

LAW OFFICE OF MATTHEW SURA

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TO: Board of Education, Adams 12 Five Star Schools
FR: Matt Sura, Attorney at Law
DT: 8/30/2017
RE: Forced pooling v. lease

Dear Board of Education,

As we discussed at the August 16th Board of Education meeting, Adams 12 Five Star School (“Adam 12”) has been approached to sign an oil and gas lease for 39.03 acres of mineral rights it owns under the Horizon High School. At the meeting, a few residents from the area urged Adams 12 to allow its minerals to be forced pooled. It is my recommendation that Adams 12 lease its minerals rather than allow its minerals to be forced pooled.

Ultimately, forced pooling would harm Adams 12 interests - both financially and legally. If Adams 12 does not sign a lease by September 21st, Great Western will “force pool” the acreage. “Forced pooling” occurs when an oil and gas company forces a reluctant mineral owner (or a mineral owner it cannot locate) to participate in the drilling of a well. The company pays the forced pooled mineral owner 12.5% of its proportionate share of the profit from the wells until the well has produced revenues totaling twice the costs of drilling and completing the well. Once the well has paid for itself (twice), the mineral owner then becomes a working interest partner in the well and gets 100% of her proportionate share of the profits from the well. Since each well costs \$3 - \$4 million to drill and complete, the well has to receive \$6-\$8 million in profit before it “pays out.” A fact sheet on forced pooling is attached.

I do not recommend that my clients choose to be force-pooled if they are offered a reasonable lease. The bottom line is that if Adams 12 is forced pooled, it will mean less revenues for the school and liability if an accident were to occur. If forced pooled, Adams 12:

- 1) would not receive a signing bonus payment (**\$195,150.00**),
- 2) would only receive 12.5% rather than 21% royalty, and
- 3) Adams 12 would also become an unwilling partner in the oil and gas industry.

State law makes it clear that forced-pooled parties are to be treated as if they have a working-interest ownership in the wells. See C.R.S. 34-60-116. A forced pooled party may be held liable if an accident occurs. On the other hand, if Adams 12 leases its minerals it will receive greater revenues and not incur any liability.

In my opinion, it is in Adams 12 interest to sign a lease rather than be forced pooled.

Sincerely,



Matt Sura