

UNITIZATION FOR WATER INJECTION

★ WHAT IS UNITIZATION?

Basically, unitization is the joining of the various leases and interests within an agreed upon land area to cooperatively develop the energy resources in accordance with the best economic, geological and engineering principles applicable to the particular oil reservoir. Unitization allows for different recovery methods to be used; thereby, as a general rule, increasing production and providing more income to Royalty and Working Interest Owners.

★ WHY IS IT NECESSARY TO UNITIZE?

With a program of water injection, oil is displaced across property lines and some of the wells on the property may be used for the injection of water instead of the production of oil. It is therefore necessary to join all properties in a way that they can be treated and operated as a single property. This requires that Working Interest Owners and Royalty Interest Owners pool their respective interests and share in oil produced. This pooling and sharing is called "unitization" and the property formed is called a "unit".

★ WILL WATER INJECTION RESULT IN RECOVERING MORE OIL?

Yes, joint studies by the various companies operating wells in the area indicate that since the drilling of the first well in 1938, the area has produced 31 million barrels (yellow area in Figure D) of oil and, it is projected the area will ultimately produce only 5 million more barrels of oil without water injection. However, with water injection, it is estimated that as much as an additional 15 million barrels (blue area), may be recovered.

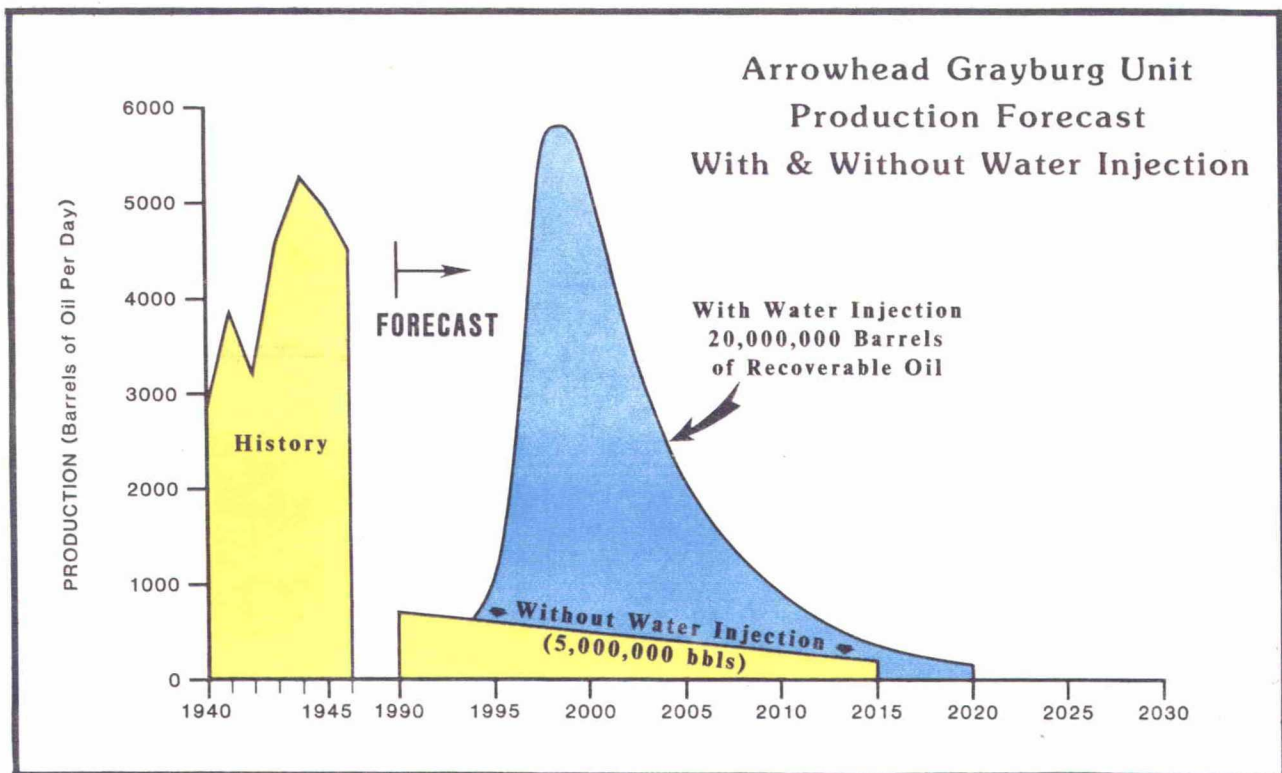


Figure D