

The Oil Boom----Here we go

July 12, 2012

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Remember me telling you about that “Oil Boom” that was coming? Well, take a deep seat folks, and get a good hold on your rigging, cause here we go. The rodeo is on, and they’re about to open the gate. One of those concessions I told you about awhile back is about to pay off, big time.

On Monday, June 25, 2012, the Osage Minerals Council called a Special Meeting at 1 PM for the sole purpose, according to the published agenda, of further consideration of business with Spyglass Energy Group, LLC.

Immediately following opening, the meeting recessed to go into Executive Session. This is normal procedure. Following Executive Session, the meeting was reopened. A vote was taken to accept or reject the agreement just negotiated. The vote was 6 yes, and 1 no, with 1 abstaining. This also, was normal procedure. What was not “normal” procedure was to call a Special Meeting in the first place, with only 3 days notice, just to sign a lease. This made me think at the time that maybe this was not just any old, everyday, run-of-the-mill lease agreement. As it turns out, I was right. Very, very right!

Spyglass has recently made some very bold moves involving their holdings in the Osage. One example would be their commitment to drill a well to a depth of over 10,000 feet, to explore several totally new formations they have found interesting through the use of the extensive geophysical studies they have sponsored. The acreage for this well, in their Personia West concession, is already under lease and as of right now, the well has been drilled to around 5,000 feet, using a rig of the size normally used in this area. The well has been temporarily capped and the rig has been moved off

and when a bigger rig is available, probably in October or November, 2012, they plan to finish the hole.

This last 5,000 feet still to be drilled is purely modern day “wildcatting” again. They say they can see how the formations at these great depths are structured using the 3-D seismic surveys and other studies they previously did, and they say this looks very favorable, but they also say that they truly have no idea whether there is anything of value there or not. They further say that there could be oil, there could be natural gas, there could be carbon dioxide, or there could even be helium. Or there could be nothing. But, if there is something of value there, due to the huge amount of acreage involved and the thickness of the formations, this could be absolutely fabulous for the Osage People. Let’s all keep our fingers crossed.

My personal thought is, they must be pretty confident to spend this much of their’s and their partner’s money, only just to be assured of having the rather dubious honor of drilling the deepest dry hole ever in the Osage. This decision took a lot of courage and conviction on their part. One thing for sure, you can bet that this last 5,000 feet will be “tight hole” all the way. Even the roughnecks will probably need “top secret clearance” to work on this one.

With that little dab of background in mind, I had been very curious to know just what this deal made on the 25th was all about. The BIA Superintendent must approve any lease before it can be made public. She has the authority to sign any lease forwarded to her by the Minerals Council, but she also has the option to ask the solicitor’s office in Tulsa to review any lease and make his recommendations before she signs. In this case, that was probably a good idea. But that did not satisfy my curiosity at the time. Now, 16 days later, the lease has finally been signed and approved, and now I know. Therefore, as promised, “now you need to know” also.

Spyglass Energy Group has worked out a deal with a \$28 billion dollar drilling and exploration company listed on the New York Stock Exchange, to lease to drill 54,677 acres at the lease bonus price of **\$100.00 per acre**. This is the largest single block of leases ever done at one time in the Osage, at least since way back in the 1920's or earlier. Doing the math, that's \$5,467,700 or roughly \$2450.00 per headright, and it promises to be added to our September, 2012 payment check. These leases are located within Spyglass's South Bend concession area which totals 56,560 acres and this bonus is in addition to the payment we have already received from Spyglass for the concession rights several years ago. Spyglass has already leased and drilled several successful wells within this concession and they very likely used these to showcase the property. And, I'd bet that Spyglass's soon to be drilled 10,000 ft. well helped get the attention of this major producer. It's in the same neighborhood. But whatever the details of the arrangement may be, you can bet, Spyglass will hit the ground running. They aren't giving us nearly \$5,500,000 just because they think we are a beautiful people. They must drill a **BUNCH** of wells, and do it very quickly, to justify this huge bonus. And we get 20% of all the production!!!

You like it, so far? Me too.

This is a textbook example of what reasonable people, working together, can accomplish in a relatively short period of time. This deal was put together in about a month, with only 3 or 4 negotiating sessions between Spyglass and MC2.

We Osages have inadvertently created a problem for the Osage Oil Patch by approving a Constitution in 2006 that is not conducive to promoting the oil business in the Osage, and, it's a problem that only we, the Osage People, can solve. Like any business oriented organization would be, these

major oil companies are very aware of the internal political situation existing within the Osage Nation. They are not at all comfortable with the fact that one person, the Chief, has the absolute, final “last word” over what the Minerals Council does. They are not necessarily concerned about this Chief, but they would be concerned about the powers of any Chief in the future.

A few well meaning Osages have been going around saying “it’s nobody’s business but ours” and “vote no on the amendments.” Hopefully, these nay-sayers will begin to see how important it really is to get these amendments passed.

In the sense that it is “our business,” that’s absolutely correct. But, if we don’t start taking care of “our business,” and very soon, the other major oil companies will continue to be very reluctant to come back here to do business with us again. I am told that this was definitely a stumbling block for Spyglass as they put this deal together. We got very lucky on this one.

Back in the 1950’s, the major oil companies decided that it was no longer profitable to maintain operations in the Osage. They had made hundreds of millions of dollars over a 40 year period, but it was looking like the oil fields were drying up. They all sold out and left for greener pastures. That’s the way business people operate. They had no emotional ties to this land like we do. They had other places where they could take their knowledge and expertise (and their money) and use those assets to make more profits for their shareholders, so they simply packed up and left.

They knew there were still millions of barrels of oil left in the Osage, but, at the time, they had no idea of how to get it out of the ground. Now, with all the new exploration and drilling and extraction technology readily

available to them, it looks like they might be getting interested in coming back. This new Spyglass deal, and the recent deal made with Encana, are the first indications of that. The vision and courage and the success of the several concession holders in the Osage has gotten their attention, and now we are seeing the first of the majors reappearing on the scene. There's no reason the other concession holders couldn't work out similar arrangements with some of the other majors. But as long as this "one man control" exists, it will be very hard to make that happen.

It's just a shame that the framers of our Osage Nation Constitution didn't have the vision and business expertise to get it right the first time, but they obviously didn't. We can still repair the damage to our political system but if we don't fix it, and do it very soon, we may very well miss the opportunity to get a lot of major oil companies to come back to the Osage.

This "Boom," if we let it happen, will revitalize the economy of the entire county. The oilfield service companies and the supply houses will move back in. Remember Haliburton and Dowell and National Supply, and dozens more that used to be here? Most will be back, and they hire lots of people. That means housing and grocery stores and dothing stores and new roads and a whole main street full of businesses again. I remember trying to find a parking place in downtown Pawhuska and Hominy and Fairfax in the 50's. It wasn't always easy. Now, we could hold a four set square dance on Main Street about anytime we wanted to and not be in the way.

It can be that way again. It's all up to the Osage people. We have today, the perfect opportunity to help bring the economy of our "Indian Country" back to life. Straightening up our Constitution----by **VOTING YES** on these amendments on August 13----will be a big step toward doing just that!

These major oil companies, and I'm sure all of our current producers and potential producers, would like to see us pass these Constitutional Amendments, and particularly ONCR 11-12 and ONCR 11-14. This would give the producers a one-stop-shop in the Osage, with no worries about negotiating a deal with the Minerals Council that could be vetoed by the Chief before it ever gets started. Now, I'm not saying that that's ever happened, or that it will happen, but there's nothing to say that it couldn't happen and smart business people don't like getting themselves into situations like that. **These amendments say it can't ever happen, period.** That can't help but be a good thing, for all of us.

We must all vote and **VOTE YES** on the Constitutional amendments on August 13th. Let's all do our part to keep this "Boom" going.

By the way, Good job, Spyglass. And, lest we forget, Good job MC2.

Ray McClain, Osage Shareholder