STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING

CALL TO ORDER

A regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Vice-Chairman Denzil Young at 2 p.m., Wednesday, May 19, 1999, at the Board's office at 2535 St. Johns Avenue in Billings, Montana. Board members present were George Galuska, Jack King, Allen Kolstad, Stanley Lund, Elaine Mitchell and Denzil Young. Staff present were Tom Richmond, Jim Halvorson, George Hudak, Rich Jacobson, Terri Perrigo, Steve Sasaki and Don Garrity.

MINUTES

MOTION: Mr. King moved to accept the minutes of the April 7, 1999, business meeting. Mr. Lund seconded the motion and it passed unanimously.

PUBLIC COMMENT

Prospect Expo - Mr. Bob Schalla, an Independent Geologist from Billings, proposed the Board and/or the state have a booth at the Prospect Expo in Houston to advertise the new tax rates and promote Montana as a place to do business. Mr. Garrity said a similar suggestion was made a few years ago and the idea was passed on to the Department of Commerce. Mr. King thinks it is a great idea and a great way to get information out to industry, but a decision needs to be made soon because booths fill up by about August preceding the Expo. Mr. Galuska thought it was good advertising for exploration and production in the state. Ms. Gail Abercrombie, Executive Director of the Montana Petroleum Association (MPA), said MPA would take the lead on the Prospect Expo idea. She will investigate the possibility of getting economic development funds from the Department of Commerce.

BOND REPORT

Mr. Rich Jacobson presented the Bond Report, which is attached as Exhibit 1.

FINANCIAL REPORT

Ms. Terri Perrigo distributed and discussed the financial report, which is attached as Exhibit 2.

ENCORE OPERATING, L.P. BONDING PROPOSAL

This was a new agenda item to determine the bonding level for Encore Operating, L.P., the company that has purchased the Shell properties on the Cedar Creek Anticline. Mr. Garrity swore in members of the Encore team who were present to testify: Mr. Jon Brumley, President and Chief Executive Officer; Mr. Gene R. Carlson, Executive Vice-President; and Mr. Wes Welch, Vice-President Land. Mr. Carlson distributed a booklet which is attached as Exhibit 3. The three Encore representatives discussed the booklet and asked the Board to consider their bonding proposal: a total bond amount of $2,330,000, which includes a $660,000 bond for all non-UIC wells (259 active and 110 inactive) and a $1,670,000 bond for all UIC wells (239).

Mr. Richmond was pleased with the level of bonding suggested by Encore. He said the idea that a well producing 30 barrels per day is considered an asset was discussed in the Bonding Committee. Mr. Halvorson agreed with Mr. Richmond, and said Encore's bond proposal is especially reasonable when one looks at how many wells are still on $25,000 bonds. Mr. Hudak said the level proposed for the UIC bond is adequate and he recommends it be approved as a blanket bond.

MOTION: Mr. Galuska moved to accept the bonding proposal presented by Encore. Mr. Kolstad seconded the motion and it passed unanimously.

LEGAL SERVICES CONTRACT

MOTION: Mr. Lund moved to renew the legal services contract with Mr. Garrity for another year under the same terms as current. Mr. King seconded the motion and it passed unanimously.

RONALD M. SANNES & MARGARET ANN SANNES - RESTORATION OF STATE 1-36 WELL

Mr. Steve Sasaki distributed Exhibit 4, a history of the plugging and abandonment of the State 1-36 well in Richland County, Montana. He said the weather had contributed to not completing the final restoration work by the deadline of May 19, 1999.

Mr. Ron Sannes brought a "profit/loss" statement for the past four months to support his request to postpone the deadline for plugging an additional well to October 1, 1999. Board members reviewed Mr. Sannes' handout and found that information needed to act on Mr. Sannes' request was not provided. Mr. Sannes offered to bring a financial statement and his accountant, Mr. Dennis White, to the July 14, 1999, business meeting to answer questions about his financial status. Mr. Sannes agreed to waive confidentiality of this information for that purpose.

Mr. Galuska asked what action the Board wanted to take in regard to the non-completion of the State 1-36 work by the deadline. Mr. Garrity suggested the Board take no action at this time, but check to make sure the final restoration work is done at the next business meeting.

MSU BILLINGS STUDY

Mr. Richmond said he had not talked to Dr. Hinthorne, so the item should be put on the next business meeting agenda. **Mr. Jack King** said he had spoken to Dr. Hinthorne a few weeks ago, and he didn't think he would have any trouble finding students to undertake the project.

LEGISLATIVE REPORT

Mr. Richmond reported on three bills passed by the 1999 Legislature that affected the Board: a) HB 120 allows the Board to spend up to 2.5% of grant funds for administrative costs; b) SB 262 allows surety bonds for domestic gas wells; and c) HB 341 prohibits drilling in Makoshika State Park.

Ms. Abercrombie explained what the Legislature did to tax rates in House Bills 658 and 661 and Senate Bill 530. She also said MPA becomes Montana Petroleum Association, Inc. effective June 1, 1999.

STAFF REPORTS

Mr. Richmond said a CPA firm asked if the Board was interested in selling the vacant lot it owns. Mr. Richmond said the lot cost $26,000 and SID's run approximately $220 per year. The appraiser from Trust Lands Division could come appraise the lot, but permission from the State Land Board would be necessary before a sale. Sale of the lot could hamper future expansion of the office because parking requirements forbid expansion anywhere but up or in the vacant lot. Mr. Galuska doesn't see any reason to sell assets if the Board doesn't need the money. Mr. Richmond was directed to tell Mr. Vandelinder the Board is not interested in selling the property.

Mr. Richmond will be attending the Interstate Oil and Gas Compact Commission (IOGCC) meeting in Jackson Hole, Wyoming, in early June.

Mr. George Hudak said two companies (Cline Production and Nielco, Inc.) have one well each that is overdue for a mechanical integrity test (MIT). They had six months from the initial overdue date to have a successful MIT or plug the wells. Both companies had until today to do the work and neither complied. The Board directed Mr. Hudak to automatically docket operators past their six month deadline for a successful MIT or plugging for a Show Cause hearing at the Board's next public hearing.

MOTION: Mr. Lund moved to docket Cline Production Company and Nielco, Inc. for Show Cause hearings at the July 15, 1999, public hearing unless a successful MIT is performed or the wells plugged by June 17, 1999. Ms. Mitchell seconded the motion and it passed unanimously.

Mr. Jim Halvorson handed out Exhibit 5, an update on operators with seriously delinquent production reports. He sent these operators were sent a "final notice" letter on May 6, 1999, after numerous efforts had been made by the Helena office to obtain the delinquent reports. Mr. Halvorson said Sector Resources, Ltd, in response to his letter, sent in all delinquent reports. He wants to do more follow-up on Kirkwood, but requested authority to schedule McCullis Resources, Co., Inc and United States Energy Corp. for Show Cause hearings at the July public hearing if satisfactory response is not received by the filing deadline. Mr. Garrity said it is not the responsibility of the Board to search forever for addresses if mail comes back. Addresses in the current record are adequate for notice.

MOTION: Mr. Lund moved to docket McCullis Resources, Co., Inc and United States Energy Corp. for Show Cause hearings at the July 15, 1999, public hearing if satisfactory response to the final request for delinquent reports is not received by June 17, 1999. Ms. Mitchell seconded the motion and it passed unanimously.

Mr. Lund moved to adjourn. Mr. Galuska seconded the motion and it passed unanimously.

PUBLIC HEARING

The Board reconvened at 8:00 a.m. Thursday, May 20, 1999, in the conference room at the Billings Petroleum Club in the Sheraton Hotel, to hear the matters docketed for public hearing. As a result of the discussion, study, testimony, and technical data placed before the Board, the following action was taken in each matter.

Docket No. 39-99 A motion was made by Mr. Kolstad, seconded by Ms. Mitchell and unanimously passed, to approve the application of Burlington Resources Oil & Gas Company as set forth in Board Order 34-99.

Docket No. 40-99 A motion was made by Mr. Galuska, seconded by Mr. King and unanimously passed, to approve the application of Enron Oil & Gas Company as set forth in Board Order 35-99.

Docket No. 41-99 A motion was made by Mr. Kolstad, seconded by Mr. King and unanimously passed, to approve the application of KGH Operating Company, as set forth in Board Order 36-99. Mr. Galuska declared himself ineligible to participate in this matter and did not vote.

Docket No. 42-99 A motion was made by Mr. King, seconded by Ms. Mitchell and unanimously passed, to approve the application of JN Exploration & Production Limited Partnership, as set forth in Board Order 37-99.

Docket No. 43-99 A motion was made by Ms. Mitchell, seconded by Mr. Kolstad and unanimously passed, to approve the application of Tyler Oil Company, as set forth in Board Order 38-99.

Docket No. 44-99 A motion was made by Mr. Galuska, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as modified and set forth in Board Order 39-99.

Docket No. 45-99 The application of Klabzuba Oil & Gas, Inc. was withdrawn.

Docket No. 46-99 A motion was made by Mr. Kolstad, seconded by Ms. Mitchell and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as set forth in Board Order 40-99. Mr. King declared himself ineligible to participate in this matter and did not vote.

Docket No. 47-99 A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as set forth in Board Order 41-99.

Docket No. 48-99 A motion was made by Mr. Kolstad, seconded by Ms. Mitchell and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as set forth in Board Order 42-99. Mr. Galuska declared himself ineligible to participate in this matter and did not vote.

Docket No. 49-99 A motion was made by Mr. Galuska, seconded by Ms. Mitchell and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as set forth in Board Order 43-99.

Docket No. 50-99 A motion was made by Mr. Kolstad, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as set forth in Board Order 44-99.

Docket No. 51-99 A motion was made by Mr. Kolstad, seconded by Mr. Galuska and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as set forth in Board Order 45-99.

Docket No. 52-99 A motion was made by Mr. Galuska, seconded by Mr. Kolstad and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as modified and set forth in Board Order 46-99.

Docket No. 53-99 A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as modified and set forth in Board Order 47-99.

Docket No. 54-99 A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Klabzuba Oil & Gas, Inc., as modified and set forth in Board Order 48-99.

Docket No. 55-99 The application of Wascana Oil & Gas, Inc. was withdrawn.

Docket No. 56-99 A motion was made by Mr. King, seconded by Mr. Galuska and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 49-99.

Docket No. 57-99 A motion was made by Mr. King, seconded by Ms. Mitchell and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 50-99.

Docket No. 58-99 A motion was made by Mr. King, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 51-99.

Docket No. 59-99 A motion was made by Mr. King, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 52-99.

Docket No. 60-99 A motion was made by Mr. King, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 53-99.

Docket No. 61-99 A motion was made by Ms. Mitchell, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 54-99.

Docket No. 62-99 A motion was made by Mr. Kolstad, seconded by Mr. King and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 55-99.

Docket No. 63-99 A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 56-99.

Docket No. 64-99 A motion was made by Mr. Kolstad, seconded by Ms. Mitchell and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 57-99.

Docket No. 65-99 A motion was made by Mr. King, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as modified and set forth in Board Order 58-99.

Docket No. 66-99 A motion was made by Ms. Mitchell, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as set forth in Board Order 59-99.

Docket No. 67-99 A motion was made by Mr. Galuska, seconded by Mr. King and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as set forth in Board Order 60-99.

Docket No. 68-99 A motion was made by Ms. Mitchell, seconded by Mr. Kolstad and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as set forth in Board Order 61-99.

Docket No. 21-99 A motion was made by Mr. Galuska, seconded by Ms. Mitchell and unanimously passed, to dismiss without prejudice the application of Hawley Oil Company, as set forth in Board Order 62-99.

Docket No. 22-99 A motion was made by Mr. King, seconded by Mr. Kolstad and unanimously passed, to approve the application of Grynberg Petroleum Company, as set forth in Board Order 63-99.

Docket No. 112-98 The application of Decker Operating company, LLC was continued to the October 28, 1999, public hearing.

Docket No. 113-98 The application of Decker Operating company, LLC was continued to the October 28, 1999, public hearing.

Docket No. 114-98 The application of Decker Operating company, LLC was continued to the October 28, 1999, public hearing.

Docket No. 115-98 The application of Decker Operating company, LLC was continued to the October 28, 1999, public hearing.

Docket No. 69-99 The Show Cause hearing of Nerdlihc Co. Inc was dismissed.

Docket No. 70-99 The Show Cause hearing of Central Resources Inc. was continued to the September 9, 1999, public hearing.

Docket No. 71-99 The Show Cause hearing of Duard and Elmer Rossmiller was continued to the July 15, 1999, public hearing.

Docket No. 72-99 A motion was made by Ms. Mitchell, seconded by Mr. King and unanimously passed, to approve the application of Ocean Energy Resources, Inc., as set forth in Board Order 64-99.

NEXT MEETING

The next business meeting of the Board will be July 14, 1999 at 2:00 p.m. at the Board's office at 2535 St. Johns Avenue, Billings, Montana. The public hearing will be July 15, 1999, beginning at 8:00 a.m. in the conference room of the Billings Petroleum Club, Sheraton Hotel, Billings, Montana. The filing deadline for the July 15, 1999, public hearing is Thursday, June 17, 1999.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

Denzil Young, Vice-Chairman

ATTEST:

Terri Perrigo, Executive Secretary

Exhibit 1

MONTANA BOARD OF OIL & GAS CONSERVATION

BOND ACTIVITY SUMMARY

April 7, 1999 through May 19, 1999

APPROVED BONDS

Macum Energy, Inc. Billings, MT	1st Interstate Bank - Billings CD No. 1200000669	Amount . . . . $1,500 Type . . . . Single-well Effective 4/20/99
Macum Energy, Inc. Billings, MT	1st Interstate Bank - Billings CD No. 1200009063	Amount . . . . $1,500 Type . . . . Single-well Effective 4/20/99
Macum Energy, Inc. Billings, MT 59105	1st Interstate Bank - Billings CD No. 1200000670	Amount . . . . $1,500 Type . . . . Single-well Effective 4/20/99
Macum Energy, Inc. Billings, MT	1st Interstate Bank - Billings CD No. 1200009064	Amount . . . . $1,500 Type . . . . Single-well Effective 4/20/99
Montana Heartland, LLC Bismarck, ND	1st United Bank of Sidney CD No. 4062	Amount . . . . $10,000 Type . . . . Single-well Effective 4/23/99
TWO Taylor Well Operating Shelby, MT	1st State Bank of Shelby CD No. 2869	Amount . . . . $7,500 Type . . . . Limited Effective 4/29/99
WBI Production, Inc. Bismarck, ND	St Paul Fire & Marine Insurance Co Surety No. JY3372	Amount . . . . $50,000 Type . . . . Multi-well Effective 4/20/99

CANCELLED BONDS

Fina Oil and Chemical Company Dallas, TX	Seaboard Surety Company Surety No. 796013	Amount . . . . $25,000 Type . . . . Multi-well Effective 5/7/99

High Crest Oils, Inc. Calgary, Alberta, Canada	Glens Falls Insurance Co. Surety No. 02-64-44	Amount . . . . $10,000 Type . . . . Blanket Effective 5/17/99

RIDERS TO EXISTING BONDS

Columbus Energy Corporation Denver, CO (Bond increased from $25,000)	Continental Casualty Company Surety No. 137586650	Amount . . . . $50,000 Type . . . . Multi-well Effective 4/8/99

BOARD OF OIL AND GAS CONSERVATION
FINANCIAL REPORT
Through April 30, 1999
Percentage of Year Elapsed: 83%
(Payrolls: 78%)

OIL & GAS APPROPRIATIONS/EXPENDITURES/FUNDING

	REGULATORY PROGRAM			UIC PROGRAM			TOTAL HB2 PROGRAM		
EXPENDITURES	Appropriation	Expended	Percent of Approp Spent	Appropriation	Expended	Percent of Approp Spent	Appropriation	Expended	Percent of Approp Spent
Salaries	446,982	272,143	61%	151,147	91,570	61%	598,129	363,713	61%
Other Comp	7,728	3,997	52%	672	403	60%	8,400	4,400	52%
Benefits	125,595	72,228	58%	40,426	23,712	59%	166,021	95,940	58%
Vacancy Savings	(16,346)			(5,394)			(21,740)		
Other Svcs	89,453	51,443	58%	70,247	21,856	31%	159,700	73,298	46%
Supplies	34,335	10,680	31%	20,621	3,771	18%	54,956	14,450	26%
Communications	32,054	19,565	61%	7,132	5,315	75%	39,186	24,879	63%
Travel	26,829	12,109	45%	13,790	5,633	41%	40,619	17,742	44%
Rent	14,576	8,367	57%	4,720	2,608	55%	19,296	10,975	57%
Utilities	12,210	6,864	56%	3,954	1,920	49%	16,164	8,784	54%
Repair/Maint	16,552	7,552	46%	5,360	2,495	47%	21,912	10,046	46%
Other Exps	15,254	8,158	53%	7,298	2,602	36%	22,552	10,760	48%
Equipment	19,259	19,259	100%	0	0	0%	19,259	19,259	100%
Debt Svc	0	0	0%	0	0	0%	0	0	0%
TOTAL	$824,481	$492,364	60%	$319,973	$161,883	51%	$1,144,454	654,247	57%
FUNDING									
State Special Revenue	824,481	492,364		209,973	99,078		1,034,454	591,442	
Federal Funds	0	0		110,000	62,805		110,000	62,805	
TOTAL FUNDING	$824,481	$492,364		$319,973	$161,883		$1,144,454	$654,247	57%
Appropriation Balance	$332,117			$158,090			$490,207		
Percentage Expended	60%			51%			57%		

OTHER APPROPRIATIONS/EXPENDITURES FROM STATE SPECIAL REVENUE ACCOUNT

DNRC Centralized Services	$57,034	0
Department of Revenue	$31,764	23,823

REVENUE INTO STATE SPECIAL REVENUE ACCOUNT

	Year to Date FY 1999	Total FYE 1998	Percentage YTD99:FYE98
Oil Production Tax**	375,728	614,788	0.61
Gas Production Tax**	108,712	120,833	0.90
Penalty & Interest	91	231	0.39
Drilling Permit Fees	19,325	34,690	0.56
UIC Permit Fees	160,200	170,599	0.94
Enhanced Recovery Filing Fee	0	425	0.00
Interest on Investments	27,500	21,579	1.27
Copies of Documents	6,091	9,961	0.61
Database Services	0	74	0.00
Other	310	4,356	0.07
TOTALS	$697,956	$977,536	0.71

**FYE 1998 modified to include FY97 negative accrual adjustment, oil = (175,923), gas = (29,456)

Financial statements submitted to BOCG in FY98 excluded negative accrual adjustment for comparison with cash-basis FY97 data

INVESTMENT ACCOUNT BALANCES

Regulatory	$592,300
Damage Mitigation	$172,663

GRANT BALANCES

Name	Authorized Amt	Expended	Balance
Cat Creek	45,676	45,676	0
S.CutBank A	257,610	257,610	0
S. CutBank B	300,000	300,000	0
SL Grant	183,260	163,155	20,105
Devil's Basin	257,390	256,111	1,279
Balco*	1,018,356	1,003,437	14,843
96A	0	0	0
TOTALS	$2,062,292	$2,025,989	$36,227

*$37,877 50 from the Damage Mitigation Account has also been allocated to Balco, making the total esbmated project cost $1,056,233 50

g:\budget\fp\status\may99

Exhibit 2

Encore Operating, L.P.
Cedar Creek Anticline (CCA)

A Presentation to the Montana Board of Oil and Gas Conservation

May 19, 1999

5/19/99

Exhibit 3

Encore Operating, L.P.
MBOGC Meeting Agenda

- Introduction to **Encore Operating, L.P.-**
  I Jon Brumley - Pres./CEO
- Cedar Creek Anticline Operational Highlights-
  Gene R Carlson - Exec. VP
- Bonding and Transfer of Operatorship-
  K Wes Welch - VP Land
- Questions and Feedback

5/15/99

Introduction to Encore Operating, L.P.

- History
  - Management Team
  - Fort Worth Corporate Staff
- Financial Backing
  - Investor make-up and commitments
- Investment Strategy
  - Property Attributes
  - Operating Strategy

CCA Attributes Attractive to Encore Operating, L.P.

- Long-Life, Predictable Reserves
- 100 % Operated
- Concentrated Value
- Significant Remaining Potential

Encore Operating, L.P.
CCA Potential Upsides

Current Cumulative < 16% of OOIP

- Waterflood Optimization
- Infill Drilling
- Behind Pipe Recompletion Potential
- Injection/Production Stimulation
- Horizontal Drilling, New Technologies
- Enhanced Recovery Techniques

Encore Operating, L.P.
Near Term Plans for CCA

Operational:

- Assume operations effective June 1, 1999
- Planned continuity with current field staff
- Restore shut-in wells if viable
- Meet Shell's 1999 plugging requirements
- Evaluate immediate facility needs
- Address regulatory compliance needs

Encore Operating, L.P.
Near Term Plans for CCA

Asset Management:

- Spud first development well by August 31, 1999
- Continue with drilling for 6 well test program
- Study and develop specific depletion plan for each well, reservoir and field
- Study idle wellbores for future potential
  - Return to production / recompletion
  - Slimhole horizontal reentries
  - Tertiary recovery potential

Encore Operating, L.P.
Near Term Plans for CCA

Transfer of Operatorship:

- Set bonding requirements MBOGC & BLM
- Gain approval for transfer of operatorship

Proposed MBOGC Well Bonding Assumptions for Proposal:

- The CCA is **the core asset** of Encore
- Asset value of CCA is large, relative to liability
- Encore will continue a program of plugging and restoration of idle wellbores
- MBOGC requires separate bonds for UIC and Non-UIC wells
- MBOGC bonds not required on wells with Federal minerals

Proposed MBOGC Well Bonding Non-UIC wells:

(Only MBOGC jurisdiction)

- 259 Active, 110 Inactive non-UIC wells
- Active producing wells are valued assets to both Montana and Encore
- Total bonding proposed:
  - **$660,000** total MGOGC Non-UIC wells
  - $6,000 / Inactive non-UIC well
- Comparisons
  - More than statewide average
  - CCA assets much higher quality than average with average producing rate of **30 Bopd/well**

Proposed MBOGC Well Bonding UIC wells:

(Only MBOGC jurisdiction)

- 239 Total UIC wells to be bonded
- Total Encore bonding proposed:
  - **$1,670,000** total MGOGC UIC wells
  - $7,000 / UIC well
- Comparisons
  - Richardson $750,000 for 190 UIC wells
  - $4,000 / UIC well

Proposed MBOGC Well Bonding Bond Provider and Amounts:

- AON Risk Services - Information attached
  - St Paul Surety Company
  - Rated A+ by AM Best
- Non-UIC Bond $660,000
- UIC Bond $1,670,000
- Total MBOGC Bonds **$2,330,000**
- Highest bonding level in Montana
- **Demonstrates Encore's desire to be a responsible Operator**

5/15/99

Encore Operating, L.P.
Cedar Creek Anticline (CCA)
Summary

- Encore will be a responsible corporate citizen of Montana
- Encore will focus its attention on all aspects of the CCA properties
- Encore will redeploy cashflow to develop the CCA and enhance its value
- Encore will maintain cooperative relationships with all Federal and State Regulatory Agencies

AON

Aon Risk Services

May 13, 1999

Mr. Jonny Brumley
Partner
Encore Acquisition Partners, Inc.
201 Main Street
Suite 1455
Fort Worth, TX 76102

In Re: Surety Program

Dear Jonny,

We have reached agreement with St. Paul Surety Company to provide the required bonding capacity associated with the pending acquisition of Shell Western E&P, Inc.'s Cedar Creek Anticline Properties in Montana and North Dakota. St. Paul is one of the top surety companies in the country with a Best Rating of A+XV.

Jonny, Please let me know if there is anything else that you need in regards your surety program.

Sincerely,

Michael J. Herrod
Vice President

Aon Risk Services of Texas, Inc.
2000 Bering Drive, Suite 900 • Houston, Texas 77057-3790 • tel: (713) 430-6000 • fax: (713) 430-6590

Ratings

The financial strength of an insurance company is important to its policyholders and investors.

Independent services - such as A.M. Best, Standard & Poor's and Moody's - give high ratings to The St. Paul's claims-paying ability and financial strength.

Claims-paying ratings as of June 29, 1998, for St. Paul Fire and Marine Insurance Company:

Organization	Rating
A.M. Best	A+
Moody's	Aa2
Standard & Poor's	AA

The St. Paul's commitment to financial integrity is manifested in its balance sheet strength and return on equity.

At Dec. 31, 1998, common shareholders' equity was $6.6 billion, and our assets reached a new high of $38.3 billion.

Our high-quality investment portfolio is a strong, stable source of revenue, producing $1.6 billion in pretax investment income in 1998. The portfolio is structured to provide a high level of investment income and a reasonable level of capital gains, while maintaining a conservative risk level.

RONALD AND MARGRET SANNES
STATE NO. 1-36
NE NE SECTION 36 T26N R57E
RICHLAND COUNTY, MONTANA

April 8, 1999	BOGC Hearing, Mr. Sannes stated and I confirmed that the State 1-36 well had completed plugging operations as of this day. Board Order 33-99 issued ordering deferring payment of fine, ordering Mr. Sannes to plug one of 3 wells by 9/1/99, and orders Mr. Sannes to appear on May 19, 1999 at the Board's business meeting.
April 20, 1999	State 1-36 location tanks and treater still on location. Rods and tubing removed from location.
May 7, 1999	Verbal report from Inspector Darrel Hystad had inspected this location and found that the tanks and piping was removed from the well site. Earth moving equipment was on the location. Final restoration had not started yet. Weather conditions snowing.
May 18, 1999	Verbal report from Inspector Darrel Hystad. Location State 1-36, surface leasee called and stated final restoration work had not been completed.

BEFORE THE BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

IN THE MATTER OF AN INQUIRY INTO WHETHER THE BONDS OF RONALD M. AND MARGARET ANN SANNES SHOULD BE FORFEITED OR INCREASED.

ORDER NO. 33-99

Docket 38-99

Report of the Board

The above entitled cause came on regularly for hearing on the 8th day of April, 1999, in the Billings Petroleum Club, Billings, Montana, pursuant to the order of the Board of Oil and Gas Conservation of the State of Montana, hereinafter referred to as the Board. At this time and place testimony was presented, statements and exhibits were received, and the Board then took the cause under advisement; and, the Board having fully considered the testimony, statements and exhibits and all things and matters presented to it for its consideration by all parties in the Docket, and being well and fully advised in the premises, finds and concludes as follows:

Findings of Fact

1. Due, proper and sufficient notice was published and given of this matter, the hearing hereon, and of the time and place of said hearing, as well as the purpose of said hearing; all parties were afforded opportunity to present evidence, oral and documentary.

2. Ronald Sannes appeared before the Board and responded to a listing by the Board's Chief Field Inspector, Mr. Steve Sasaki, of the Sannes violations of Board rules to date. A copy of this three page report is attached to and made a part of this order.

3. Mr. Sannes agreed that he would plug and abandon either his Buxbaum No. 1 well, his A. Engen No. 1 well or his Trudell No 1-6 well. He also agreed he would reclaim the State 1-36 well not later than May 8, 1999.

Order

IT IS THEREFORE ORDERED by the Board of Oil and Gas Conservation of the State of Montana that collection of the remainder of the fine imposed against Mr. and Mrs. Sannes be deferred until further order.

IT IS FURTHER ORDERED that respondents plug and abandon one of the three wells specified in Finding of Fact number 3 by September 1, 1999.

IT IS FURTHER ORDERED that Mr. Sannes appear before the Board at its business meeting on May 19, 1999, and document his successful reclamation of the State 1-36 well. At that time the Board may impose additional reporting requirements for Mr. Sannes to keep the Board informed of his progress in bringing his operations into compliance.

Exhibit 5

DELINQUENT PRODUCTION REPORTS

McCullis Resources Co., Inc	5 wells	(Toole Co.)	September, 1996	Returned, Addressee Unknown
United States Energy Corp.	4 wells	(Glacier Co.)	February, 1994	Receipt – home address of Neill C. Flemister; no return from company address
Sector Resources (II) Ltd.	4 wells	(Hill Co.)	January, 1995	Reports and Apology - 5/18/99
Kirkwood, W.C., and WESCO Operating, Inc.	1 well	(Roosevelt Co.)	December, 1993	Response – 5/13/99; county took well for taxes, then relinquished all rights to W.C. Kirkwood in 6/98. (No production reports – yet)