

Where's the Oil Boom?

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A couple of folks have been wondering "Where's the oil boom." Well, it's here now. What you must realize, is that once a lease deal is done, it must be approved by the BIA. That could take anywhere from a few days to a month or more, depending on the complexity of the lease. Once that happens, it takes 2 months more at best for all the permitting to get done. Then final arrangements must be made for an adequate water supply. Two consecutive years of drought in the Osage has dried up many streams and creeks where water used to be abundant. A lack of water has postponed or at least caused rescheduling of 2 wells this year that I am aware of. Once all that is done, a HZ well can usually be drilled in about 3 weeks, if a rig is available. Then comes completion and testing of the well. If an operator drills multiple wells, he may elect to schedule all the fracking and other completion efforts to be done concurrently on several wells. The fracking and other service companies used for completions are very busy, thus must be scheduled weeks or even months ahead of time. And they ain't cheap. Many times, equipment must be brought in from hundreds of miles away. Once fracking and testing is done, then permanent tank batteries and separation equipment must be set and arrangements must be made with a purchaser to take the oil. Then, it could be another 3 months before the royalty proceeds make it to our checks. All of this, and more, must be done before we see any royalty barrels going into our accounts.

We also must remember that two of our largest and strongest concession holders are just getting started. They will drill many "exploratory" wells simply to define a practical strategy for development. These will be producing wells, but it could take another 6 months or so, before they complete this testing and can finalize their plans. Then their reservoir engineers may take several months to analyze all the data they have gathered before committing to a final plan for development. After that, we will see a BIG increase in the action.

Be patient! I know it's sometimes hard to tell, but it's happening right now. Were it not for concessions and horizontal drilling already bringing increased production, our quarterly checks would be far less than what we are currently seeing. Oil prices have been dipping into the low \$80's for a

while now and they don't show much sign of improving anytime soon. Yet our payment checks have remained fairly stable. As a matter of fact, 2012 brought us the highest amount of dollars, **\$40,730 per HR** (not adjusted for inflation), that has ever been paid in one year in the Osage. This is \$600.00 more than even 2008, when oil was above \$130 p/bbl for a little while. And this happened this year with the oil price wallowing around just above \$80 bucks for a good part of the year. I gotta tell ya folks, somebody's do'in somethin' right.

To update everyone on Encana's progress, Encana's Land Negotiator Amy Lindsey has put together a quite comprehensive report on their recent activities for us. Since she does such a much better job of organizing a report than I ever could, I will leave it in her words.

Hi Ray,

Here are a few details of our activities that you asked about;

We have 2 pad sites west of Pawhuska. From these 2 pad sites, we have drilled a total of 3 horizontal wells and 1 vertical disposal well. We are in the process of completing the horizontal wells now. It will take several weeks to build the production facilities, but we anticipate production around the end of the year or first part of January 2013.

(Note: Encana was awarded this concession in November of 2011. If everything goes right, the 1st well will start producing 14 months later.)

We have 1 pad site that is east/southeast of Nelagoney. From this pad site we have 1 horizontal well (KCD Towers 23H2) and 1 vertical disposal well. The horizontal well has recently finished drilling. We anticipate a completion date around the end of the year and first production around the end of January 2013.

We have 1 pad site that is south of Wynona. From this pad site we will have 2 horizontal wells (Drummond 14H1 & Drummond 23H1) and 1 vertical disposal well. The Drummond 14H1 is well is drilling ahead. The Drummond 23H1 should spud around the first part of December. I don't have tentative completion dates or production dates for these wells yet, but will keep you posted when that info is available.

We plan to drill 1 more horizontal well this year --- on the far west side of our concession. Location is undetermined at this time. This location will also have a vertical disposal well.

So, our initial program will be the 7 horizontal wells described above. You are correct, once these first 7 wells are completed, our engineering staff will evaluate the wells for several months and use the results to develop our go-forward strategy. Since our program has just started, I can't really comment on well spacing, rig count, and overall development plan yet, but I think we will know those details in the next few months and I'll be glad to share them with you.

Our concession is, more or less, a large rectangle. Here are the 4 corners of our concession:

The NE corner is 25N 10E

The SE corner is 23N 10E

The NW corner is 25N 7E (partial)

The SW corner is 23N 7E (partial)

Hope this info helps. Let me know if you have any other questions and I'll be glad to find the answers!

Sincerely,

Amy D. Lindsey

Like I've been saying, it ain't quick, it ain't easy, and it ain't cheap. Encana will likely have near \$20,000,000 invested in the Osage and 14 months later, they may get their 1st barrel of oil out of the ground. That takes a lot of nerve, however big a company is. Now, if we can just get the BIA rigged up to take care of their own accounting and administrative responsibilities, we'll be well on our way to enjoying this "Oil Boom."

Meanwhile, have a happy Thanksgiving.

Ray McClain, Osage Shareholder

