Regarding Oil and Gas Lease Offer
January 17, 2015

Meeting held at the Johnstown Community Meeting Room.

Meeting Chaired by Board President Ruof. Oil and Gas presentation was chaired by Committee Chairperson Deb Coulson

Board Members Present: Directors Coulson, Eldenburg, Hersch, Rieke, Ruof and Skeldum.

Board Members Absent: Martin, and Schnitzler.

Oil and Gas Committee: Deb Coulson, Kim Gardner, Ben MacFarlane, John O'Brien, Robert Sprague

Meeting came to order at 9:17 a.m. President Ruof addressed the members with a brief introduction. The only topic to be discussed was leasing the minerals owned by Northmoor Acres HOA. President Ruof requested that the members keep their comments short.

Verification of Quorum. There are 86 members and proxies in attendance out of 120 lots.

Approval of agenda: It was moved, seconded and motion carried to approve the agenda.

Oil and Gas members were introduced by Committee chair Deb Coulson. She outlined how the meeting would be conducted and that the members would have the opportunity to vote at the end of the presentation. Thanked homeowners for attending the January 3 or January 10 question and answer sessions sponsored by the HOA Board/Oil and Gas Committee and the meeting held by Anadarko on January 15, 2015 in Berthoud. Purpose and outline of today's meeting:

- Committee been working for more than 4 ½ months
- Will show a video explaining about drilling
- Will go back through the oil and gas information we have
- Will discuss where we have been
- Will deal with such questions as "what is forced pooling"
- Where are we today
- Feedback from our attorneys and people we have consulted with
- What we know for sure
- Will discuss our options and the Board's objective
- Then will ask for motion, a second and then a vote on how to proceed

A video was shown that explained how drilling occurs and explains drilling and fracking. The film explains horizontal drilling from a single location.

Ben McFarlane addressed the members to discuss the drilling and fracking process further. He presented slides that showed the information that we have from Anadarko about how the process may affect Northmoor. The project is the Whisper Rock well. Anadarko is building a road south

of us to allow access to the site not using County Road 11 and 42. There is a pipeline going in along County Road 11, which will carry oil and gas off the site.

There are 2 historical wells in the Northmoor Area that Anadarko will be closing and re-plugging in the next few months.

Discussed drilling economics using horizontal wells. Typically most production and revenue occurs during the first year(s) of production.

Committee Chair Coulson discussed the process that the committee has undertaken over the last 5 months. The Committee has spoken to oil and gas and corporate attorneys, tax attorneys and oil and gas companies. We are in a unique position since Northmoor Acres HOA owns most of the minerals under the subdivision. Anadarko is currently working on the Whisper Rock well because the lease that currently affects the property to the south of Northmoor where the well is to be will run out soon and they must drill during the current lease period. We have discussed with a CPA about taxation issues and whether we can disburse funds to the homeowners. There are about 10 homeowners who own their own minerals. Had meetings with two oil companies in December, one pulled their offer off the table due to the falling oil prices. Anadarko did file to force pool Northmoor HOA as it related to the Whisper Rock well.

Forced pooling occurs when the oil and gas company already has leased surrounding property. Forced pooling can occur in the case of the Whisper Rock well because we are in the spacing unit and production is proceeding. Hearing is scheduled for March 2015 in front of Colorado Oil and Gas Commission to continue proceedings to force pool us if we do not sign a lease.

Force pooling is a detriment to Northmoor, if we sign a lease we get a higher signing bonus and higher royalty that starts immediately. Offer on the table is 18%. If we are forced pooled, the offer will be 12 1/2% and payment won't occur until the drilling company has recovered 200% of their costs. That may take long time or may not happen at all.

Where are we today? The committee started out with half in favor and half against. The committee discovered in November that drilling was eminent and we must come to a decision and either sign a lease or be forced pooled. Drilling is going to happen anyway, do we want to capitalize on this for the best outcome for Northmoor Acres HOA. The committee is working hard on whether we can distribute bonus and royalties to homeowners.

Questions from homeowners that came up in the two informational Q & A meetings, checked with our attorney:

1. Q: Someone commented they thought that the Lessor is responsible for knowing all the leasable acres. A: In the addendum items to the lease, Northmoor Acres HOA will not warrant title to the minerals because of the age of the HOA and because we don't know what has occurred in the last 40 years. Anadarko has agreed to be responsible for the title searches.
2. Q: Someone thought that oil companies won't force pool any land over 160 acres. A: Depends on the future. If the land is surrounded on all sides, they might drill all around us and we might be left out and receive no proceeds. We don't know what oil prices will do.

3. Q. Cannot convey minerals by plat. A. Northmoor received it's minerals by deeds or quit claim deeds, which is the appropriate method of conveying minerals, are legal documents.
4. Q. We should specify drill depths in the lease. A. You don't talk about depth.
5. Q. We should get paid on Gross Acres. A. Unheard of today.
6. Q. We should sign a 3-year lease. A. Have been offered a 5-year lease with a 3-year extension. Northmoor owns about 211 mineral acres. They have upped the offer just this week from \$1500 per acre to \$2000 per acre with the 5-year lease.
7. Q. Royalties should be 20%. A. That is not feasible today – now is an average of 16%, our offer is 18% which our attorney tells us is a very good offer.
8. Q. One lease for all 240 acres. A. Attorney advised against because 10 individuals own their own minerals and one person could stop the whole process also for the HOA. Said Northmoor should negotiate lease for the 211 acres and individuals would sign their own leases. The people that own their own minerals will probably get the same deal that Northmoor is getting.
9. Q. Restrict travel on County Road 11 and 42. A. Oil company has already been constructing an access road to the south and travel should be minimal on Road 11 and 42.
10. Q. Request light and noise reduction, and minimize obstruction of western views. A. We have put that into the addendum already.

What we know:

We know that drilling and fracking will happen this year on the Whisper Rock facility. Anadarko has the mineral lease and surface lease for the land on the west side of us. Anadarko does not, at this time, have a plan in place to access those minerals so they don't know what they are going to do at this point and where they would put in the wells.

Our options:

1) Sign a lease, and have some ability to negotiate through the addendum about the terms of the lease. Also would receive a signing bonus of \$2000/acre tied to a 5-year lease and 18% royalties once the well starts to produce.

2) If we are force pooled for Whisper Rock, there will be no negotiation, they will drill. There will be no bonus, royalty will be 12 ½ % [once 200% of the drilling costs are recovered], as opposed to 18% royalties [which would start as soon as the well is producing].

As the Board our objective is to benefit both the HOA as a whole and the individuals within Northmoor. To the extent allowed by law, we will disburse bonus and royalties to the homeowners. We would like to avoid force pooling, and we feel signing a lease would put us in a better position. So we will extend a vote to the homeowners, and are asking you to support the Board in negotiating a lease.

To summarize, drilling is going to happen whether we have a lease or not. So it isn't a matter of whether they are going to drill, it is when. Whisper Rock happens this year. If we don't do a lease, they can come in and drill all around us and not include Northmoor Acres. The oil and gas committee recommends we sign a lease that is in the best interest of Northmoor

Acres, and the Board is committed to getting the most beneficial lease for Northmoor and finding out how we can disburse and share the funds with the homeowners.

Questions from homeowners:

1) Q: When will the bonus payment occur? A: They will pay the bonus within 45 days. A member of the oil and gas committee explained the location of the Whisper Rock campaign.

2) Q: Have we sought out other oil and gas companies? A: Yes we have, with four or five other companies, and they are not interested. Anadarko has leased all the land around Northmoor. We do not have any land within Northmoor that would allow drilling due to the setback regulations of the Oil and Gas Commission, they have to drill outside of Northmoor.

3) Q: Are we negotiating lease for only Whisper Rock acreage of 80 acres or all of Northmoor. A: Lease offer is for all of our mineral acres, but Anadarko is only drilling Whisper Rock right now, which is 80 acres. The alternative of only signing for 80 acres means that we would have to re-do the process later or not get the chance at all. We don't know where prices are going and it is possible that prices will continue to fall. This is possibly the chance to get the most benefit. If we only lease the 80 acres, then how do we distribute the bonus? The prices may be low for a number of years. It is unknown how long the prices will stay low and how low could they be, this crash is different, it is supply driven. This may be the best time to lease over the next three years. A lot of uncertainty. Royalty payments are tied to the price of oil. The royalty payments will increase if the prices go up, the bonus does not.

4) Q: When Anadarko decides in it's next campaign to drill to the north, does that come under this lease? A: Yes. If we sign a lease for all property owned by Northmoor, we can re-negotiate if they don't drill during the lease term.

5) Q: A homeowner said he appreciated the hard work of the oil and gas committee. There was a round of applause. Process is very stable. The homeowner expressed opinion that it is best to lease it all now and have an option to extend (if we sign for the whole thing now with a 5-year lease and 3 year option to extend). If they have not drilled under us by then, we can get another signing bonus or they release the property back to us. The lease remains in effect as long as there is production.

6) Q: If we only want to lease 80 acres, is there an offer on the table to do that? A: No, we would have to negotiate that. They have to offer us a reasonable lease offer, if we refuse the current offer, they could go to the Oil and Gas Commission and say we refused their reasonable offer and ask to have us force pooled. There is no surface lease within Northmoor, can't drill within Northmoor.

Request from homeowner to vote [on the motion that is printed in the agenda].

There was a motion and a second for the motion printed [on the slide, in the agenda – **“We, the Homeowners, support the Board of Directors negotiating and executing an oil and gas lease for the mineral estate owned by the HOA”**]. Is there any further discussion? Short discussion followed, the Board will do the negotiating. President Ruof said, “We are in the middle of negotiations so we cannot put on the table the concrete terms because we aren't there yet. We are working to get the very best deal for Northmoor Acres as a whole and for individuals. We are asking for the support of the homeowners for the Board to negotiate and execute a lease”. It

is not practical to have 120 homeowners review the final terms of the lease before it is signed. So this vote is the deciding vote. This is necessary because there is a hard time deadline and the lease must be signed. The back and forth between the lawyers may go up to the very last.

We are going to start with a voice vote, all in favor say "Aye". There were no "Nays". The motion carried unanimously.

There was a motion and a second to adjourn, approved unanimously.

Northmoor Acres Homeowners Association
By the Secretary