

In My Humble Opinion---

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January 2, 2015

I know that many Mineral Estate Beneficiaries are worried about the future of the Mineral Estate. So am I,-----but from maybe a slightly different perspective.

Back in the summer of 2014, Shareholder Martha D. Donelson filed a law suit against the BIA and the Producers, which if successful, would shut nearly everything down until an Environmental Assessment has been done on each of over 9,000 leases in the county. The pumpers would not be allowed access to the wells and the gates would be locked until the EA was completed for the leases. It's my understanding that the first hearing in the Federal Court will be in mid-January, 2015. I think we can expect a series of hearings to happen before anything is resolved, and things move very slowly in Federal Court. This is the potential killer of the Mineral Estate as we know it. The entire law suit seems to be ridiculous to me, but then I may be a little biased on this issue.

After mid-June, 2014, it took about a month to realize that this drop in oil prices wasn't going to stop soon. We're still looking for the bottom, but our Highest Posted Price on Jan. 2, 2015 was \$49.75. As you know, that's about one half of what we were getting 6 months ago. The last time it was below \$50.00 was in 2004. Let's hope that was the bottom, but only time will tell. A long time Osage County Producer told me awhile back, that if oil got below \$60, drilling horizontal wells was no longer feasible. The tipping point for drilling vertical wells was \$40.

Then, in July, 2014, the BIA decided to require Environmental Assessments, or at least an abbreviated version of the EA, to be done on a lease before further drilling, frac'ing, and most work-overs could be done after August 12, 2014. This unexpected move threw our Producers into a panic. It's my understanding that the BIA has adjusted their position on this a little, and, so far, the **1979 National Environmental Policy Act** still rules, and compliance will be required.

This low oil price will be devastating to highly leveraged Producers. Those Producers who are self-financed and who have no bankers and investors to deal with are very fortunate. They will have to tighten their belts a little, but they will make it. Some of the mom & pop's with stripper leases may have a bigger problem.

Our 3rd Minerals Council seems to me to be having some internal organizational issues. They fired the entire secretarial staff effective September 30, and didn't officially hire the first replacement until December 17, 2014. I'm still trying to understand how and why this happened.

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Where my perspective may differ from some is that, this production slow down just may give both the MC and the BIA an opportunity to start implementing new accounting systems and monitoring systems and begin getting their respective houses in order. 2015 is going to be pretty painful for all of us concerned with Osage oil production, but let's try to make the best of it and get some of the long needed improvements done that have been so sorely neglected for so many years. If we don't start treating this great gift of ours more like a business and less like an entitlement, our Mineral Estate will soon begin to dwindle away.

Ray McClain, Osage Mineral Estate Beneficiary