

# Mossberg's Investor Digest

## Best Idea Profile:

## Osage Exploration and Development, Inc. (OTCBB:OEDV)

### DESCRIPTION:

Osage Exploration & Development, Inc. is an independent oil and gas company that targets projects that are either overlooked or underestimated. It is currently developing more than 34,000 acres in the Horizontal Mississippian and Woodford projects along the east side of the Nemaha Ridge in Logan County, Oklahoma. Osage is focused on an area on the east side of the ridge where there is a significant amount of natural regional fracturing that it believes will enhance recoveries of oil. Osage is based in San Diego, California, with production offices in Oklahoma City, Oklahoma.

### KEY INVESTMENT CONSIDERATIONS:

**Only Pure-Play in Exciting On-shore Play** – Osage is the only public exploration and production company that is a pure play in the Horizontal Mississippian. Logan County is rapidly becoming the heart of the horizontal Mississippian play in Oklahoma, and is considered the most capital efficient domestic on-shore play. Management states that there has been a learning curve on the best practices to drill, complete, and produce these wells, but that multiple operators in the area seem to have solved the puzzle as evidenced by the recent results. The trajectory of this play is steepening and will be reflected in a growing level of activity and higher production rates. Oil production across the company has doubled to over 500 barrels of oil per day since the end of the second quarter of 2013.

**Record Financial Results** – The recently reported third quarter was a turning point for Osage. It reported record quarterly revenues from continuing operations that grew 248% year over year. At \$1.6 million, it had its highest adjusted EBITDA in company history. This success is quite the turnaround from the risk profile that was seen just six months earlier. Osage has utilized growing understanding of the Oklahoma reservoir and outside expertise to hone completion and production methodologies: the effect on production during the third quarter was dramatic.

**Strong Operating Partners** – Osage is the originator of the Nemaha Ridge project, and manages project geology and land acquisition. It has two operating partners that are considered strong players. Its partner Slawson Exploration Co. is considered one of the nation's leading wildcatters throughout its 50-year history.

**Potential of Woodford Shale** – The Woodford is a shale formation that is less geologically complex and therefore should have a high drillability factor and consistent results than conventional formations. Woodford has been a horizontal target in Oklahoma for over a decade. This formation is present across Osage's entire 31,000 acre block, with a very favorable thickness of 90 feet, and is likely to significantly increase the recoverable reserves in Osage's acreage.

**Improved Leverage Position** – Osage has \$17.5 million debt outstanding, which is a fairly modest 3.6 times adjusted EBITDA. Capital expenditures are expected to be \$16.8 million in the first half of 2014, which will fund 20 gross wells. At the end of the third quarter of 2013 Osage sold its non-core Columbian assets for \$6.8 million in cash. This sale fortified the balance sheet and enables Osage to focus on the much more promising Logan County acreage.

### VALUATION:

With substantial insider ownership and dramatic financial improvement, the stock has moved from very speculative to an exciting play on the Logan County development. The stock is thinly covered, but that does not mean there is not considerable interest.

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Investment Data (as of 12/9/13)

<b>Recent Price</b>	<b>\$1.07</b>
52-Week Range	\$0.76 - \$1.85
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	50 M
Average Trading Volume (3 mos)	66 K
Market Capitalization	\$53 M
Cash	\$546 K
Long-term Debt	\$17 M
Enterprise Value (EV)	\$78 M
Book Value	\$0.16
TTM Revenue	\$10 M
P/ Revenue	5.3x
TTM EPS	\$(0.02)
P/ EPS	NA
TTM EBITDA	\$4 M
EV/ EBITDA	18.2x

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