

UNITIZATION'S EFFECT UPON ROYALTY OWNERS

★ ARE MOST OF THE WORKING INTEREST AND ROYALTY OWNERS IN FAVOR OF THE UNIT?

Yes, in excess of 80% of the Working Interest Owners have indicated approval of the unit and the water injection program. The State of New Mexico and the federal government own 70.11% of the lands within the unit, and because of the projected increase in recoverable oil and income, both have indicated preliminary approval of the unit.

★ HOW WILL UNIT PRODUCTION BE ALLOCATED?

Unitization allocates to each tract in the unit a percentage of the unit's overall production based upon a formula which compares overall unit production figures to cumulative oil production from the tract, the remaining primary oil reserves of the tract, and the oil production from September 1, 1988 through December 31, 1988 for the tract. This formula allows equitable sharing in the increased unit production even if the property contains only an injection well and no producing oil well.

★ HOW WILL JOINING THE UNIT AFFECT MY INCOME?

As indicated in the graph on page 4, oil production (and your royalty share) has been declining annually. When unitization is completed and water injection has begun, the estimates of unit production and your income are expected to increase through 1998. After 1998 your monthly income is still projected to be greater than if no water injection was begun.

★ WHEN WILL THE WATER INJECTION PROGRAM BEGIN? WHAT IS THE COST? WHO PAYS FOR IT?

The construction is expected to begin in 1991. It is estimated to cost approximately 29 million dollars, all of which will be paid by the Working Interest Owners (companies) and at no cost to you, the Royalty Owner.

★ WHAT WILL HAPPEN TO INCOME I RECEIVE FROM WELLS THAT PRODUCE FROM ZONES OTHER THAN THE UNITIZED FORMATIONS?

Income from gas wells or oil wells that produce from zones above or below the unitized formations will not be affected by this agreement.

★ HOW DO I KNOW I WILL BE GETTING MY "FAIR SHARE" OF THE UNIT'S PRODUCTION?

The companies owning an interest in the unit include Chevron, Conoco, Oxy, Amoco, ARCO, Amerada Hess, and others. Each of these companies competes with the others, each has a competent staff of geologists, engineers, accountants and attorneys, and each answers to a board of directors. Because of the competitive nature of the business, each of these companies must be assured that it is getting a fair and equitable deal or it will not join the unit. As a result of the numerous meetings and studies conducted since 1988, the majority of these Working Interest Owners have agreed that the formula, as set out in Section 13 of the attached Unit Agreement, fairly represents their interest in the tract and the unit. They are also convinced that their share of the production and revenues will increase by joining the unit.

The New Mexico Oil Conservation Division is required by law to assure that the Royalty Owners will be benefitted and that the participation formula is fair, reasonable and equitable, and protects the rights of all owners of interest within the unit area before it may approve the establishment of this unit.