

MESA
OFFSHORE
TRUST

2000

FEDERAL INCOME
TAX INFORMATION

MESA OFFSHORE TRUST
(The "Trust")

2000

FEDERAL INCOME TAX INFORMATION
Instructions for Schedules A, B, C & D

Schedule A

For Unit Holders who file income tax returns on the basis of the calendar year and the cash method during 2000, 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 2000 tax returns as if the Unit Holder had held 100 Units during all of 2000.

Schedule B

Schedule B summarizes the monthly income and expenses (for depletion computation see Schedule C below) on a one Unit basis. Each Unit Holder should compute his tax information by using the relevant information for each month that he was a Unit owner of record. The results of all appropriate months should be combined. Thus, a Unit Holder with a taxable year ending January 31, 2001, would combine the results of February through December for 2000 and January for 2001.

Schedule C

Schedule C should be used by all Unit Holders to compute depletion. Schedule C summarizes monthly depletion rates on a one Unit basis. Calendar year Unit 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 and other Unit Holders who acquired their Units subsequent to the initial distribution from Mesa Petroleum Co. should use Schedule C, Part II. Unit 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.

Schedule D

The principal asset of the Trust consists of a 99.99% interest in the Mesa Offshore Royalty Partnership (the "Partnership"). The Tax Reform Act of 1986 prohibits this partnership from using the cash method of accounting. Instead, it must adopt the accrual method of accounting. Therefore, partnership income on Schedules A & B is being reported on the accrual basis. Unit Holders in 2000 were entitled to receive cash distributions from the Trust for any month in which such a Unit Holder was an owner of record. For any given month, however, the Partnership was required to recognize income for Federal income tax purposes in the month prior to the month in which Unit Holders were entitled to cash distributions. As a difference now exists between the time partnership income will be taxable and the month in which a Unit Holder will be entitled to that cash, Schedule D has been prepared on a one Unit basis to allow certain Unit

Holders to determine the tax basis in their Units. Unit Holders buying or selling Units during 2000 will be required to adjust their basis in those Units in accordance with the instructions on Schedule D. Without these adjustments to the tax basis, the tax basis of a Unit bought or sold in 2000 will be incorrect with the effect that a Unit Holder may be taxed on income which he never received, or he may receive income on which he is never taxed.

I. FEDERAL INCOME TAX INFORMATION

1. Reporting of Income and Deductions.

(a) *Direct Ownership Reporting.* All information is reported on the basis that for Federal income tax purposes the Trust is a grantor trust and the Partnership in which the Trust is a partner will be treated as a partnership. Each Unit Holder of an interest in the Trust (a "Unit") is treated as a partner in the Partnership such that he is required to take into account his pro rata share of all items of Partnership income and deductions in computing his Federal income tax liability.

(b) *Taxable Year.* The taxable year and method of accounting for reporting a Unit Holder's share of the Trust's income and expense attributable to the Partnership is controlled by the taxable year and method of accounting of the Partnership (calendar year and accrual method, respectively). The method of accounting and taxable year as to the remainder of the Trust's income and expense (for example, interest income and administration expense) is controlled by such Unit Holder's own taxable year and 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.

(c) *Unit Multiplication.* Because Schedules B, C and D show only results per Unit, it will be necessary to multiply the results shown by the number of Units owned by the Unit Holder during the applicable period to obtain the amount to be reported on his 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.

(d) *Individual Taxpayer.* For Unit Holders who held Units as an investment during 2000 and who file Form 1040, it is suggested that the items of income and deduction for 2000 be reported in the following manner:

<u>Item</u>	<u>Form 1040</u>
Partnership Income (Royalties)	Line 4, Part I, Schedule E
Depletion	Line 20, Part I, Schedule E
Interest Income	Line 1, Part I, Schedule B
Administration Expense	Line 22, Schedule A

The Tax Reform Act of 1986 made changes as to the classification of certain income and expense items. Royalty income is considered portfolio income. Since all income from the Partnership is royalty income, this amount, net of depletion, is portfolio income and, subject to certain exceptions and transitional rules, that royalty income cannot be offset by losses from passive businesses. Additionally, interest income is portfolio income. Administration expense is an investment expense. See Exhibits I through III for examples of how to report the items listed above.

2. Computation of Depletion. Each Unit Holder should determine his depletion allowance by taking the greater of cost or percentage depletion allowable. In years prior to 1991, percentage depletion was not available; therefore, Unit Holders needed only to determine cost depletion. However, as a result of the Revenue Reconciliation Act of 1990 (the "1990 Act"), Unit Holders may be eligible for percentage depletion with respect to royalty income attributable to Units acquired after October 11, 1990. Consequently, unless Units were acquired after October 11, 1990, Unit Holders need only determine cost depletion.

(a) *Cost Depletion.* Each Unit Holder is entitled to compute cost depletion with respect to his share of royalty income received through the Partnership based on his basis in the overriding royalty interest in certain productive oil and gas properties (the "Royalty"). Unit Holders who acquired their Units in the initial distribution from Mesa Petroleum Co. and continued to own those Units need not compute cost depletion since that computation has been done and the amount is shown on Schedule C, Part I (on a one Unit basis). All other Unit Holders must compute cost depletion by multiplying their Royalty basis (original cost of the Units less depletion allowed or allowable in prior years and adjusted by any applicable basis adjustment from Schedule D) by the depletion percentages listed on Schedule C, Part II, for each month for which he was a Unit Holder of record, and then combining the results.

(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 Unit Holders that acquired Units after October 11, 1990, may be entitled to claim an allowance for percentage depletion with respect to royalty income attributable to those Units to the extent that this allowance exceeds cost depletion 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. Sale of Units. The sale, exchange or other disposition of a Unit is treated for federal income tax purposes as the sale of an interest in the Partnership. Gain or loss is computed under the usual tax principles as the difference between selling price and 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 by any amounts from Schedule D. 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. Depletion attributable to a positive Section 743(b) adjustment of a Unit acquired after 1986 will be subject to recapture as ordinary income upon a disposition of the Unit or upon disposition of an 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 that Unit was held by the Unit Holder as a capital asset, either long-term or short-term depending on the holding period of the Unit. That capital gain or loss will be long-term if a Unit 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.

4. Reconciliation of Net Income and Cash Distributions. 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) is attributable to adjustments in the Reserve Account and/or a Cash/Accrual Adjustment. The Reserve Account is increased by expenditures which are not deductible and by increases in the cash reserve established by the Trustees for the payment of future expenditures. The Reserve Account is decreased by the recoupment of capital items and by reductions in previously established cash reserves. The Cash/Accrual Adjustment is a reconciling item which consists of the difference between the amount of income required to be reported on the accrual basis and the actual amount of cash distributed.

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

6. Adjustments to Basis. Each Unit 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 Unit Holder should also increase his basis in the Units by his pro rata share of any increase in the Reserve Account and decrease his basis in the Units by his pro rata share of any decrease in the Reserve Account.

II. STATE INCOME TAX RETURNS

Income attributable to the Royalty is not derived from any specific state since the leases are federal offshore leases. Therefore, the laws of the state of residence of each Unit Holder should determine if the Unit Holder will be subject to a state tax liability on income received as a result of ownership of Units. Unit Holders should consult their own tax advisors regarding the applicability of state income tax laws to their individual circumstances.

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MESA OFFSHORE TRUST

EIN 76-6004065

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EXAMPLE

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

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

SCHEDULE A: UNIT HOLDER CALCULATIONS

<u>Record Date</u>	<u>Units Held</u>	<u>Partnership* Income (Royalties)</u>	<u>Trust Interest Income</u>	<u>Trust Administration Expense</u>
January 31, 2000	100	1.238400	0.017600	0.032613
February 29, 2000	100	(0.494800)	0.015500	0.031211
March 31, 2000	100	0.404300	0.013100	0.043211
April 28, 2000	100	0.230700	0.017600	0.058531
May 31, 2000	100	0.230300	0.010900	0.054375
June 30, 2000	100	0.159000	0.013700	0.157233
July 31, 2000	100	0.062200	0.014700	0.053517
August 31, 2000	100	0.420500	0.034600	0.036851
September 29, 2000	100	0.211000	0.029000	0.051251
October 31, 2000	100	0.136600	0.014500	0.031346
November 30, 2000	100	1.750800	0.014900	0.040354
December 29, 2000	100	<u>0.282000</u>	<u>(0.011300)</u>	<u>0.043829</u>
TOTALS		<u>\$ 4.631000</u>	<u>\$ 0.184800</u>	<u>\$ 0.634322</u>
		Line 4, Part 1, Schedule E	Line 1, Part 1, Schedule B	Line 22, Schedule A

RECONCILIATION OF NET INCOME AND CASH DISTRIBUTION

NET INCOME:

Partnership Income (Royalties)	\$4.6310
Trust Interest Income	0.1848
Less: Trust Administration Expense	(0.6343)
Cash/Accrual Adjustment**	0.8004
Decrease (Increase) in Reserve***	0.0000
TOTAL (Equals Cash Distribution)****	<u>\$ 4.9819</u>

* The Tax Reform Act of 1986 requires this partnership income to be reported on the accrual basis regardless of the Unit Holder's method of accounting.

** This is a reconciling item between cash distributions and the amount of income required to be reported for federal income tax purposes.

*** Increase or decrease in the reserve account has no tax effect (other than its effect on the tax basis of a Unit) and is shown for informational purposes only.

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

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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. (See examples on pages 10 through 12.)

SCHEDULE B: ONE UNIT FACTORS

Record Date	Partnership* Income (Royalties)	Trust Interest Income	Trust Administration Expense
January 31, 2000	\$ 0.012384	\$ 0.000176	\$ 0.000326
February 29, 2000	(0.004948)	0.000155	0.000312
March 31, 2000	0.004043	0.000131	0.000432
April 28, 2000	0.002307	0.000176	0.000585
May 31, 2000	0.002303	0.000109	0.000544
June 30, 2000	0.001590	0.000137	0.001572
July 31, 2000	0.000622	0.000147	0.000535
August 31, 2000	0.004205	0.000346	0.000369
September 29, 2000	0.002110	0.000290	0.000513
October 31, 2000	0.001366	0.000145	0.000313
November 30, 2000	0.017508	0.000149	0.000404
December 29, 2000	<u>0.002820</u>	<u>(0.000113)</u>	<u>0.000438</u>
TOTALS	<u><u>\$ 0.046310</u></u>	<u><u>\$ 0.001848</u></u>	<u><u>\$ 0.006343</u></u>
	Line 4, Part I, Schedule E	Line 1, Part I, Schedule B	Line 22, Schedule A

**RECONCILIATION OF NET INCOME AND
CASH DISTRIBUTION PER UNIT**

NET INCOME:

Partnership Income (Royalties)	\$ 0.046310
Trust Interest Income	0.001848
Less: Trust Administration Expense	(0.006343)
Cash/Accrual Adjustment**	0.008004
Decrease (Increase) in Reserve***	<u>0.000000</u>
TOTAL (Equals Cash Distribution)****	<u><u>\$ 0.049819</u></u>

* The Tax Reform Act of 1986 requires this partnership income to be reported on the accrual basis regardless of the Unit Holder's method of accounting.

** This is a reconciling item between cash distributions and the amount of income required to be reported for federal income tax purposes.

*** Increase or decrease in the reserve account has no tax effect (other than its effect on the tax basis of a Unit) and is shown for informational purposes only.

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

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See page 3 for instructions for the computation of depletion.

SCHEDULE C: DEPLETION

(Any Unit Holders who sold Units in 2000 should refer to Schedule D for information regarding required Royalty basis adjustment)

<u>PART I*</u>	<u>PART II**</u>	
<p>Cost Depletion for Calendar Year individuals who acquired their Units in the initial distribution from Mesa Petroleum Co. on December 28, 1982, and continue to own those units.</p> <p>Depletion \$.000000 Per Unit Line 20, Part I, Schedule E</p> <p style="text-align: center;"><u>TAX BASIS PER UNIT***</u></p> <p>Mesa Offshore Trust Unit</p> <p>Royalty Basis 12-28-82 \$ 2.312500</p> <p>Depletion Years 1987-1998 <u>(2.304184)</u></p> <p>Royalty Basis 1-1-99 0.008316</p> <p>Depletion Year 1999 <u>(0.008316)</u></p> <p>Royalty Basis 1-1-00 0.000000</p> <p>Depletion Year 2000 <u>(0.000000)</u></p> <p>Royalty Basis 1-1-01 <u>\$ 0.000000</u></p>	<u>RECORD DATE</u>	<u>DEPLETION AS A PERCENT OF ROYALTY BASIS</u>
	January 31, 2000	20.992684%
	February 29, 2000	-8.388111%
	March 31, 2000	6.853570%
	April 28, 2000	3.911720%
	May 31, 2000	3.904821%
	June 30, 2000	2.695720%
	July 31, 2000	1.054598%
	August 31, 2000	7.127887%
	September 29, 2000	3.577190%
	October 31, 2000	2.316094%
	November 30, 2000	29.676612%
	December 29, 2000	<u>4.780662%</u>
	TOTAL	<u>78.503447%</u>

* For Unit Holders who acquired their Units in the initial distribution December 1982.

** For Unit Holders who acquired their Units after December 28, 1982. Unit Holders acquiring their Units after December 28, 1982 and before February 1, 1987 will have a basis in the Royalty equal to the purchase price of those Units.

Unit Holders acquiring their Units after January 31, 1987 and before January 1, 2000 have a basis in the Royalty equal to the purchase price of those Units, reduced by the basis adjustment factor for the month *prior to* the month of purchase shown in the Federal Income Tax Information booklet, Schedule D, for the respective year those Units were purchased, less depletion.

Unit Holders who acquired their Units in 2000 will have a basis in the Royalty equal to the purchase price of those Units reduced by the basis adjustment factor computed in Schedule D.

***The tax basis per unit should also be increased/decreased by any increases or decreases in the Reserve Account.

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See page 3 for instructions for the computation of depletion.

SCHEDULE C: DEPLETION

PART III

Percentage depletion per Unit for Calendar Year individuals who acquired their Units after October 11, 1990. See page 3 of instructions for further discussion of the computation of depletion.

PERCENTAGE DEPLETION

<u>RECORD DATE</u>	<u>PER UNIT</u>	<u>RECORD DATE</u>	<u>PER UNIT</u>
January 31, 2000	0.001857	July 31, 2000	0.000093
February 29, 2000	(0.000742)	August 31, 2000	0.000630
March 31, 2000	0.000606	September 29, 2000	0.000316
April 28, 2000	0.000346	October 31, 2000	0.000204
May 31, 2000	0.000345	November 30, 2000	0.002626
June 30, 2000	0.000238	December 29, 2000	0.000423

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See page 1 of instructions for further discussion of the basis adjustment.

SCHEDULE D: ROYALTY BASIS ADJUSTMENT PER UNIT

<u>Record Date</u>	<u>Basis Adjustment Factor</u>
December 31, 1999	.000885
January 31, 2000	.010825
February 29, 2000	.012384
March 31, 2000	(.004948)
April 28, 2000	.004043
May 31, 2000	.002307
June 30, 2000	.002303
July 31, 2000	.001590
August 31, 2000	.000622
September 29, 2000	.004205
October 31, 2000	.002110
November 30, 2000	.001366
December 29, 2000	.017508

Unit Holders purchasing Units in 2000 should reduce the tax basis in their Units by the basis adjustment factor shown above for the month *prior to* the month those Units were purchased. For example, if a Unit was purchased on June 2, 2000 for \$1.50, the adjusted Royalty basis would be \$1.497693, which is the \$1.50 purchase price less the \$.002307 basis adjustment factor above for the month of May 2000 (the month prior to purchase). This net amount should be utilized for purposes of computing depletion.

Unit Holders selling Units in 2000 (regardless of when the Units were purchased) should increase their tax basis in any Units sold by the basis adjustment factor shown above for the month *prior to* the month those Units were sold. For example, if a Unit was sold in June 2000 and the Royalty basis in the Unit (after depletion) was \$.95, then the *adjusted* Royalty basis would be \$.952307. This adjusted Royalty basis is arrived at by adding the \$.002307 basis adjustment factor above for the month of May 2000 (the month prior to sale) to the Royalty basis (net of depletion) which was \$.95. This adjusted amount should be utilized for computing gain or loss on sale for tax purposes.

Unit Holders selling Units which were purchased *during 2000* have a basis in their Units for calculation of gain or loss on sale equal to the purchase price per Unit, minus the basis adjustment factor shown above for the month prior to the month of purchase, less depletion, plus the basis adjustment factor shown above for the month prior to the month of sale.

Unit Holders selling Units which were purchased *after January 31, 1987 and before January 1, 2000* have a basis in their Units for calculation of gain or loss equal to the purchase price per Unit, minus the basis adjustment factor for the month prior to the month of purchase shown in the Federal Income Tax Information booklet, Schedule D, for the respective year those Units were purchased, less depletion, plus the basis adjustment factor shown above for the month prior to the month of sale.