

Major Problem with Gas Accounting, for Years

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April 24, 2014

The following letter is a perfect example of how the Shareholders AND the Producers have been taken advantage of for many years. This letter addresses only one lease. We have well over 9,200 leases either available or in production, with many of them producing natural gas and its derivatives in marketable quantities. This pillaging of our Mineral Estate must stop NOW. We need the new CFR's to be effective ASAP and, the Shareholders must elect a Minerals Council that recognizes the problem and will insist that the BIA do something about gas contracts immediately. We must introduce more competition for gas purchases and we must start improving the take-away infrastructure IMMEDIATELY. If we don't, these unscrupulous gas purchasers will have the Shareholders and the Producers over the proverbial "Barrel" forever.

Ray McClain, Osage Shareholder

SUSAN FORMAN

Member, Osage Nation & Headright Owner
Natural Gas Consultant

April 22, 2014

Mr. Ray McClain
Candidate for Mineral Council

RE: Osage Mineral Estate Natural Gas Business

Dear Ray:

Per our discussion, I am providing my assessment of the current management of the Osage Mineral Estate natural gas business so that you can post on your website.

In a nutshell: "No one is minding the shop!"

As you know I have had a few opportunities to evaluate small producer gas purchase contracts (active and proposed). In all cases, not only did the contract price represent less than half the true market value of gas but also lacked standard contract language to insure that the gas was tested and measured properly and accurately accounted for among other costly omissions. In fact I was so

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alarmed by the last contract I evaluated that I wrote a letter addressed to the Assistant Secretary of Indian Affairs, Director of BIA, Director BIA Eastern OK office, Superintendent of Pawhuska BIA and Chairman of the MC imploring them to STOP approving

proposed purchase contracts until they had a knowledgeable, skilled, gas contracts and marketing person to review for fairness and market value before BIA approval. That was December 4, 2013. My letter was not acted on and the bad contract, like many others before it, was approved with no changes. For your information, the well covered by the contract in question produces about 270 mcf per day. The 100% true market value for the gas and the liquid hydrocarbons entrained in the stream in February 2014 is \$7.85/mcf. The Shareholder and Producer got only \$3.54/mcf. The difference is \$4.31. If you multiply that difference times 270 mcf that equals \$1,163.70 the Producer and Shareholder Did Not receive for just one day's production. Extrapolate that value out over a year with estimated production declines and that figure means the Producer and Mineral Estate are getting shorted by tens of thousands of dollars for just one well. A shocking fact is this Purchaser currently receives 11,000 mcf per day or more of Mineral Estate Gas. Not all of it will have the same natural gas liquid content but the amount not being produced and sold, or worse, is re-sold to someone downstream of the well connect who is not obligated to pay the Mineral Estate for liquids or gas. The value breakdown for this well is attached. It reveals total value if this gas is processed at a refrigeration processing plant at standard industry recoveries similar to the plant that the Southern Ute's own in Osage Co., Lumen Midstream. Using the analysis of the gas stream provided by the Producer it reflects the value of each natural gas liquid extracted and the value of the remaining natural gas after liquids are extracted. The prices shown are published market prices for natural gas liquids and natural gas in February 2014.

Ms. Jeanine Hale, Acting Superintendent of the Pawhuska BIA assured me that they do not have anyone with Natural Gas Marketing/Contract Skills at the present time and, as far as I know, no plans to hire anyone with these skills.

I have successfully resurrected an Exploration & Production company's gas marketing department before and managed to bring it into the 21st century for conducting the natural gas marketing and contract side of the business. I believe this can be accomplished for our Osage Minerals Estate too. It will take cooperation from the Pawhuska BIA office and our Mineral Council plus expertise in this field. Gas Marketing and Contract Negotiation is Not for the inexperienced or faint hearted. It takes knowledge, experience and finely tuned business acumen.

The work to discover and expose the problem is just beginning, really. You have to dig into what you have (natural gas infrastructure, contracts, production vs. sales, identification of all gas producing wells, settlement statements, net price received to compare to market value and so on) and then have the skills to evaluate it. The good news is, it can be accomplished and strategies can be formed to tackle and solve the problems. We can turn this thing around but it starts with industry standard contract language in all "new" contracts!

As a Shareholder it is my expectation that the current and newly elected Mineral Council will act on these concerns by seeking the cooperation of the Pawhuska BIA office to allow us to work together to improve the business processes and procedures as they pertain to the Natural Gas business of the Mineral Estate.

I look forward to your thoughts on this issue.

Thank you and good luck in the coming debate and election.

Kind regards,

Susan Forman

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**VALUE IF PROCESSED (10 DAYS PRODUCTION) - FEB 2014 PUBLISHED PRICES
FOR NATURAL GAS AND NATURAL GAS LIQUIDS**

RESIDUE REMAINING AFTER PROCESSING	ALLOCATED RESIDUE	Feb-14 CONTRACT PRICE	RESIDUE \$ TO PRODUCER
	2,123	\$5.1325	\$10,897.35

NATURAL GAS LIQS EXTRACTED DURING PROCESSING	ALLOCATED GALLONS	NGL PRICE PER GAL	NGL \$ TO PRODUCER
ETHANE (C2)	4,509	\$0.280	\$1,262.18
PROPANE (C3)	3,118	\$1.605	\$5,003.86
ISO-BUTANE (iC4)	484	\$1.553	\$751.03
NORMAL - BUTANE (nC4)	1,079	\$1.327	\$1,432.09
PENTANES PLUS (C5+)	827	\$2.159	\$1,785.76
TOTAL GALLONS	10,016		\$10,234.92

TOTAL VALUE :		\$21,132.26
TOTAL VALUE PER WELLHEAD MCF:		\$7.85
TOTAL VALUE PER WELLHEAD MMBTU:		\$6.73