

Osage Minerals Council Meeting of 7/18/2012

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The Osage Minerals Council Meeting of 7/18/2012 opened with a prayer by Councilman Myron Red Eagle, then went right into Osage Minerals Estate Lease Sale #15, conducted by Easly Auction Services of Pawhuska. Thirty six leases had been nominated, and they brought a total of \$217,300 at the sale.

Sometimes this number will be adjusted down a little, if a bidder withdraws his bid and forfeits the minimum or the nominating fee. A great majority of the leases went for the minimum bid of \$4700. The highest went for \$25,000, two went for \$12,000, with another going for \$9,000 and several going for \$5,000, with the balance bringing the minimum bid. A relatively unknown company called NTR Energy, LLC bought 23 leases today, paying the minimum for 20 of them. They had bought 2 or 3 leases at the last lease sale, but I know nothing about them or their intentions at this time. Though this sale today really was not remarkable in any way, it all adds up. And who knows, one of these minimum bid leases might just turn up with a gusher on it some day soon.

During BIA Superintendent Melissa Currey's report at the meeting last Friday, an issue was raised about a drilling permit application by Encana Corporation (the first major energy company to venture back to the Osage) that had been rejected because of a missing or incorrect archeology report. After a lot of "he said/she said" over the last several days, it seems that the problem may now be resolved. We were told today that the report has been resubmitted, but it is expected that it will now be at least 30 more days before the permit can be issued. The really unfortunate thing about this is, that this is the first permit application Encana has ever filed in the Osage and they are seeing some of these archeology reports for the first time. Mistakes will surely be made as they become acquainted with the system. Maybe all of the employees at BIA do not know that Encana, a huge oil and gas exploration company in the U.S. and Canada, has just recently plopped down \$2,800,000 for a right to lease concession covering 80,000 acres of our Mineral Estate. There is room to drill

several hundred horizontal wells on this acreage, and they made a firm commitment to drill 21 when they signed the concession. They have now exercised their option to “take down” (lease to drill) several of these leases in the concession, thus the need for permits. They have scheduled 2 large, state-of-the-art drilling rigs, based on the projected length of time (60 days) normally necessary for permits, and planned to have the first 2 wells completed and tested this fall. They have told me that their plan is, if these first 2 wells prove to be successful, to bring in even more rigs and just keep drilling. If that happens, it would be reasonable to expect them to have all 21 wells pumping oil by the end of 2013. If their success continues, then they would just keep drilling more wells until their 80,000 acres is drilled up. There’s no reason everyone shouldn’t afford them every consideration and accommodation possible.

The problem surfacing last Friday may have been Encana’s responsibility but, I also believe the BIA could have been a little more pro-active in the processing of this, and maybe all permit applications. Maybe the Minerals Council could have been watching the progress of the permit a little closer, also. Over the years, we Shareholders have depended totally upon the BIA to look after all the details. Maybe it’s time we all started paying a little closer attention.

Spyglass Energy Group, LLC was scheduled today for executive session again today. I always get excited when they show up because it usually means good news for the Shareholders. I sure wasn’t disappointed today. Just last week they wrote a check to the Shareholders for \$5,467,700 to lease up the entire remaining 54,677 acres of their South Bend Concession, which started the clock running on the 3 year time limit allowed to drill up this huge area. This 5 plus million will be on our September, 2012 check. Today we found out why they did that. It seems that concessions cannot be reassigned to another owner but, leases can be. Once the leases were taken down from the concession and the money paid, Spyglass assigned the entire area of leases to Devon Energy

Corporation, based in Oklahoma City, Oklahoma. Devon is among the largest of the independent oil and gas producers operating in the United States. Any assignment of leases from one owner to another owner must be approved by the Minerals Council but no further payment is required.

Devon plans to spend about \$60,000,000 by the end of this year to drill and complete enough wells to thoroughly verify the potential of the area. If expected production is confirmed, they plan to build 20 to 30 miles of various size pipelines to take the gas produced along with the oil, to points of sale. At that time, they say they REALLY plan to get serious about a drilling program. Depending on the terrain, this could mean 150 to 300 wells in this one concession area. These guys sure know how to put a smile on a Shareholder's face.

The only question I have is, why did three of the Council Members vote to not approve the assignment. One of them had also abstained and one had voted to not accept Spyglass's bid to lease this area on June 25, 2012. I got the distinct impression that the Spyglass and Devon reps attending today were more than a little concerned by this vote, but no one said anything. Just last week, the Shareholders were paid \$100 per acre for leasing this 54,677 acres to be developed, plus a 20% royalty on all production. Spyglass wrote that check. Spyglass then came up with a way to get the development done by getting Devon to bring the money and do all the work, thus maybe freeing up Spyglass's manpower and operating capital to go to work on their new 10,000 ft. exploratory well, which could result in a whole entirely new oil field in the Osage, and several other things they may have planned for their Osage holdings.

Most of you know these three Councilpersons who tried to stop this giant leap into the future today. I hope you will talk to them and see if you can find out why they did this. Then please let me know. Maybe there's something going on here I haven't considered.

Ray McClain, Osage Shareholder