

Some News That's Not So Good

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Don't spend ALL that money yet!! I have found out that not all of the recent \$5.4 million bonus money received from Spyglass Energy Group will be on our September payment as first promised. I am told by the Minerals Council accountant that only \$1.6 million of this bonus will be received by us in September.

The money was paid within a day or two of June 25, 2012, but it seems that when bonus money is first paid, it goes into a special, non-interest bearing account belonging to the BIA. Once the leases are approved by the BIA, and then likely by the solicitor, then, and only then, is the money put into another account, which does pay interest, for distribution. This approval could conceivably be done in 2 weeks, 3 at the most.

There were 120 individual leases involved in this \$5.4 million bonus. Due to the "bundling" of over 350 separate ¼ section leases into larger acreage leases for the purpose of drilling horizontal wells, these leases were of various sizes, some possibly encompassing 3 or 4 quarter sections. It obviously took a few days to get 120 leases typed up and proofed to be signed. They were signed by the MC the week of July 9, 2012 and returned to the BIA for final approval.

Now we find out that only \$1.6 million dollars worth of leases made it through the mill of approval before the deadline. I am told that this "deadline" for bonus money was July 31st this quarter, and has been set at one month before payment for several years. However, I am also told that this date is established internally by the Pawhuska BIA office and can be changed each quarter to accommodate their needs, should they chose to do so. I am also told that this deadline could have been set as late as August 15th in this instance and the money would still have had time to be on the check. That didn't happen.

One BIA official told me that all of these leases have now been approved, but that 55 of them did not make the July 31 deadline. Therefore, we will only see bonus

money on this September check for 65 leases, and apparently these were the smaller acreage leases.

I have questioned several BIA officials about this bonus payment issue and each referred me to the leasing office, which they also say is 2 persons short on staff. When I called the leasing office, I am told that the person in charge is on vacation this week. (It is still 8 days until the 15th!) I was also told that I would need to wait until the person in charge returned to get any information on this subject. That very likely leaves only one person there, to answer the phone. This just doesn't seem to me to be any way to run a railroad, especially when the train hauling Shareholder money around has ground to a halt on a side track somewhere.

In all fairness to the BIA, they are short handed. And it is a lengthy process to first, find a qualified employee, and then that prospect must go through an arduous vetting procedure by the Federal government which can take months. I am told that they have at least one candidate for employment currently being vetted, and I would certainly hope they have several more. This current issue is not like a delayed drilling permit, which could easily set back royalty production and the payment thereof for a few months some where down the road. This issue has directly caused payment of \$3.8 million in cold, hard cash belonging to the Shareholders to be deferred for 90 days. This equates to about \$1700.00 per each full headright.

If you like this and think everything is hunky-dory, just sit back and relax. You will surely get your money in December, and it will draw a great interest rate until then (if it is really out of the approval account yet). If you don't like this, call the BIA and ask questions. Call the Minerals Council and ask them what's going on. Many Shareholders holding a smaller, fractional headright interest could have really used this money right now for school clothes, etc.

Ray McClain, Osage Shareholder