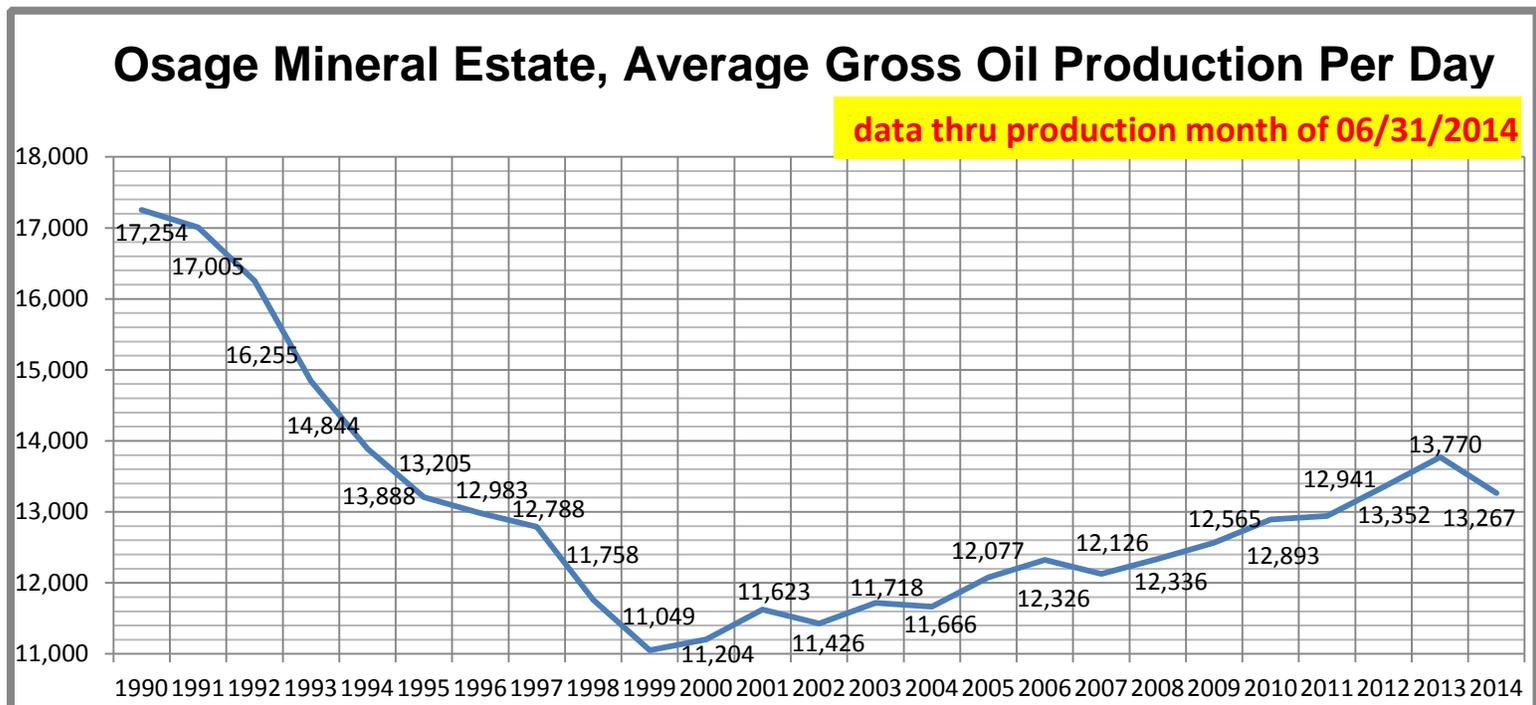


# Why is our Production Dropping?

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I have been doing a lot of grumbling lately about our declining average daily rate of oil production. The following chart shows why I have been so concerned. From 1990 through 1999, our average daily production dropped every year. By 1999, we were down by 6,205 bbl per day. That's a 35.96% drop in 9 years. It finally turned around and started back up in 2000, but it's taken 14 years to get it back up to 13,770 bpd, and that's only a 24.62% rise. It went down a lot faster than it's been going up, and that's not good. What's even worse, we are in a serious downward trend for the first ½ of 2014, and it's likely to get worse before it gets better.



One thing not helping is the BIA's quite ambiguous letter they sent out to the producers concerning compliance with the National Environmental Policy Act. They have agreed to send another letter clarifying the directive, but it sure spooked a bunch of our operators. The Superintendent's verbal explanation of BIA's intent at the meeting on the 20<sup>th</sup> was a big help. Another problem is the delay in getting out the revised CFR's. No one knows for sure yet just what the new rules will be. Last, but probably the most serious problem of all, is this Donalson lawsuit. This has caused our strongest Producer, Devon Energy, to pull back and take a wait and see attitude, as will anyone planning to come to the Osage to drill. The wells Devon had planned would have gotten us out of the woods but I suspect that it will be next year now, even if we are able to get this lawsuit stopped quickly. And I'm not seeing "quickly" as a very likely thing.

I think Attorney Gentner Drummond wants to get this all the way to the US Supreme Court if he can. If we can't get this thrown out of court soon, and get the inevitable appeals denied, we are likely to see visions of this on our payment checks for several years to come.

This probably couldn't have come at a worse time for Chaparral Energy, too. They are already about a year behind in their schedule to get the North Burbank Unit up and going. They started at about 1200 bbl per day when they first started opening up the wells last fall. As the formation pressure rose, they began having problems with leaking older wells and I think several improperly plugged wells were found. One guy told me they had 16 workover rigs working last spring. This was unfortunate, but things are starting to look up a little. In July, the production was up to 1700 bpd, and last week, it was up to 1800 bpd, with spikes to 2200 bbl. I am told that they hope to have it to near 3000 bpd by the end of this year and it should still be rising. Chaparral has been planning for several years to take the Company public, and this Donelson case will be a black cloud hanging over Chaparral's plans until it is resolved.

Oil prices have been weakening a little throughout July and August. No one knows where they will be by the end of September. Keep this in mind as you make plans for the December check. If I heard them right on the 20<sup>th</sup>, there will only be 22 leases in the sale this fall and I don't see anyone being interested in a drilling concession as long as this Donelson law suit is alive. We shouldn't be in too bad of shape for December, but I am very concerned about March and June of next year, and beyond. If this daily production doesn't perk up, we might be in for another long sled ride, and sleds only work going downhill.

Ray McClain, Osage Mineral Estate Beneficiary