

Osage Minerals Council Meeting 10/16/2013

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10/17/2013

Chairman Andrew Yates opened the meeting today with a prayer from Councilman Galen Crum. Chairman Yates then told us that the BIA was still closed. He confirmed that the new Acting Superintendent was in Pawhuska, and he had exchanged emails with her, but that he had not met her yet. He also confirmed that Head Accountant Earl Arnold and one receptionist was working, but no one else. No one from BIA was at the meeting today.

Tribal accountants Leslie Young and Julia Roe gave their reports. Ms. Young told us that the final accounting for the C 395 operating account showed that \$834,547.92 had been expended for Council operations during fiscal year 2013.

Minerals Council auditor Jim Swan told us that due to the BIA shutdown, he would have no report this month.

Chairman Yates then asked for a motion to go to executive session. Three entities were entertained in executive session today:

Bill Lynn---Lamamco
Charles Wickstrom---Spyglass Energy Group
Bob & Bill Sullivan---Sullivan & Company

Following executive session, the Council voted 8-yes and 0-no to accept the Lamamco proposal and the Spyglass proposal. The new Spyglass deal releases about 20,000 acres from their Personia Concession, and will bring in \$640,000 in bonuses on or before the last day of December, 2013, with a commitment to drill 7 new horizontal wells in the remaining Personia concession by the end of 2015.

The Sullivan proposal was not mentioned.

Under "old business," Councilman Galen Crum spoke at length about the CFR revisions and explained a little about how unfair the HPP royalty pricing had been for the Osages, and why he supported NYMEX pricing for our royalty oil. He had put together an excellent power point presentation showing that according to BIA records, some producers are already being paid from \$2 to \$10 per barrel above NYMEX prices for their oil, while they are telling the world that NYMEX pricing is unattainable for them. He also talked about the poor gas measurement systems that are currently being used in many places in the Osage, and about the current total

absence of any rules or regulations concerning handling of the very deadly H₂S being found in some of the Mississippi Lime gas.

A long discussion was held concerning approval of the minutes of the September 13, 2013 MC meeting. They were approved 8-yes, 0-no.

Councilman Mel Core made a motion to have the Council's attorney craft a new resolution to replace Resolution 2-166. This passed 8-yes, 0-no.

Cynthia Boone made a motion for a resolution that would require the Minerals Council Chairman to get approval of the Council before speaking to media reporters. After much discussion, this motion failed 5-no and 3-yes. The meeting adjourned about 12:45 PM.

In My Opinion:

Hopefully, the shutdown ended before it became too late to get the BIA's accounting properly done, thus avoiding negative effects on our December payment. I'm sure Chairman Yates will check this out and let us know what to expect.

Spyglass's production from their previous horizontal wells seem to have leveled out at a little lower daily production rate than they had hoped. They had told me last week that they were now averaging a little over 40 bbl per day per well, when they had expected near 100 bbl. Apparently, this has caused them to pull their horns in a little, and approach the future development of their Personia concession in a little less aggressive manner than they first intended. If they can make their December 31st bonus payment deadline, at least they will still be in there swinging. Encana is leaving with a 60 bbl average going for them, plus they have a purchaser for their gas.

No one ever said what Sullivan and Company was wanting. Maybe he just forgot his checkbook that day, and plans to come back later.

Councilman Crum's presentation addressing NYMEX oil pricing, natural gas metering and sales improvements, and hydrogen sulfide (H₂S) should have opened some eyes. Although he declined to identify specific producers, he had charts showing monthly oil purchase prices paid to 16 different Osage producers, and most were paid amounts far above not only the HPP our royalty oil is based on, but some were paid \$2 to \$8 above NYMEX prices for 4 consecutive months during 2012. These facts were indisputable, and I noticed that none of the several Producers sitting in the room had even one question when Mr. Crum was finished.

It's been that bad or worse with the natural gas. Instances of poorly maintained meters, by-pass piping around meters, and antiquated, high fuel consumption compressors running on unmetered gas have been reported, and is still said to be going on. In addition to this, the "old BIA" allegedly ignored diligent natural gas collections procedures for years. Thank goodness that is changing.

Concerning the H₂S, there is not one word about handling this stuff in the current CFR's regulating activities in the Osage. It's hard to imagine any Osage Minerals Council Member agreeing with the Producers that no regulations are needed for this. But 4 of them apparently think it's OK. Where is the logic of this?

These Producers know they have been beating us, and they know that at least some of our Minerals Council is wising up to these shenanigans. And, they know that now, these new CFR's are going to put a stop to this. It's gone on far too long. We're not going to give it away any more.

Ray McClain, Osage Shareholder