

**MESA
ROYALTY
TRUST**

1999

**FEDERAL INCOME TAX
INFORMATION**

MESA ROYALTY TRUST FEDERAL INCOME TAX INFORMATION

Instructions for Schedules A, B and C

Schedule A

For Certificate Holders who file income tax returns on the basis of the calendar year and the cash method during 1999, the Trustee has prepared Schedule A as an **EXAMPLE** which summarizes the income and expenses (for depletion computation see Schedule C below) required to prepare 1999 tax returns as if the Certificate Holder had held 100 Units during all of 1999.

Schedule B

Schedule B summarizes the monthly income and expenses (for depletion computation see Schedule C below) on a one Unit basis. Each Certificate Holder should compute his tax information by using the relevant information for each month that he was a Certificate Holder of record. The results of all appropriate months should be combined. Thus, a Certificate Holder with a taxable year ending January 31, 2000 would combine the results of February through December for 1999 and January for 2000.

Schedule C

Schedule C should be used by all Certificate Holders to compute depletion. Schedule C summarizes monthly depletion rates for each royalty interest on a one Unit basis. Calendar year Certificate Holders who acquired their Units in the initial distribution from Mesa Petroleum Co. and continue to own those Units should use Schedule C, Part I. Other Certificate Holders who acquired their Units subsequent to the initial distribution from Mesa Petroleum Co. should use Schedule C, Part II. Certificate Holders who acquired Units after October 11, 1990 may be entitled to percentage depletion on royalty income attributable to those Units and should also use Schedule C, Part III.

I. FEDERAL INCOME TAX INFORMATION

1. Reporting of Income and Deductions

(a) *Direct Ownership Reporting.* Each Certificate Holder is taxable on his pro rata share of the income and expense of the Trust as if he were the direct owner of a pro rata share of the Trust assets. Thus, the taxable year for reporting a Certificate Holder's share of the Trust's income and expense is controlled by his taxable year and his method of accounting; the taxable year and method of accounting of the Trust are irrelevant, as is the period in which distributions are made by the Trust.

(b) *Types and Reporting of Trust Income and Deductions.*

(i) In general, royalty income is computed monthly based on proceeds realized in the preceding month by the Lease Owner from sales of oil and gas produced in an earlier month, and is received by the Trustee in the same month that the amount thereof is computed. Each schedule reports the amount received during the period covered by that schedule. Part I of Schedule A reports the royalty income and state severance taxes based on 100 Units held by an example Certificate Holder of record during each month. Part I of Schedule B reports the royalty income and state severance taxes on a one Unit basis for each month.

(ii) The Trustee invests the net proceeds received from the working interest owners (net of administration expenses) at the end of each month. The interest on these investments is earned by the Trust from the end of a month to the next quarterly distribution date. The interest income earned on the net proceeds received from the working interest owners (net of administration expenses) at the end of a month is distributed to the Certificate Holders of record for that month. The interest income which is earned is distributed to the Certificate Holders in the month it is paid to the Trustee. The Trustee is paid interest in the month following each calendar quarter. For example, interest earned on net proceeds received from the working interest owners (net of administrative expenses) at the end of February 1999 was distributed in April 1999 to Certificate Holders of record for February 1999. Part II of Schedule B reflects, on a one Unit basis, the interest earned by the Trust on distributions received by the Trust from the working interest owners during 1999. The line labeled "Post Period" reflects the amounts of interest earned on Trust investments of the net proceeds received from the working interest owners (net of administration expenses) during a particular month which are paid to the Trustee and distributed to Certificate Holders in the month following the calendar quarter in which the net proceeds are received from the working interest owners. For example, a cash basis, calendar year Certificate Holder who held Units since the initial distribution from Mesa Petroleum Co. would include in 1999 gross income the interest income earned in the fourth quarter of 1998, which was paid in January of 1999 and interest income earned in the first, second and third quarters of 1999 and paid in the second, third and fourth quarters of 1999, respectively. Schedule A reports interest income based on 100 Units held by an example Certificate Holder of record during each month and assumes the Certificate Holder utilizes the cash method of accounting for federal income tax purposes. Schedule A, Part II does not include \$.58 of interest income earned in the fourth quarter of 1998 which was paid in January 1999. Accrual basis taxpayers should report interest income in the period it accrues regardless of when it is received. Cash basis taxpayers should report interest income in the period it is received by the Trustee.

(iii) Administration expenses (if any) shown on each schedule represent amounts paid for and incurred during the period. Schedule A reports the administration expense based on 100 Units held by an example Certificate Holder of record during each month. Schedule B reports the administration expense on a one Unit basis for each month.

(c) *Taxable Year.* All schedules are prepared on a calendar year basis. Therefore, Certificate Holders with taxable years other than the calendar year or who are unable to use Schedule A should use Schedules B and C. Schedules B and C are prepared by month on a one Unit basis to permit Certificate Holders to obtain their tax information by computing the relevant information for each month during their taxable year and then combining the results of each that month.

(d) *Unit Multiplication.* Because Schedules B and C show only results per Unit, it will be necessary to multiply the results shown by the number of Units owned by the Certificate Holder during the applicable period to obtain the amount to be reported on their tax return. Income and deductions other than depletion may be taken directly from the appropriate schedules. Depletion per Unit must be computed as provided in paragraph 2 below.

(e) *Individual Taxpayer.* For Certificate Holders who held Units as an investment during 1999 and who file Form 1040, it is suggested that the items of income, deduction and credit for 1999 be reported in the following manner:

<u>Item</u>	<u>Form 1040</u>
Name of Royalty*	Line 1, Part I, Schedule E
Royalty Income	Line 4, Part I, Schedule E
Depletion	Line 20, Part I, Schedule E
Severance Taxes	Line 16, Part I, Schedule E
Interest Income	Line 1, Part I, Schedule B
Administration Expense	Line 22, Schedule A
Section 29 Credit	Page 2, Line 48

* The San Juan royalty is divided into two parts for state tax purposes. For federal income tax purposes, it may be shown as a single royalty.

The Tax Reform Act of 1986 made changes as to the classification of certain income and expense items. Royalty income, net of depletion and severance taxes, is considered portfolio income. Interest income is also portfolio income. Administration expense is "investment expense." See Exhibits I through IV for examples of how to report the items listed above.

(f) *Sale of Units.* The sale, exchange or other disposition of a Unit is a taxable transaction for federal income tax purposes and may be a taxable transaction for state income tax purposes. Gain or loss is computed under the usual tax principles as the difference between the selling price and the adjusted basis of a Unit. The adjusted basis of a Unit is the original cost or other basis of the Unit reduced by any depletion allowed or allowable and adjusted for any decrease (increase) in the non-tax account during the time the Units were owned. Effective for property placed in service after December 31, 1986, the amount of gain, if any, realized upon the disposition of oil and gas property is treated as ordinary income to the extent of the intangible drilling and development costs incurred with respect to the property and depletion claimed with respect to that property to the extent it reduced the taxpayer's basis in the property. Under this provision, depletion attributable to a Unit acquired after 1986 will be subject to recapture as ordinary income upon disposition of the Unit or upon disposition of the oil and gas property to which the depletion is attributable. The balance of any gain or any loss will be capital gain or loss if those Units were held by the Certificate Holder as a capital asset, either long-term or short-term depending on the holding period of the Units. That capital gain or loss will be long-term if a Certificate Holder's holding period for those Units exceeded one year as of the date of sale or exchange. A long-term capital gains rate of 20% applies to most capital assets sold with a holding period of more than one year. Capital gain or loss will be short-term if the Unit has not been held for more than one year at the time of the disposition. Capital gain or loss should be reported on Schedule D, Form 1040 for an individual.

2. Computation of Depletion. Each Certificate Holder should determine his depletion allowance by taking the greater of cost or percentage depletion allowable. Percentage depletion with respect to the fixed contract gas from the Hugoton royalty is no longer available due to the expiration (at the end of 1989) of the underlying gas contract. However, as a result of the Revenue Reconciliation Act of 1990 (the "1990 Act"), Certificate Holders may be eligible for percentage depletion with respect to royalty income attributable to Units acquired after October 11, 1990. Therefore, unless Units were acquired after October 11, 1990, Certificate Holders need only determine cost depletion.

(a) *Cost Depletion.* Certificate Holders who acquired their Units in the initial distribution from Mesa Petroleum Co. and continue to own those Units need not compute depletion since that amount has been computed and is shown on Schedule C, Part I (on a one Unit basis). All other Certificate Holders should multiply their basis in each royalty by the percentage indicated on Schedule C, Part II. This percentage was obtained by dividing gross royalty income realized during the period by total estimated gross income from the royalty. A Certificate Holder's basis in each royalty is determined by apportioning his basis in the Units among the royalties based on the relative fair market value of each on the date the Units were acquired by him. Schedule C, Part II ("Basis Allocation Percentage") sets forth the Trustee's opinion of the relative fair market values of the royalties on December 31, 1999. The Trustee intends to redetermine the relative values of the royalties annually.

(b) *Percentage Depletion.* Generally, prior to the 1990 Act, the transferee of an oil and gas property could not claim percentage depletion with respect to production from that property if it was proven at the time of transfer. As a result of the 1990 Act, this rule will not be applicable in the case of transfers of properties after October 11, 1990. Eligible Certificate Holders that acquired Units after October 11, 1990 may be entitled to claim an allowance for percentage depletion with respect to royalty income from each royalty (Hugoton or San Juan) attributable to those Units to the extent that this allowance exceeds cost depletion with respect to that royalty (Hugoton or San Juan) as computed above for the relevant period. Percentage depletion with respect to those Units may be calculated using the one Unit factors on Schedule C, Part III. These factors were obtained by multiplying the corresponding royalty income factors on Schedule B by the statutory percentage depletion rate of 15 percent. Percentage depletion should then be compared to the cost depletion calculated for the relevant period for those Units. The depletion allowance with respect to Units acquired after October 11, 1990 will be the greater of cost or percentage depletion.

3. Reconciliation of Net Income and Cash Distributions - Non-Tax Account. The difference between the per Unit net income for a period and the per Unit cash distributions reported for that period (even though distributed in a later period) are attributable to adjustments in the Non-Tax Account. The Non-Tax Account is increased by expenditures which are not deductible and by increases in the cash reserves established by the Trustee for the payment of future expenditures. The Non-Tax Account is decreased by the recoupment of capital items and by reductions in previously established cash reserves.

4. Adjustments to Basis. Each Certificate Holder should reduce his tax basis in each royalty by the amount of depletion allowable with respect to that royalty and his tax basis in his Units by the amount of depletion allowable with respect to all royalties. Each Certificate Holder should also increase his basis in the Units by his pro rata share of any increase in the Non-Tax Account and decrease his basis in the Units by his pro rata share of any decrease in the Non-Tax Account.

5. Foreign Persons. The federal income taxation of non-resident aliens and foreign corporations is highly complex, and it is recommended that such persons consult their own tax advisors.

6. Section 29 Credit. The Trust receives royalty payments attributable to coal seam gas production from the Fruitland Coal Formation properties. Thus, Certificate Holders are potentially eligible to claim their share of the tax credit attributable to this qualifying production. The Section 29 Credit per unit amounts are shown on Schedule D. Each Certificate Holder should consult his tax advisor regarding the limitations and requirements for claiming this tax credit.

II. STATE INCOME TAX RETURNS

Schedules A, B and C set forth the states from which the income of the Trust is derived. Each Certificate Holder should consult his tax advisor regarding the requirements for filing state income tax returns in his state of residence and the states from which the Trust's income is derived.

Chase Bank of Texas, National Association, Trustee
P.O. Box 4717
Houston, Texas 77210-4717
1-800-852-1422

MESA ROYALTY TRUST
 EIN 74-6284806
 TAX INFORMATION FOR THE YEAR 1999

EXAMPLE

The calculations below are based on 100 Units held each month. (See Schedule B for factors used in the calculations).

FOR CERTIFICATE HOLDERS WHO FILE RETURNS ON THE
 BASIS OF CALENDAR YEAR AND THE CASH METHOD

SCHEDULE A: CERTIFICATE HOLDER CALCULATIONS

<u>RECORD MONTH</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>
UNITS HELD	100	100	100	100	100	100	100	100	100	100	100	100

PART I - ROYALTY INFORMATION

ROYALTY INCOME (LINE 4, PART I, SCHEDULE E)			SEVERANCE TAXES (LINE 16, PART I, SCHEDULE E)		
Kansas		\$187.19	Kansas		\$ 4.74
New Mexico		119.12	New Mexico		7.75
Colorado		---	Colorado		---
Total		<u>\$306.31</u>	Total		<u>\$12.49</u>

PART II - OTHER INCOME AND EXPENSES

INTEREST INCOME (LINE 1, PART I, SCHEDULE B)		ADMINISTRATION EXPENSE (LINE 22, SCHEDULE A)	
Period***	\$2.60	Period	\$1.40
Post Period	<u>.34</u>	Post Period	---
Total	<u>\$2.94</u>	Total	<u>\$1.40</u>

*** Does not include \$.58 of interest income per Unit earned in the fourth quarter of 1998, received and distributed by the Trustee in 1999.

MESA ROYALTY TRUST
EIN 74-6284806
TAX INFORMATION FOR THE YEAR 1999

EXAMPLE

The calculations below are based on 100 Units held each month. (See Schedule B for factors used in the calculations).

FOR CERTIFICATE

HOLDERS WHO FILE RETURNS ON THE
BASIS OF CALENDAR YEAR AND THE CASH METHOD

SCHEDULE A: CERTIFICATE HOLDER CALCULATIONS

PART III - RECONCILIATION OF NET INCOME AND CASH DISTRIBUTION

NET INCOME

Royalty Income	\$ 306.31
Interest Income**	2.94
Less: Severance Tax	(12.49)
Administration Expense	(1.40)
DECREASE (INCREASE) IN NON-TAX ACCT:	<u> --</u>
* TOTAL (EQUALS CASH DISTRIBUTION)	<u><u>\$ 295.36</u></u>

* Includes taxes withheld from amounts distributable to non-resident aliens and foreign corporations.

** Includes \$.34 of interest income per Unit earned in the fourth quarter of 1999, received and distributed by the Trustee in 2000.

MESA ROYALTY TRUST
EIN 74-6284806
TAX INFORMATION FOR THE YEAR 1999

MULTIPLY AMOUNTS PER UNIT SHOWN BELOW
 BY THE NUMBER OF UNITS OWNED AT THE END
 OF EACH RECORD MONTH. COMBINE THE
 RESULTS AND REPORT WHERE INDICATED ON
 FORM 1040.

SCHEDULE B: ONE UNIT FACTORS

<u>RECORD MONTH</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>Full Year Totals</u>	
PART I - ROYALTY INFORMATION														
ROYALTY INCOME														
Kansas	0.108750	0.157590	0.140135	0.144246	0.128327	0.122996	0.144542	0.186540	0.162245	0.164560	0.205072	0.206905	1.871908	
New Mexico	0.101092	0.094569	0.093026	0.097969	0.071898	0.078680	0.097021	0.094905	0.091403	0.115527	0.127708	0.127375	1.191173	
Colorado	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	Line 4
Totals	<u>0.209842</u>	<u>0.252159</u>	<u>0.233161</u>	<u>0.242215</u>	<u>0.200225</u>	<u>0.201676</u>	<u>0.241563</u>	<u>0.281445</u>	<u>0.253648</u>	<u>0.280087</u>	<u>0.332780</u>	<u>0.334280</u>	<u>3.063081</u>	Part 1, Schedule E
SEVERANCE TAXES														
Kansas	0.007670	0.009355	0.009559	0.009613	(0.034262)	0.006199	0.006354	0.006853	0.006525	0.006518	0.006587	0.006462	0.047433	
New Mexico	0.006947	0.006925	0.006021	0.005986	0.004416	0.004833	0.006457	0.005867	0.005811	0.007405	0.008491	0.008348	0.077507	
Colorado	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	Line 16,
Totals	<u>0.014617</u>	<u>0.016280</u>	<u>0.015580</u>	<u>0.015599</u>	<u>(0.029846)</u>	<u>0.011032</u>	<u>0.012811</u>	<u>0.012720</u>	<u>0.012336</u>	<u>0.013923</u>	<u>0.015078</u>	<u>0.014810</u>	<u>0.124940</u>	Part 1, Schedule E
PART II - OTHER INCOME AND EXPENSE														
INTEREST INCOME														
Period	0.003013	0.002594	0.001126	0.001846	0.001003	0.000630	0.004135	0.009705	0.001905	---	---	---	0.025957	**
Post Period	---	---	---	---	---	---	---	---	---	0.004600	(0.003058)	0.001960	0.003502	***
Totals	<u>0.003013</u>	<u>0.002594</u>	<u>0.001126</u>	<u>0.001846</u>	<u>0.001003</u>	<u>0.000630</u>	<u>0.004135</u>	<u>0.009705</u>	<u>0.001905</u>	<u>0.004600</u>	<u>(0.003058)</u>	<u>0.001960</u>	<u>0.029459</u>	Line 1, Part 1, Schedule B
ADMINISTRATION EXPENSE														
Period	0.001109	0.002197	0.001809	0.000848	0.001409	0.000758	0.000816	0.001286	0.001147	0.000751	0.000777	0.001064	0.013971	
Post Period	---	---	---	---	---	---	---	---	---	---	---	---	---	
Totals	<u>0.001109</u>	<u>0.002197</u>	<u>0.001809</u>	<u>0.000848</u>	<u>0.001409</u>	<u>0.000758</u>	<u>0.000816</u>	<u>0.001286</u>	<u>0.001147</u>	<u>0.000751</u>	<u>0.000777</u>	<u>0.001064</u>	<u>0.013971</u>	Line 22, Schedule A
PART III - RECONCILIATION OF NET INCOME AND CASH DISTRIBUTION PER UNIT														
Net Income:														
Royalty Income	0.209842	0.252159	0.233161	0.242215	0.200225	0.201676	0.241563	0.281445	0.253648	0.280087	0.332780	0.334280	3.063081	
Interest Income	0.003013	0.002594	0.001126	0.001846	0.001003	0.000630	0.004135	0.009705	0.001905	0.004600	(0.003058)	0.001960	0.029459	
Less: Severance Tax	(0.014617)	(0.016280)	(0.015580)	(0.015599)	0.029846	(0.011032)	(0.012811)	(0.012720)	(0.012336)	(0.013923)	(0.015078)	(0.014810)	(0.124940)	
Administration Expense	(0.001109)	(0.002197)	(0.001809)	(0.000848)	(0.001409)	(0.000758)	(0.000816)	(0.001286)	(0.001147)	(0.000751)	(0.000777)	(0.001064)	(0.013971)	
Decrease (Increase) in Non-Tax Account	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	<u>0.000000</u>	
Total (equal cash distributions)*	<u>0.197129</u>	<u>0.236276</u>	<u>0.216898</u>	<u>0.227614</u>	<u>0.229665</u>	<u>0.190516</u>	<u>0.232071</u>	<u>0.277144</u>	<u>0.242070</u>	<u>0.270013</u>	<u>0.313867</u>	<u>0.320366</u>	<u>2.953629</u>	

* Includes taxes withheld from amounts otherwise distributable to non-resident aliens and foreign corporations.
 ** Interest income earned in the first, second and third quarters of 1999, received and distributed by the Trustee in 1999.
 *** Interest income earned in the fourth quarter of 1999, received and distributed by the Trustee in 2000.

MESA ROYALTY TRUST
EIN 74-6284806
TAX INFORMATION FOR THE YEAR 1999

SCHEDULE D: SECTION 29 CREDIT

See page 5 of instructions for further
discussion of the Section 29 Credit.

<u>Record Date</u>	<u>Section 29 Credit</u>
January 29, 1999	\$ 0.023385
February 26, 1999	0.024819
March 31, 1999	0.028937
April 30, 1999	0.028721
May 28, 1999	0.022881
June 30, 1999	0.021709
July 30, 1999	0.021910
August 31, 1999	0.022126
September 30, 1999	0.022454
October 29, 1999	0.022109
November 30, 1999	0.022910
December 31, 1999	<u>0.022293</u>
Total for 1999	<u>\$ 0.284254</u>

MESA ROYALTY TRUST

**INDIVIDUAL CERTIFICATE HOLDER'S SPECIFIC LOCATION
OF ITEMS ON SCHEDULE E**

EXHIBIT I

MESA ROYALTY TRUST
INDIVIDUAL CERTIFICATE HOLDER'S SPECIFIC LOCATION
OF ADMINISTRATION EXPENSE ON SCHEDULE A

EXHIBIT II

MESA ROYALTY TRUST

**INDIVIDUAL CERTIFICATE HOLDER'S SPECIFIC LOCATION
OF INTEREST INCOME ON SCHEDULE B**

EXHIBIT III

MESA ROYALTY TRUST

**INDIVIDUAL CERTIFICATE HOLDER'S SPECIFIC LOCATION
OF SECTION 29 CREDIT ON FORM 1040, PAGE 2**

EXHIBIT IV