

October 9, 2014

TO: OSAGE MINERALS COUNCIL
FROM: SUSAN FORMAN
SUBJECT: SUMMARY REPORT ON CURRENT CHALLENGES FOR OSAGE MINERALS ESTATE

The announcement during our Summit that drilling has dropped to zero in Osage County should have come as no surprise considering the alarming events that have occurred these last few months. In fact, the Superintendent should have been keeping the Minerals Council better informed of the precipitous drop in the number of wells drilled since it began in 2012, not coincidentally at the same time as the negotiated rule making process and exacerbated by the Donelson Lawsuit and new EA and NHPA requirements. [REDACTED]

[REDACTED] It would appear that she and her management have an agenda completely at odds with proper management of the Mineral Estate.

I witnessed jaw dropping shock across the room when Robin Phillips cut the BIA presentation short after refusing to answer tough questions and then walk out of the room instructing her staff to leave the premises as well. It did not escape me that her boss Eddie Streater, who was sitting in the room allowed himself to be used as an excuse to leave the conference. In light of the fact that the BIA presentation and Q&A session is an integral and critical segment of the Osage Oil & Gas Summit, planned for months in advance, it is unconscionable for the agency that sets the rules to conduct themselves in such an unprofessional manner. To leave the professionals, that the Mineral Estate depends on, "in the lurch" with unanswered questions is a grave disservice to them, the Minerals Estate and the Osage Shareholders.

Don Unruh, Geophysicist/Geologist for Sullivan Oil & Gas Co. & Summit presenter, shared his research that revealed only 118 wells were drilled in 2013 compared to 332 wells in 2008. So far in 2014 there has been less than 20 vertical wells drilled and only 2 horizontals. When asked what can be accomplished to improve and/or increase Drilling in Osage Co. Mr. Unruh responded there are two things:

1. Improve Data Reporting out of the Osage to attract more investors. He suggested IHS Global software that provides products and solutions for all aspects of oil and gas asset management workflow from strategic planning through exploration, production and delivery. Note: our archival records need to be digitized and easy access provided to our operators.
2. Then he quoted:
"Good News is Good News
Bad News is Good News
No News is Bad News"

The Minerals Council needs to do a better job of informing their Operators when significant events take place that affect their capital intensive investments in the Mineral Estate. No news about the CFR's, no

news about the Lawsuit, no news about the new environmental assessment requirement has contributed to the great uncertainty leading to the cessation of drilling activity in Osage County.

Several presenters had slides reflecting the downturn in the number of wells drilled since 2012. A very interesting slide was presented by Edith Wilson, Geologist/Consultant and Research Associate of the Dept. of Geosciences at the University of Tulsa, showing what she called the Vertical Value Gap or lost opportunities to drill vertical wells since 2008. The slide is attached to this report. Note, the information comes from IHS Global and is just one of many examples of how data provided by this software can be analyzed and consequently, useful. This is the kind of information that the Minerals Council & the BIA needs so they can understand the huge impact non-engagement with our operators or lack of understanding of resource plays has on our Minerals Estate.

After talking to several presenters and producers and asking what they would suggest to improve on the efficiency and productivity of the ME I compiled the following suggestions and comments:

██████████ Geologist ██████████ offered:

1. Not replacing the Petroleum Engineer position after Joe Hughlett died was a real loss for both the OMC and the Osage shareholders because of the loss of Oil and Gas expertise.
2. There are several ways that could help bring the OMC a greater understanding of the current activity:
 - First and foremost is understanding where the upside potential in Osage fits relative to other counties in the Mid-Continent. A geological overview of the high value plays in the Mid-Continent would benefit the MC. It was suggested that ██████████ would be a good candidate for this as ██████ has a solid understanding of the unconventional reservoir revolution. ██████ is also an independent consultant with no production in Osage Co.
 - A review of horizontal Mississippi Lime wells drilled in Osage Co.
 - Overview of current horizontal Mississippi Lime activity in Oklahoma counties outside Osage.
 - A review by Tim Dowd of the draft CFR sent to Washington by the Neg Reg committee. The document as drafted adversely impacts the value of the Mineral Estate relative to all other non-Indian minerals in the Mid-Continent
 - A legal opinion how the recent actions by the BIA adversely impacts the development of the Osage Mineral Estate
 - **Continued update of the Donelson suit. This is a real heart ache as there are multiple Joint Ventures on the table now amounting to several hundred million dollars dedicated to drilling in Osage. Every one of these deals are on hold and what we all know about money is that it won't be long till that money goes to other opportunities.**
3. It was through significant effort, largely by ██████████ and ██████████ that Devon and EnCana were brought into Osage. EnCana is gone and Devon likely is too. ██████████ believes, as I do, the OMC and the shareholders would benefit from a conversation with Devon **and investigate what could be done to encourage them to continue drilling.** Perhaps an overview of current operators in the county would be good.
4. The BIA is really in shambles. The Superintendent's attitude at the Summit was shocking. There is a rumor that no permits are currently being processed by the BIA. You can imagine, if true, the damage being done to current operators.

██████████ conveyed to me that he is willing to help in any way we think would be beneficial. He is significantly vested in the success of operations in the Osage as we are.

██████████, Geologist offered this:

From ██████ perspective as a consultant, the slow data flow and especially the lack of embracing the API number as a reporting mechanism results in months of added time and tens of thousands of dollars of added cost to operators who are trying to bring in drilling capital. This does not count lost opportunities for asset turnover due to the inability to value properties on the market. Errors are rampant, and Quality Control is next to impossible in the current environment. ██████ suggests we look to a state like North Dakota or Louisiana to see how these things are done efficiently. The root of the problem is more fundamental than data entry, but ██████ leaves that to long term operators to address from a much more informed perspective. Certainly the cause of the drilling stoppage at the current time is the inability to obtain a permit, which sent all of ██████ clients into a tailspin before August 12 (the deadline for the new EA).

██████████ further suggested that we need an organization of Oil & Gas experts in place that is capable of leasing the Oklahoma oil & gas asset data for (IHS again) to select, organize, analyze and present critical data to the OMC. This would help the OMC anticipate drilling trends and take actions to positively influence them. These actions would be based in sound technical understanding of industry data. There is a cost to hire and train effective technical staff, but the **rewards are many times the cost**. Take a look at what the Southern Ute's have accomplished.

██████████ is currently experiencing an exasperating "Catch 22". While they are waiting on an approval of a Form 139, required by the BIA to repair a well, which was submitted on August 27, 2014, they have received a letter dated September 16 from the EPA that fines will be assessed if the well is not repaired. They have a fifteen day deadline to repair the well. As of October 8 (past the deadline), I do not believe the BIA has approved the Form 139. ██████ tried to get an answer during our BIA session at the Summit but Robin Phillips would only say that she cannot "pull some magical number out of the air" to give ██████ a time frame for approval. ██████ concerns are not only lost production and/or potential fines but also the potential risk to the base of treatable water posed by allowing this well to sit idle in its current mechanical condition. This is costing both ██████ and the Shareholders loss of revenue and the unfair assessment of fines for a well they want to fix but can't touch because of the inability of the BIA to process this paperwork that is supposedly exempt from the new EA requirements anyway.

We must act swiftly to reverse the downward drilling trend and to stand by our operators with the support and information they need to continue successful operations in Osage county. The Minerals Council, after all, is their only avenue for recourse besides writing letters of appeal to the BIA. In light of this and what Mr. Unruh shared with us about "lack of communication" at the Summit, I would suggest the following:

1. Get a legal opinion on using the current EA until such time that it is updated. It absolutely does not make sense to let one or two individuals create a new EA requirement process & shift the burden for a cultural resource survey without standard protocol and then spring it on our Operators without sufficient time to act on and keep our business flowing. At the very least the monetary impact to the ME and our Operators should have been considered for the best way to transition the new procedures with the least amount of interruption.
2. Secure an Advocate in Washington even at the President's level if necessary. Dealing with the Osage Agency and Regional Offices is getting us nowhere. It will take more money to pay a

Lobbyist but as mentioned before, the rewards will be many times the cost in our “multi-billion” dollar business.

3. Our Chief is one of our best Advocates. He should be kept apprised of all our activities and challenges so he can support our agenda and future plans.
4. It is very clear to me that we need to start spending smart money to run the Mineral Estate. Digitize records, hire Oil & Gas Experts including a full-time Petroleum Engineer and GIS Specialist to maintain digitized maps on a land grid of our pipeline infrastructure, proposed wells, producing wells, concessions, etc.
5. Once a plan is put into place and its costs, OMC3 should ask ~~Osage Nation Congress~~ **!Correction! this should read “US Congress”** for a bigger budget.
6. If the OMC does not currently have written Policies and Procedures for conducting business then we need to create them to more efficiently handle our business.
7. Immediately secure a clear explanation from our BIA staff what needs permitting and what does not so we can clarify for our Operators.
8. Organize and conduct several meetings with our Operators (Superintendent & entire OMC in attendance) to update them on OMC & BIA activities to deal with the current Donalsen Lawsuit, explain what CFR’s are being used to enforce regulations until such time that the new CFR’s are approved and restore an efficient and speedy permitting process. You will, necessarily, need to get assurances from our BIA first. Be able to answer all questions.
9. We need to ascertain what specific and detailed improvements to BIA practices, procedures and regulations are needed to properly manage the Mineral Estate. Then the Minerals Council should determine how they can support those improvements.
10. The Minerals Council needs to know more about the potential of our reserve base and the many pending joint ventures to exploit them. In this regard someone like Edith Wilson would be an excellent choice to oversee the organization of our historical and current data in digital format and help us to understand the significance and value of our resources. She or someone with her credentials could be one of the technical advisors on an OMC Team of Experts. We should focus on hiring the best professionals to ensure good stewardship of our natural resources as well as training and career development of our own people.
11. I would also encourage you to follow through on [REDACTED]’s suggestion above to meet with Devon and find out what kind of support they need from us to allow them to do what they do best. We absolutely do not want to lose them. They have the horizontal drilling expertise and the capital to have a successful play in Osage Co.

As a side note to 10. above it is my understanding that a qualified member of the Osage Nation with Oil & Gas Experience and a Juris Doctorate was passed over for the Superintendent when Ms. Phillips was hired. [REDACTED]

It is my belief that the OMC and the ON have a lot more power than they are currently using. With the right strategic plan, cooperation & collaboration with our Operators, use of technical expertise and new technology the OMC can put a stop to the millions of dollars flowing out of Osage Co. to other interests and keep it for the Shareholders.