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1960
ANNUAL REPORT

Consolidated Oil & Gas, Inc.

CONSOLIDATED INC OIL & GAS

1960
OPERATIONS IN BRIEF

PRODUCTION

Natural gas production rose 42.5% over 1959, with total 1960 sales aggregating 1.078 billion cubic feet. Oil and condensate sales were up 20% over 1959 levels, for a total of 88,416 barrels.

RESERVES

Natural gas reserves jumped 85% over fiscal 1959, giving Consolidated net proven reserves of 120.8 billion cubic feet at November 30, 1960. Crude oil and condensate reserves on the same date were placed at 1.94 million barrels, showing an increase of 28.5% over last year's totals.

PRODUCING WELL INTERESTS

Our Company participated in the drilling of twenty-four wells during fiscal 1960. At the end of the year Consolidated had a 95% success ratio in drilling and had at year end interests in 108 gross wells.

CASH FLOW

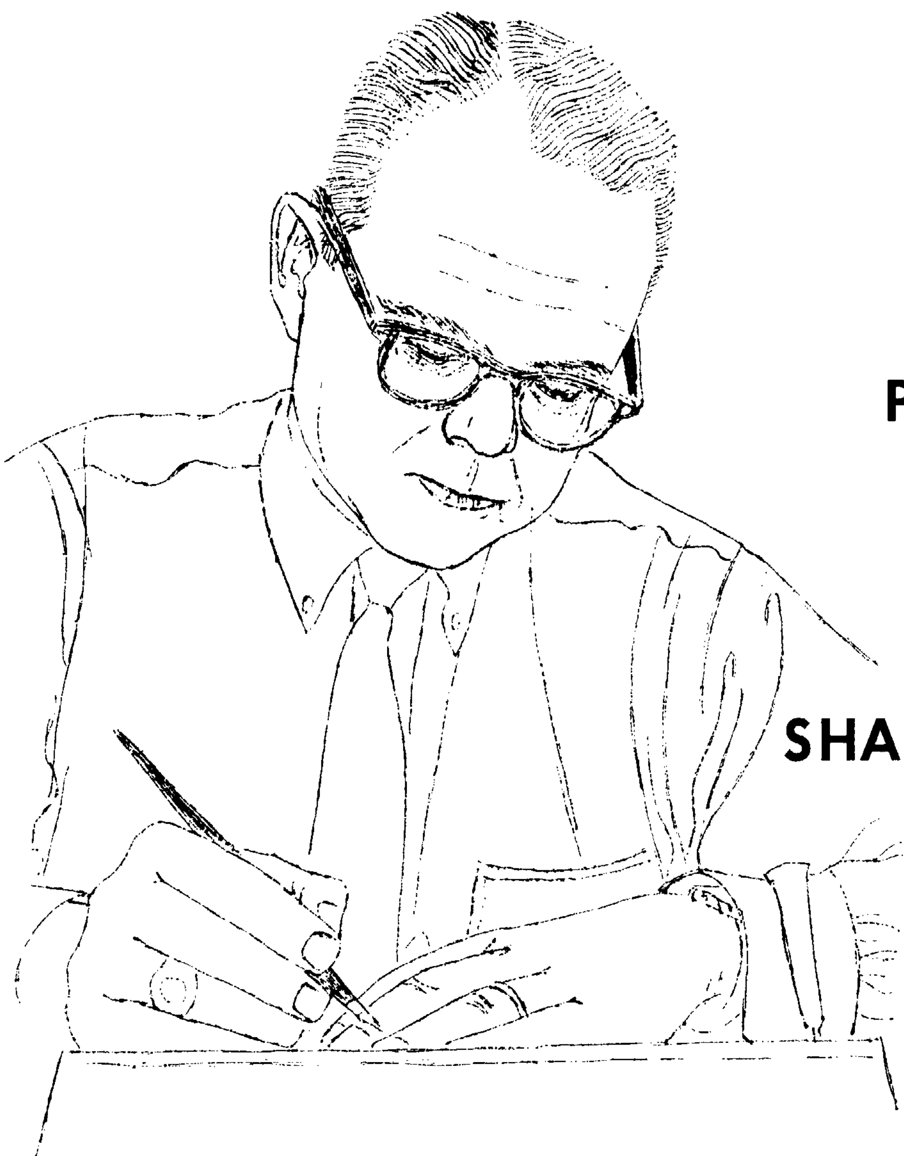
From less than one cent in 1959, cash flow was over fourteen cents per share in 1960.

ANNUAL REPORT FOR THE YEAR ENDING NOV. 30, 1960

CONTENTS

GRAPHS

MAPS



THE PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

JANUARY 28, 1961

Dear Shareholder:

With the support of the stockholders so fully demonstrated by your subscription to 96% of the offering of common stock and common stock purchase warrants (without added costs of underwriting), the fiscal year of 1960 is a fitting prelude to further growth prospects during the coming years.

By this demonstration of your faith in the program of Management, Consolidated was able to raise $404,352, and immediately these proceeds were applied toward acceleration of proven gas reserves development.

The effect of Consolidated's accelerated program, beginning late in the year as it did, is not reflected in fiscal 1960 sales of oil and gas. During the last three months of the year, however, our productive gas capacity shows the results of this program. As seen graphically on the opposite page, Consolidated's new production potential was followed by higher rates of production in the last month as the period of higher demand for gas began.

While posting only a 27% increase in sales of oil and gas over 1959, Consolidated's net proven gas reserves had a sound 85% increase. Net proven reserves of oil and condensate increased 28%. It is imperative that a favorable balance between production and new reserves be maintained in a natural resources company, and this was accomplished in good style.

It is noteworthy that on November 30, 1959, Consolidated had approximately sixty-five billion cubic feet of net proven gas reserves. Slightly less than fifty per cent were developed. By the end of fiscal 1960, total proven gas reserves had almost doubled, but were still about fifty per cent developed. Thus we are assured of a successful developmental drilling program for 1961. Nevertheless, Management is maintaining its active search to further increase Consolidated's reserves in the same effective manner as in the past.

Information concerning our 95% success ratio in drilling during 1960 was contained in the December 1960 President's Progress Report. Of twenty-four wells drilled or deepened for completion attempts in a new horizon, only one was unsuccessful.

Successful wells during 1960 increased our potential deliverability from natural gas wells by 280% over fiscal 1959. As a result, your Company's net share of gas production capability reached 12,000,000 cubic feet per day as shown on the graph. This is the income equivalent of $570,000 per year, not counting crude oil or condensate sales. The amount of natural gas we expect to sell during 1961 will depend on total demand for gas from the San Juan Basin area. Under the terms of our contracts with gas transmission companies, we can be generally assured that sales will be no less than one-half of productive deliverability.

The drilling program for 1960 was not confined strictly to development work. New reserves were established principally as the result of two wildcat successes. These Dakota gas wells were drilled on acreage acquired during the year in the San Juan Basin. While acquiring this new acreage, Consolidated released several tracts of undeveloped wildcat acreage in the Rocky Mountain area which were not deemed encouraging enough to continue in force. Total acreage ownership of some 60,000 acres throughout the Rocky Mountain region has remained relatively constant during the past two years.

A review of the activities of the Company for 1960 as compared to Management's Forecast presented in the 1959 Annual Report indicates a very close parallel between predictions and accomplishments.

Consolidated was successful in maintaining a rapid pace in development drilling and also obtaining new farmouts proven for Dakota gas production in the San Juan Basin. Five more wells were drilled on our Fulcher-Kutz Dakota gas properties at no out-of-pocket cost to Consolidated. Most of our unconnected, shut-in gas wells as of November 1959 have since been connected into gas gathering systems.

Consolidated's revenue flow substantially increased during the year so that our additions to cash were up from less than one cent per share in 1959 to more than fourteen cents per share in fiscal 1960.

Pursuit of possible acquisitions of income producing companies, specified in the 1959 Forecast, was unceasing. At year end, negotiations were almost completed for a merger of Midland Oil Company of Wyoming into Consolidated. The loss of our Executive Vice President and Secretary, Saul A. Levine, unexpectedly occurred on January 17, 1961. This was the same date that your Board of Directors gave approval to the Midland-Consolidated merger, a project of consequence to which Mr. Levine had devoted a great deal of time in recent months.

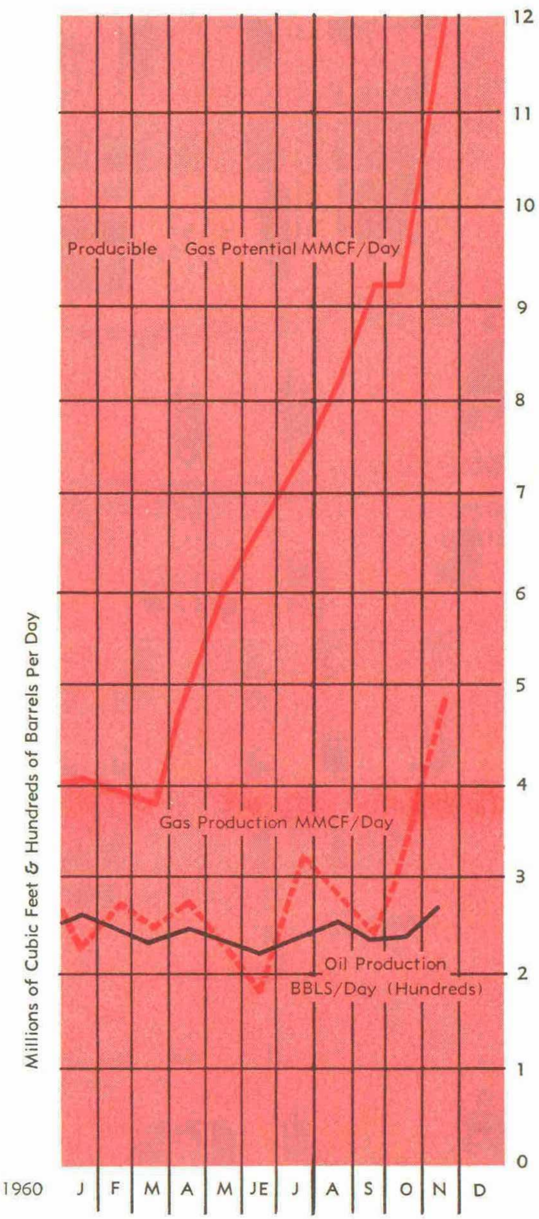
Plans for listing Consolidated's common stock on the American Stock Exchange were necessarily delayed by the prospective merger. Management, acting under instructions of the Board of Directors, plans to make application shortly after the merger proposal has been acted upon by the shareholders of Consolidated and Midland.

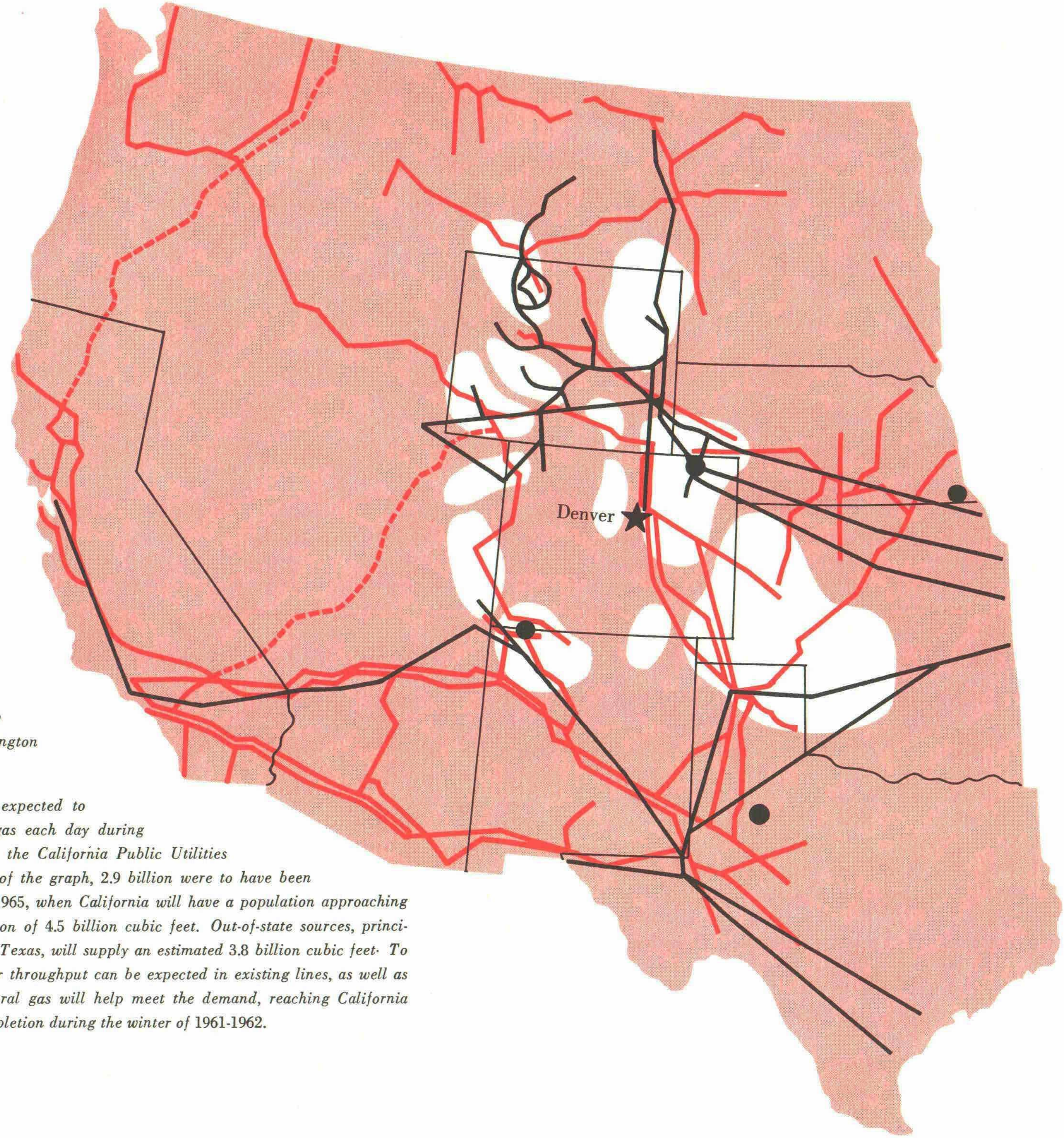
Consolidated's accomplishments during 1960 could not have been so successfully realized without continued maximum effort on the part of all employes. Due to their efforts, general and administrative costs were reduced without slackening our growth rate. Mr. Clyde J. Cooper, Jr., formerly associated with our legal counsel, joined Consolidated on a full-time basis during 1960 as head of our Land and Legal Department. Other changes and additions were made in the operating staff to bring the Company's total number of employes to 25 at the end of the year.

The guidance of the very distinguished group of men presently serving as your Board of Directors has again been a material contribution to the growth of the Company. Their continued active service should assure Consolidated of another successful year in 1961.

Policy plans and Management's Forecast for 1961 are to be found on page 11 of this report.

Henry A. Trueblood Jr.





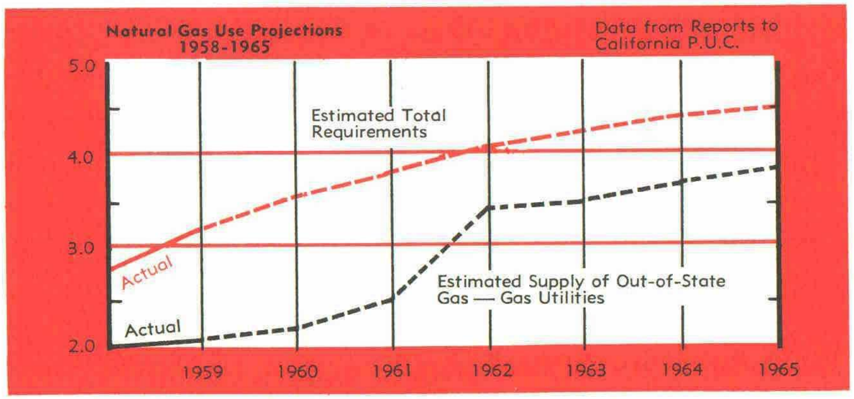
Since 1951, California's requirements have impelled the growth rate of the natural gas industry in the Mountain States.

During the 1950-1960 decade, California's population grew to 15.7 million, a 48.5% increase. Preliminary 1960 Census figures place the numerical gain of the Mountain States at 1.8 million, giving the 864,000 square miles of these eight states a total of 7.6 million inhabitants.

Numerically, Oregon grew less than New Mexico in the ten-year period, Washington added fewer people than Arizona.

Domestic and industrial consumers were expected to require 3.4 billion cubic feet of natural gas each day during 1960, according to estimates prepared for the California Public Utilities Commission. As shown on the lower line of the graph, 2.9 billion were to have been received from out-of-state. Projections to 1965, when California will have a population approaching 20 million,. indicate a daily gas consumption of 4.5 billion cubic feet. Out-of-state sources, principally the Mountain States, Oklahoma, and Texas, will supply an estimated 3.8 billion cubic feet· To meet growing demand in California, higher throughput can be expected in existing lines, as well as new pipeline construction· Canadian natural gas will help meet the demand, reaching California through a pipeline project targeted for completion during the winter of 1961-1962.

STATE OF CALIFORNIA



DRILLING

Consolidated participated in the drilling of more than 135,000 feet of hole during fiscal 1960, representing a total expenditure in excess of $2,000,000. Of the twenty-four wells in which the Company participated, only three may be considered as exploratory. Twenty-one were development wells in furtherance of Consolidated's policy to expedite growth of daily gas productive capabilities.

Two of the three exploratory wells were successful: the Consolidated-Hale No. 1 in Sec. 24-T26N-R8W, San Juan County, New Mexico, and the Consolidated-N.C.R.A. No. 1, located in Sec. 22-T26N-R7W, Rio Arriba County, New Mexico. (See map on page 8.)

Consolidated's only exploratory failure was a deepening operation to test the Dakota possibilities under a portion of our Spring Creek block in southwestern Colorado.

Thirteen successful development wells were drilled in the Northwest Blanco Area of New Mexico's San Juan Basin. Ten were single zone Dakota gas completions. Another was a single zone Mesaverde completion, with the deeper Dakota formation considered as proven. On long held acreage, Consolidated successfully deepened a Mesaverde producer, dually completing the well from the Mesaverde and Dakota. One new Mesaverde-Dakota dual completion was drilled in 1960.

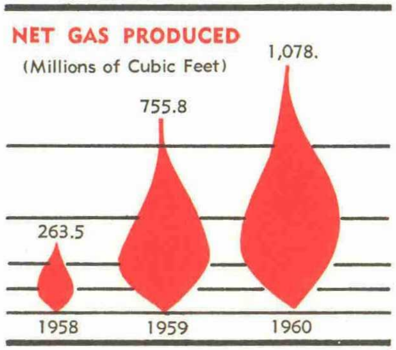
As the fiscal year ended, Consolidated was preparing to drill two Dakota wells in the Northwest Blanco area.

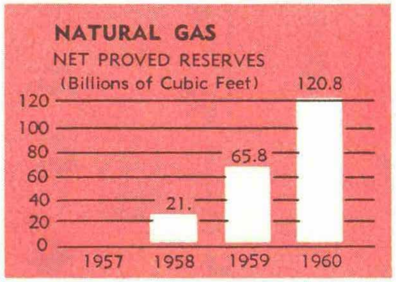
Three wells were drilled in the Post Glorieta Field of West Texas. Two were completed in the Glorieta and one in the San Andres formation. Three older oil wells were recompleted as dual producers from both the Glorieta and San Andres.

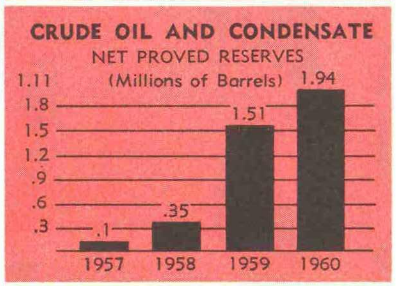
No new drilling was done in the Falls City, Nebraska, area nor in the Denver Basin of Colorado, Nebraska, and Wyoming.

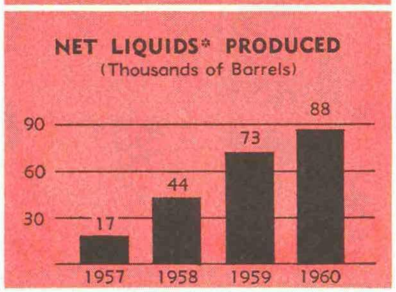
Consolidated does not own or operate drilling rigs or associated equipment. Drilling and completion operations are performed under contract with experienced, reputable firms in accordance with specifications set forth by Consolidated's engineering, geological and legal departments. Consolidated's field personnel work closely with the contractors, supervising the progress of the various operations.

Production and Markets









*Includes Crude Oil and Condensate

Including both crude oil and condensate, Consolidated's liquids production for 1960 was 20% higher than 1959's total. Our Company's improvement is gratifying, especially in the face of a 1960 national average of approximately a one-half per cent decline in crude production and a six per cent increase in natural gas liquids production. Consolidated produced and sold 88,416 barrels of crude and condensate in the year just ended.

Part of the increase in liquids production may be credited to our 42% increase in natural gas production over 1959. Natural gas production rose from 756 million cubic feet during 1959 to 1,078 million cubic feet during fiscal 1960.

From each million cubic feet of Dakota gas produced in the San Juan Basin, Consolidated recovers between 10 and 20 barrels of condensate. This straw-colored liquid contains a high percentage of natural gasoline and is readily marketable. Prices have been consistently between \$2.25 and \$2.45 per barrel after transportation costs.

During 1960 Consolidated's producing well interests were reduced by 1.5 net oil wells. The reduction was principally due to abandonment of sub-marginal well interests. As discussed in the section on Activity by Area, careful engineering practices have maintained high levels of production.

Net producing gas well interests increased by 7.197 during fiscal 1960.

While crude oil and condensate sales form a substantial percentage of gross income, the broad base of Consolidated's growth structure rests on natural gas production from the San Juan Basin. Lying in Northwestern New Mexico and Southwestern Colorado, the San Juan Basin is the nation's second largest gas producing area. More than 5,000 wells tap half a dozen different gas productive formations to supply domestic and industrial customers via intrastate and interstate gas transmission lines.

Dakota formation gas production is assuming a more important role in terms of emphasis and productivity in the San Juan Basin. In spite of quickened interest, there were fewer than 350 Dakota productive wells in the San Juan Basin at November 1960. At this time, Consolidated had varying interests in almost 10% of all Dakota wells in this portion of New Mexico.

Proration, or State regulated limitation of production, will commence around February 1, 1961, for the Dakota formation in New Mexico. This regulation has been in effect for other oil and gas producing formations for several years.

The consequence of proration on Consolidated's natural gas interests in this area is one of balance between realizable income and productive well life.

Consolidated has long-term gas sales contracts with El Paso Natural Gas Company and Southern Union Gas Company, operators of gas transmission lines. These contracts contain escalation clauses which provide for periodic increases in prices received by Consolidated for its gas. Equally important is the "take-or-pay" proviso which generally assures our Company of payment for a minimum of fifty per cent of a well's annual potential deliverability into the line.

Proration reduces possible gas sales from 100% of a well's capacity, but allows each well a ratable portion of the total available market for natural gas. Offsetting the possible annual decrease in total income from gas sales is a 25-35% extension of the productive life of the wells. Here again, a balance is achieved between over-all income from higher volume gas sales at near term prices or equivalent total gas sales over a longer term with escalating prices.

An important aspect of Consolidated's growth base is the accuracy with which natural gas income may be forecast. This has proven to be a significant factor in receiving expansion and development loan assistance from financial institutions. Management's policy of stressing acquisition of natural gas reserves and production had the effect of supplying a readily predictable income which could be applied to debt service. Had Consolidated's future income been proportionately linked to the relatively uncertain domestic crude oil market, it is questionable whether shareholders' equities could have grown at present rates.

Financial Summary Section

ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders of
Consolidated Oil & Gas, Inc.
Denver, Colorado

We have examined the balance sheet of Consolidated Oil & Gas, Inc., as of November 30, 1960, and the related statement of income and expense and retained earnings (deficit) for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and expense and retained earnings (deficit) present fairly the financial position of Consolidated Oil & Gas, Inc., at November 30, 1960, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

W. L. CLASQUIN

W. L. Clasquin

Denver, Colorado
January 11, 1961

BALANCE SHEET

Consolidated Oil & Gas, Inc.

ASSETS

	1960	1959	1958
Current assets:			
Cash	$ 133,780.77	181,234.30	35,864.21
Notes receivable — secured — Note 1	160,000.00	100,000.00	120,000.00
Notes receivable — unsecured	4,300.00	21,918.80	7,075.50
	164,300.00	121,918.80	127,075.50
Accounts receivable:			
Oil and gas purchasers	25,849.15	25,632.81	21,679.62
Interest holders in jointly owned properties	222,008.95	116,494.65	141,392.97
Other	11,446.16	22,004.94	21,851.27
	259,304.26	164,132.40	184,923.86
Estimated refund on Federal income tax	....	....	7,617.38
Work in progress at cost	1,471.70	28,172.71	97,677.22
Inventory of equipment	51,093.26	51,545.00	59,740.00
Prepaid expenses	5,481.49	7,252.08	3,147.62
	615,431.48	554,255.29	516,045.79
Non-current assets — notes receivable — secured — Note 1	129,000.00	99,000.00	....
Investments	19,538.00	8,962.50	8,862.50
Property and equipment at cost:			
Producing oil and gas properties — partially pledged	2,652,097.56	1,887,919.41	967,588.74
Undeveloped oil and gas properties	179,382.70	210,093.95	124,748.57
Land, building and equipment — partially pledged	86,180.56	73,526.87	54,946.80
	2,917,660.82	2,171,540.23	1,147,284.11
Less accumulated depreciation and depletion	330,752.85	340,412.57	242,138.48
	2,586,907.97	1,831,127.66	905,145.63
Other assets:			
Deferred financing costs	2,740.54	9,825.00	....
Deposits	3,185.15	7,359.97	3,554.99
Organization expense	....	6,113.78	6,113.78
	5,925.69	23,298.75	9,668.77
	$3,356,803.14	2,516,644.20	1,439,722.69

The accompanying "Notes to Financial Statements" is an integral part of this statement.

LIABILITIES AND STOCKHOLDERS EQUITY

	1960	1959	1958
Current liabilities:			
Notes payable — portion due within one year:			
Unsecured	$ 314,760.55	165,350.53	104,604.66
Secured	176,672.61	207,460.86	73,750.11
	491,433.16	372,811.39	178,354.77
Accounts payable	254,755.93	340,971.06	179,565.34
Interest holders in jointly owned properties	60,959.55	19,248.42	14,429.86
Other accrued liabilities	23,217.18	24,835.05	17,328.41
Advances on drilling arrangements	39,412.92	58,208.74	142,627.92
	869,778.74	816,074.66	532,306.30
Long-term purchase obligation	....	61,300.00	....
Notes payable — portion due after one year:			
Unsecured	41,010.00	78,395.00	19,750.00
Secured	178,897.33	186,668.65	105,097.35
	219,907.33	265,063.65	124,847.35
Deferred income — Note 1	1,049,537.49	510,479.48	336,362.36
Stockholders' equity:			
Common stock — authorized 5,000,000 shares at $.20 par value; November 30, 1960 — issued 1,559,368 shares; in treasury 10,902 shares; outstanding 1,548,466 shares — Note 4	311,873.60	282,916.80	267,127.60
Capital surplus — Note 2	1,410,038.70	1,076,229.24	502,517.27
	1,721,912.30	1,359,146.04	769,644.87
Retained earnings (deficit) from December 1, 1956	(413,156.49)	(404,237.63)	(227,068.69)
	1,308,755.81	954,908.41	542,576.18
Less treasury stock at cost	91,176.23	91,182.00	96,369.50
	1,217,579.58	863,726.41	446,206.68
	$3,356,803.14	2,516,644.20	1,439,722.69

The accompanying "Notes to Financial Statements" is an integral part of this statement.

STATEMENT OF INCOME AND EXPENSE AND RETAINED EARNINGS (DEFICIT)

Three Years Ended November 30, 1960

	1960	1959	1958
Income:			
Oil and gas sales — Note 1	$ 342,843.20	271,097.74	146,982.00
Drilling arrangements and operations reimbursements	1,026,582.89	437,833.02	145,525.74
Miscellaneous	122,353.06	120,422.15	42,991.04
	1,491,779.15	829,352.91	335,498.78
Costs and expenses:			
Direct costs:			
Production costs	126,109.04	134,572.53	93,313.91
Direct production payment expense — Note 1	31,591.90	13,193.70	1,069.90
Drilling arrangements and operations reimbursement costs	812,720.33	427,349.67	97,026.79
Dry hole costs	82,056.21	95,424.16	35,553.98
Lease rentals — non-producing properties	15,334.13	15,132.52	6,580.44
General and administrative expenses	145,547.14	168,447.39	109,699.65
	1,213,358.75	854,119.97	343,244.67
Operating income before interest	278,420.40	(24,767.06)	(7,745.89)
Interest expense	52,284.28	27,021.86	15,628.64
Operating income before non-cash charges	226,136.12	(51,788.92)	(23,374.53)
Non-cash charges:			
Depreciation, depletion and amortization	129,400.62	116,510.59	73,905.86
Abandonment and surrender of leases	43,908.85	8,466.35	23,817.46
Loss on sale of properties	61,745.51	403.08	(1,387.25)
	235,054.98	125,380.02	96,336.07
Net income or (loss)	(8,918.86)	(177,168.94)	(119,710.60)
Retained earnings (deficit) beginning of period	(404,237.63)	(227,068.69)	(143,290.41)
Add — retained earnings of Colorado Western Exploration, Inc., at date of merger, May 1, 1958 — Note 3	....	....	35,932.32
Retained earnings (deficit) at end of period	$ (413,156.49)	(404,237.63)	(227,068.69)

The accompanying "Notes to Financial Statements" is an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

November 30, 1960

NOTE 1:

During the fiscal year 1958, the Company sold a $440,000.00 gas payment for $340,000.00 to be repaid out of the proceeds of production from certain gas properties. At the time of sale, the Company management estimated that it would take approximately seven years to recover the $440,000.00. The $340,000.00 has been considered deferred income and as the gas is actually produced that amount will be taken into earned income. As of November 30, 1960, there was a deferred income balance on this gas payment of $252,812.77.

During the fiscal year ended November 30, 1959, the Company sold an oil and gas payment for $220,000.00 plus an amount equal to 6½% per annum on the unpaid balance to be paid out of production from certain oil and gas properties. On September 23, 1960, the Company made an additional sale of $580,000.00 to increase this oil and gas payment to $800,000.00. The Company management estimates that it will take approximately five years to recover the $800,000.00 plus an amount equal to 6½% per annum on the unpaid balance. The consideration of $800,000.00 was received in the form of $565,000.00 cash and an installment note for $235,000.00 of which $90,000.00 is payable on or before February 1, 1961, $70,000.00 on or before April 1, 1961, and $75,000.00 on or before April 1, 1964. As of November 30, 1960, there was a deferred income balance on this oil and gas payment of $796,724.92.

NOTE 2:

Capital surplus changes during the year as follows:

Balance at December 1, 1959			$1,076,229.24
Add:			
Excess value assigned to oil and gas properties acquired over par value of stock issued	$ 33,050.00		
Excess of consideration received over par value of 134,784 shares of common stock sold pursuant to common stock offering completed September 6, 1960, to stockholders of record July 8, 1960 ..	377,395.20		
Excess of consideration received over cost of treasury stock issued to retire debentures		3,113.04	413,558.24
			$1,489,787.48
Less:			
Deferred financing costs which represent the direct costs that were incurred by the Company in connection with the stock registration program completed during the current fiscal year ..		73,192.30	
Write off of organization expense by resolution of the board of directors		6,113.78	
Direct costs of stock offering		442.70	79,748.78
Balance at November 30, 1960			$1,410,038.70

NOTE 3:

On May 1, 1958, Colorado Western Exploration, Inc., was merged into Consolidated Rimrock Oil Corporation at which time the name was changed to Consolidated Oil & Gas, Inc.

NOTE 4:

On July 27, 1960, the Company registered with the Securities and Exchange Commission 140,748 units with each unit consisting of one share of common stock and three transferable common stock purchase warrants. The units were offered to the holders of its common stock who were of record at the close of business on July 8, 1960, at the ratio of one unit for each ten shares. The Company sold 134,784 units, thereby creating 404,352 common stock purchase warrants which are outstanding at November 30, 1960. Each common stock purchase warrant is exercisable for one share of common stock of the Company at $3.875 per share on or before June 30, 1963, or at $4.875 per share on or before June 30, 1967.

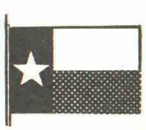
1960 ACTIVITY BY AREA

TEXAS

In the Post Glorieta Field of Garza County, Texas, Consolidated has drilled fourteen wells since the property was originally acquired. Of the thirty-six wells which the Company now operates, thirty-two produce crude oil from the Glorieta formation, one from the San Andres formation, and three are dually completed, producing from both of these horizons.

All of the operators in the Post Glorieta Field are considering a pilot waterflood project on a joint basis. Consolidated's engineers are examining the feasibility of such a project and its possible extension into a full scale field flood. Secondary recovery methods, such as waterflooding, often produce as much or more oil than was recovered by flowing or pumping during the primary life.

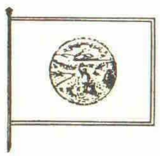
In the Oceanic Field of Howard and Borden Counties, Consolidated's two wells continue to produce their full daily allowable. The seven-year-old field is under a natural water drive which, combined with pro-rated production, means a slow decline in production and maximum recovery from the total oil in place in the Canyon Reef formation.



EASTERN NEBRASKA

Production from Consolidated's leases in the Falls City area continues to be marketed locally. To improve operating economies, ten sub-marginal wells have been abandoned. Eight producing wells in this "stripper" field pump an average of ten barrels each per day, with every anticipation that profitable operations can be maintained for some time to come.

During fiscal 1960, Consolidated acquired the remaining outstanding working interests to give our Company 100% of the working interest oil.



DENVER BASIN

In the Denver Basin of Northeast Colorado and Western Nebraska, Consolidated's oil production averaged 260 barrels per day, as compared with 280 barrels per day during 1959. The slow decline is the result of Consolidated's policy of remedial work to maintain and increase production through the field application of the most advanced engineering techniques.

In Cheyenne County, the Company abandoned the Miller well which was incapable of profitable operation even after remedial efforts. Abandonment of this well reduced to fourteen the number of wells now being operated in the Denver Basin.

Through purchases, Consolidated now owns approximately fifty per cent of the working interests in its Denver Basin properties. This includes undrilled acreage which Management considers to have a potential of from two to four locations for development wells.

Secondary recovery operations, principally through waterflooding, have been on the increase in the Denver Basin with excellent results. The amenability of the "D" and "J" sands (the major producing zones) has been amply demonstrated. Alert to the potential profitability of waterflooding, Consolidated has completed the necessary technical evaluation of its Denver Basin holdings.

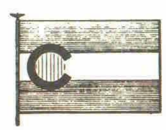
SOUTHWESTERN COLORADO

Consolidated's one drilling failure during 1960 was on the Spring Creek block. This was a deepening operation in one of the Company's Mesaverde gas wells, aimed at evaluating the promising indications of Dakota gas noted in a previous well.

A portion of our acreage was released following the deepening attempt. However, additional acreage was earned by drilling to bring our present holdings in the Colorado portion of the San Juan Basin to approximately 10,000 acres. The lease block is partially maintained in effect by those shut-in Mesaverde gas wells which have been drilled.

Other formations, deeper still than the Dakota, may prove to contain commercial quantities of gas or oil. These formations — the Entrada, Morrison, Pennsylvanian, Mississippian, and Devonian — are not presently being considered as drilling targets by Consolidated.

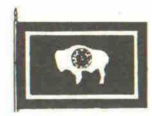
Outside of the Denver Basin and San Juan Basin areas, Consolidated holds some 4,000 net acres of leases in other basinal areas of oil or gas potential. These leases are appraised regularly as nearby drilling by other operators develops new geological data.



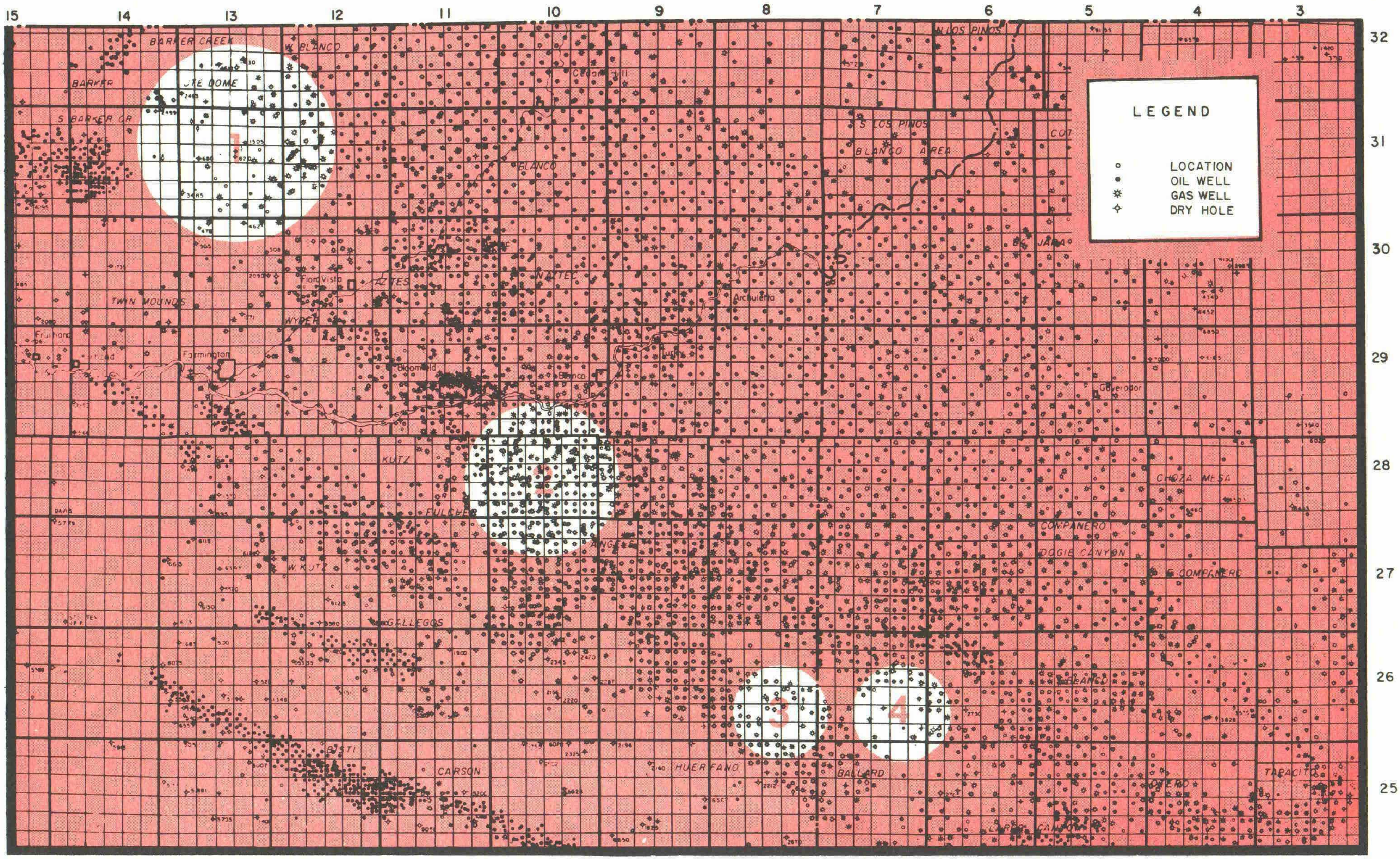
WYOMING

No drilling operations were conducted in Wyoming during 1960 by Consolidated. Undeveloped leaseholds were selectively reduced from 46,000 net acres to 41,600 net acres as of November 30, 1960. Net royalty acres increased by 300 acres over 1959 to approximate 2,800 at the end of the fiscal year. Consolidated's undeveloped and royalty leases are located in five of the principal basinal areas of the state.

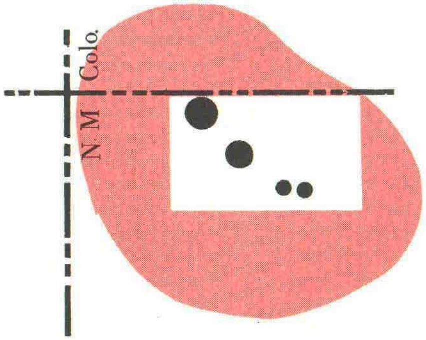
Toward the close of our fiscal year a wildcat well was being drilled near one of Consolidated's leases in the Powder River Basin of northeastern Wyoming. Scheduled to the Dakota formation which has proven oil productive in nearby areas, the well had not reached its objective by year end. Geological and engineering information from this exploratory test will provide new data upon which the value of Consolidated's leases may be determined.

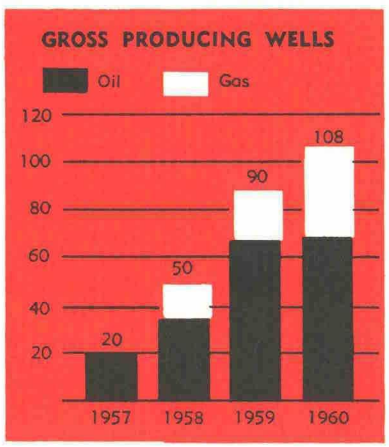


/1960 Activity By Area (Continued)



NORTHWESTERN NEW MEXICO





1 Consolidated moved to expand its acreage position in the Northwest Blanco area during fiscal 1960. By the end of the month of November 1960, negotiations had been completed or in process of completion to add another 2,600 gross acres to the 9,280 acres already held. Both new and old acreage is considered by Management to be proven for Dakota gas production.

Eight additional wells will be drilled to exploit the new acreage obtained under farmout agreements with Southern Union Gas Company and Pan-American Petroleum Corporation. Gas laterals and gathering lines, owned by El Paso Natural Gas Company and Southern Union Gas Company, traverse this block of acreage. All but three of Consolidated's Northwest Blanco area wells were tied into the line ready for production at November 30, 1960. These are scheduled for early hook-up.

Of added significance to the potential value of Consolidated's Northwest Blanco block was an anouncement of a proposed deep test near the southwest corner of our acreage. Planned to go to a total depth of 12,500 feet in order to test Pennsylvanian and Mississippian formations, the well site lies approximately 4½ miles from our company's concentration of acreage.

2 During fiscal 1960, five wells were drilled in this block in which our Company has a "carried working interest." This type of interest indicates that drilling and completion costs are borne by the operator. Consolidated's share of the cost is repaid from production. Of the thirteen wells currently producing, four will have fully paid back their costs within the next ninety days, and begin adding revenue to Consolidated. Revenue increases from other of the Dakota Wells in the Fulcher-Kutz area will be realized commencing in 1961 and 1962.

On November 30, 1959, Consolidated owned a one-eighth "carried working interest" in ten Dakota gas producers within eighteen drilling units of 320 acres each. During 1960 Consolidated purchased additional interests to increase its ownership to approximately one-sixth (16-⅔%) of the working interest production. Productive capabilities of the Dakota formation in this area of the San Juan Basin have consistently been among the highest gauged. Consolidated's latest two interest wells tested for a total of 20,000,000 cubic feet of gas per day from the Dakota.

3 In San Juan County, Consolidated obtained a 960 acre farmout from Southern Union Gas Co. consisting of three dual zone Dakota-Pictured Cliffs and three single zone Pictured Cliffs locations, the acreage lies along the northeast side of the Huerfanito-Ballard Pictured Cliffs Gas Pools.

Our first well, the No. 1 Hale was drilled to a total depth of 7,242 feet. As the fiscal year closed it was being completed as a dual zone gas discovery after having gauged almost four million cubic feet of gas per day from the two zones on a standard flow test.

The two remaining Dakota-Pictured Cliffs locations will be in the Company's 1961 drilling program. Consolidated has a 60.5% working interest in the three locations.

4 East of the Hale block, in Rio Arriba County, Consolidated obtained a farmout of 1,640 acres with diverse interests in the Mesaverde, Gallup, and Dakota formations. Each of these is considered as potentially productive of oil or gas in this portion of the basin.

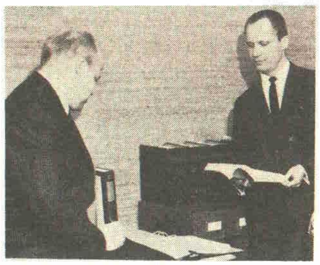
Consolidated's-N.C.R.A. No. 1, drilled to 6,812 feet, is now being completed as a successful exploratory well from the Dakota.

Five additional locations remain to be drilled. Orderly development is planned which should result in five and one-eighth net wells added to Consolidated's net productive capacity. It is expected that a number of these wells will be capable of dual completion from both the Mesaverde and the Dakota formations.

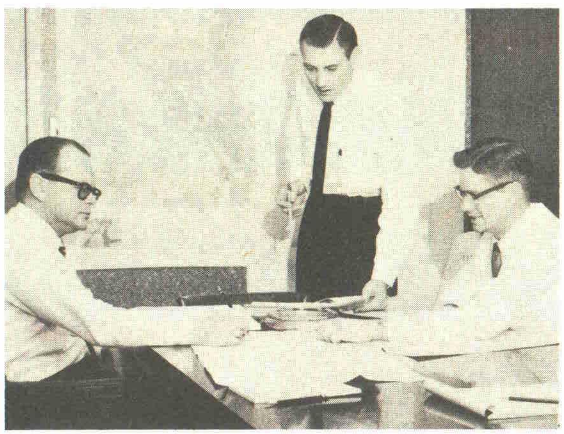
MANAGEMENT GROUP

Effective solutions to operating problems are found by frequent sharing of skills and experience within the Management group. As a result, a 10% reduction in general, administrative, and production expense was recorded in 1960. Yet the Company operated 18 more wells than during the previous year, was responsible for more business activity than ever before.

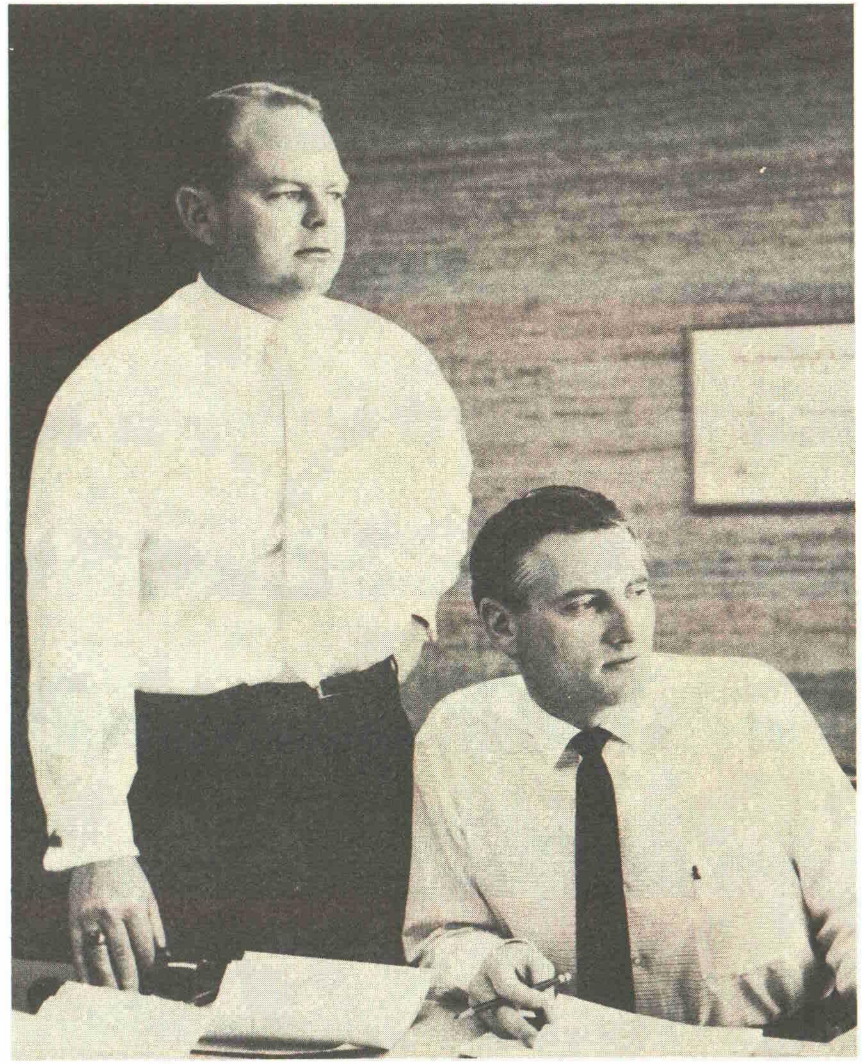
Mr. Rittenberg and Mr. Farmar



Mr. Cummings and Mr. Cooper

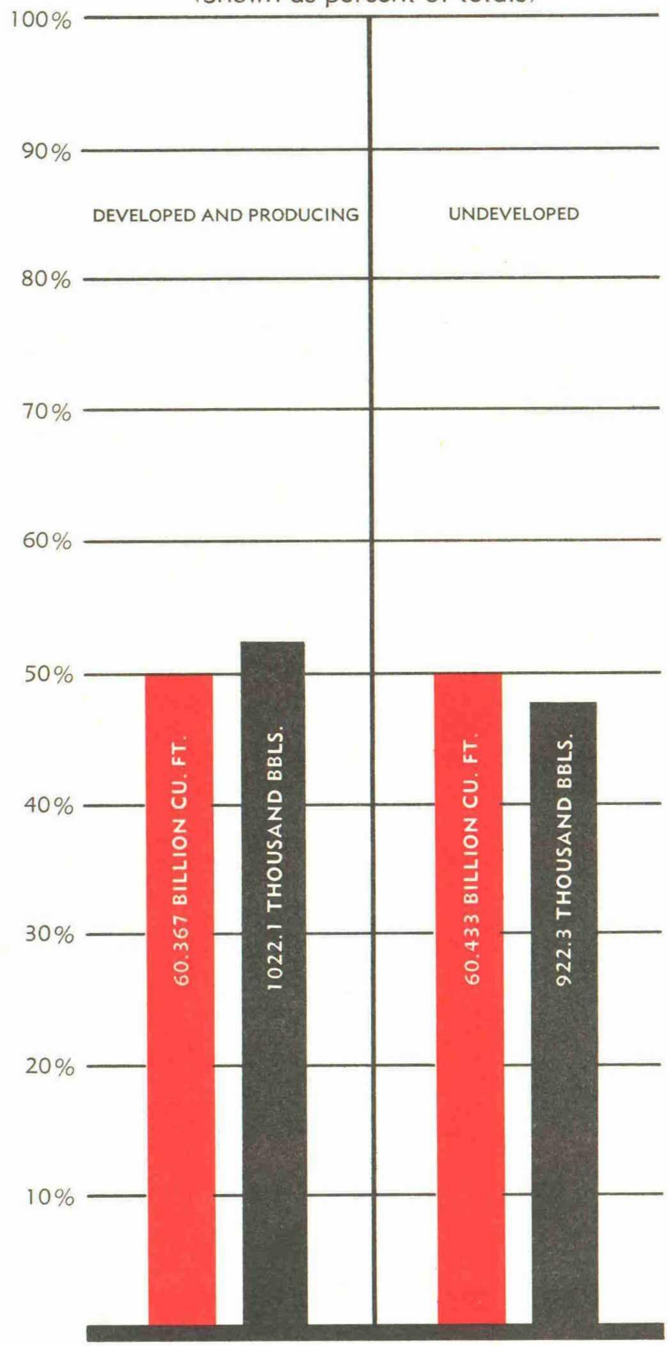


Mr. Trueblood, Mr. Ladd, Mr. Farmar



Mr. Trueblood and Mr. Ladd

DEVELOPMENT STATUS OF NET PROVED RESERVES — 1960
(Shown as percent of totals)



FORECAST 1961

With twenty-five proven undrilled 320-acre Dakota gas units, a successful drilling program for 1961 is assured . . . several wells will be dual zone completions, either as Dakota-Mesaverde or Dakota-Pictured Cliffs gas wells . . . the Company's interest in these wells should approximate sixteen net wells . . . completing development of the remaining proven undeveloped gas reserves . . .

Assuming the Midland Oil Company merger, mentioned in the President's message, is completed . . . Consolidated would own interests in excess of 250 oil and gas wells by the end of 1961 . . . sales by November 1961 should be at the rate of $1,000,000 per year . . . it is anticipated, however, that only $800,000 of actual sales will take place during the fiscal year . . . since gas wells drilled during the year may not have a full year's production due to delayed connection into the gathering and transmission system . . . this projection includes no allowance for additional increased income from Midland properties on which waterflood income would begin in 1961 . . .

Cash flow for the next year, including Midland, has been estimated at thirty-five cents per share . . . to be utilized to reduce indebtedness created during the drilling of development wells . . . new acquisitions of producing properties and proven Dakota gas well farmouts will be actively sought as in past years . . . to maintain Consolidated's accelerated rate of growth . . .

During 1961 Consolidated should be listed on the American Stock Exchange . . . giving shareholders a more stable market for purchase and sale of their shares . . . Consolidated plans long-term debt financing more ,commensurate with its long-life gas reserves . . . serving to improve its current position and to develop additional working capital with which to acquire new producing properties . . . additional exploratory work may be commenced on certain of Consolidated's undeveloped properties not now proven for production . . . activities of other operators, near the Company's undeveloped acreage, will continue to be carefully followed for information of geologic and economic consequence to our Company.

DIRECTORS

James D. Landauer
Service as
A Director
Since 1958

President and Director of James D. Landauer Associates, Inc., New York City real estate consultants. As well, he is a governor on the Real Estate Board of New York, a director of the International Real Estate Federation, and a trustee of the East River Savings Bank.

Saul A. Levine*
Service as
A Director
Since 1955

Executive Vice President and Secretary of the company, Mr. Levine is one of the three members of the Company's Executive Committee. Since graduation from New York University he has specialized in corporate finance and related oil industry affairs.

* *Deceased*

Carl J. Odegard
Service as
A Director
Since 1958

Retired in 1959 after forty years with the Northwest Security National Bank of Sioux Falls, South Dakota. He is presently a resident of Huron, South Dakota, and Vice Chairman of the South Dakota Industrial and Development Commission.

Daniel T. O'Shea
Service as
A Director
Since 1959

Practicing attorney of New York and Los Angeles. Formerly President of Selznick Studios, Vice President of the Columbia Broadcasting System, and President of RKO Radio Pictures, he is now a director of RKO Radio Color Pictures, Inc., Pacific Airlines, and a member of the Board of Regents of Loyola University of Los Angeles.

John E. Price
Service as
A Director
Since 1954

Senior Board Member in length of service, having been prominent in the reorganization of Rimrock Drilling Co. Formerly a general contractor in various types of road and building construction, Mr. Price has extensive personal holdings in ranching, mining, and oil. He resides in Ft. Myers, Florida.

Theodor F. Rittenberg
Service as
A Director
Since 1955

Serves as Treasurer, Assistant Secretary, and as a member of the Executive Committee of Consolidated Oil & Gas, Inc. A Denver resident, Mr. Rittenberg is in the business of making personal investments.

Harry A. Trueblood, Jr.
Service as
A Director
Since 1955

President of the Company and member of the Executive Committee. A petroleum engineer by profession, Mr. Trueblood was an independent operator and consultant in the Denver Basin, later becoming President of Colorado Western Exploration, Inc.

Henry A. Wilmerding
Service as
A Director
Since 1958

Graduate of Yale University and a retired Captain in the United States Naval Reserve. Mr. Wilmerding is a resident of Westbury, New York, and is engaged in various financial activities for his own account.

OFFICES:

EXECUTIVE OFFICES: 2112 Tower Building, Denver-U.S. National Center, Denver 2, Colorado

TRANSFER AGENT: Consolidated Oil & Gas, Inc., Stock Transfer Department, 1700 Broadway, Denver 2, Colorado

REGISTRAR: U. S. Stock Transfer Co., 814 Boston Building, 828 17th Street, Denver 2, Colorado

COUNSEL: Calkins, Rodden & Kramer, First National Bank Building, Denver 2, Colorado

AUDITOR: W. L. Clasquin, Certified Public Accountant, 1030 Petroleum Club Building, Denver 2, Colorado

OFFICERS

Harry A. Trueblood, Jr.
President

Saul A. Levine*
Executive Vice President — Secretary

J. B. Ladd
Vice President

Theodor F. Rittenberg
Treasurer — Assistant Secretary

Clyde J. Cooper, Jr.
Assistant Secretary

E. O. Cummings
Assistant Treasurer

**Deceased*

IN MEMORIAM

SAUL A. LEVINE

1911-1961

"Know ye not that there is a prince and a great man fallen this day" — 11 Samuel 3:38

This lament of King David expresses the sentiment of those who knew Saul A. Levine and his outstanding services to Consolidated Oil & Gas, Inc. In addition to being one of the original founders of Consolidated, he had at various times served as Director, Secretary, Treasurer and Executive Vice President. But no titular recital can describe the influence he exerted or that earnest attachment to his work which has made this Company almost the lengthened shadow of this man.

We count as one of our principal assets, intangible though it may be, an affection and loyalty for Consolidated. Saul was one of the chief exemplars of this spirit which, undaunted by difficulties or temporary reversals, inspired him always in thought, word and deed.

His warmth of personality, remarkable intellect, counsel and guidance have been a source of strength to us all, available always through the formative years of Consolidated, whether those were periods of prosperity or adversity. His career, rich in achievement, has left a distinct imprint upon the petroleum industry as well as the world of finance.

Our adviser, associate and friend is gone. We on the Board shall ever be indebted to him for the example he has left us of devotion to private and public duty and responsibility.

IN GRATEFUL REMEMBRANCE of Saul A. Levine and as a tribute to his endeavors, this 1960 Annual Report is sincerely dedicated.

By THE BOARD OF DIRECTORS
January 1961

CONSOLIDATED INC OIL & GAS

1960 ANNUAL REPORT