

STATE OF WYOMING
COUNTY OF CAMPBELL

)
) ss.
)

IN THE DISTRICT COURT
SIXTH JUDICIAL DISTRICT
Civil Action No. 26698

Spear Lazy S Land Company, Star
Investment Corp., and Patsy L. Larson

Plaintiffs,

vs.

Westport Oil and Gas Company, L.P., as
to the first settlement class, and
Hilcorp Energy Company, as to the
second settlement class,

Defendant.

NOTICE OF PROPOSED CLASS ACTION SETTLEMENT
TO GROUP TWO ROYALTY PAYEES IN THE SECOND SETTLEMENT CLASS

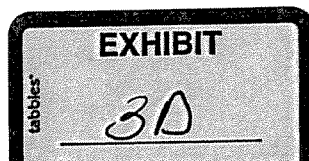
TO: Royalty Owners of Hilcorp Energy Company ("Hilcorp")
owning interests in leases producing oil in Campbell and
Johnson Counties, Wyoming

You are NOT being sued.
You need NOT respond to this notice in any way.

Dear Hilcorp Royalty Owner,

This notice informs you of a proposed settlement of class action claims against Hilcorp Energy Company which will be referred to for the remainder of this notice simply as "Hilcorp." This notice describes the proposed settlement and informs you of your rights as a settlement class member: You are being sent this notice because you have been identified as a person owning a royalty, overriding royalty or other non-cost bearing interests in Leases, as hereafter defined, in which Hilcorp owns rights in formations that are or may produce natural gas and associated hydrocarbons from coal bed seams ("Shallow Gas") located in Campbell or Johnson Counties, Wyoming. These interests are hereafter referred to as Hilcorp Royalty Interests. To avoid prospective litigation and to provide certainty with respect to future payments which may be owed to the owners of Hilcorp Royalty Interests, Hilcorp has agreed to a settlement which provides for a royalty payment and reporting methodology.

READ THIS FIRST



WHY SHOULD I READ THIS? This Notice describes a proposed settlement of a class action against Hilcorp, and you have been identified as a class member.

WHY DID I RECEIVE THIS NOTICE? You received this Notice because a search of Hilcorp's records shows that you are the owner of a Hilcorp Royalty Interest.

DO I HAVE TO DO ANYTHING? If the Court approves the settlement and it becomes effective, *you do not need to do anything*. The settlement agreement will affect how Hilcorp pays you royalties in the future. The Settlement Agreement provides that future royalty payments be made under the terms of the settlement. You may attend the court hearing described below if you wish, but your attendance or non-attendance will not affect your receiving the relief described. You do not need to appear in court; and you do not need to hire an attorney in this case. You may object to the proposed settlement if you so desire. You may also elect to be excluded or "opt out" of being included in the settlement.

WHOM CAN I CALL WITH QUESTIONS? If you have questions, you may call (307) 634-2240, weekdays, 9:00 a.m. to 5:00 p.m., MST; write to Freudenthal, Salzburg & Bonds, P.C., Attn: Steve Freudenthal, P.O. Box 387, 123 East 17th Street, Cheyenne, WY 82003; or by e-mail addressed to firm@wyolaw.com.

WHOM CAN I CALL ABOUT A CHANGE OF ADDRESS? If your present address is different from the address on the envelope in which you received this Notice, or if you did not receive this Notice directly but believe you should have, you should call (307) 634-2240, or write to Freudenthal, Salzburg & Bonds, P.C., Attn: Steve Freudenthal, P.O. Box 387, 123 East 17th Street, Cheyenne, WY 82003, and provide your new address.

The Basis Of The Claims Against Hilcorp

This case was originally part of an action filed by certain Westport Oil and Gas Company, L.P. ("Westport") payees and payees of other producers (the "Plaintiffs") in the Sixth Judicial District Court, County of Campbell, State of Wyoming in Gillette, Wyoming. The action against Westport was severed from the previous cases by order dated September 16, 2005 and entered on September 16, 2005 (the "Action"). By bringing the Action, the Plaintiffs sought to obtain a determination that: (1) the calculations of royalties due and payable to them be free of deductions for costs of production, be free of any reduction for off-lease gas use, and the value of the gas be established as the arms-length price paid by third-party buyers at the market pipeline; (2) Westport, in the calculations of royalties due and payable to the class members, be permanently restrained and enjoined from deducting for costs of production, from reducing for off-lease gas use, and using any value other than the value of the gas as established as the arms-length price paid by third-party buyers at the market pipeline; (3) Plaintiffs be awarded damages in the amount of underpaid royalties; (4) Plaintiffs be awarded interest on the amount of underpaid and late paid royalties; (5) Plaintiffs be awarded the amount of \$100.00 per month per interest owner that complete reporting under the

Wyoming Royalty Payment Act was not provided; and (6) Plaintiffs be awarded court costs and reasonable attorney fees.

The Proposed Settlement

Since filing the Action, Plaintiffs, through class counsel, the Cheyenne, Wyoming law firm of Freudenthal, Salzburg & Bonds, P.C., conducted an investigation of the facts, including reviews of Westport's master meter billing statements and allocation procedures, reviews of the facts and circumstances of production, gathering, transportation, and marketing, and analyzed the relevant legal and factual issues. Plaintiffs' counsel conducted interviews of Westport's employees and had discussions with Westport's counsel and others concerning Westport's policies and practices regarding royalty payment calculations and reporting. Plaintiffs' counsel obtained substantial information about the nature and extent of Westport's challenged practices through this process as conducted under a Confidentiality Agreement. Plaintiffs' counsel continued to confirm and refine this information through additional due diligence inquiry from Westport with respect to various aspects of the proposed settlement.

After an extensive exchange of information and months of vigorous arms-length negotiation, Plaintiffs and Westport agreed to enter into a Settlement Agreement effective June 1, 2005 (hereafter "Settlement Agreement"). The Settlement Agreement identified a class of Westport royalty payees who had received payment of royalties for Shallow Gas produced from certain Westport Leases in Campbell County, Wyoming, prior to June 1, 2005. A hearing was held by the Court on November 14, 2005, and by Settlement Order and Final Judgment dated November 14, 2005, the Court approved the settlement class ("First Settlement Class") and approved the settlement of the lawsuit as set forth in the Settlement Agreement as fair, just, reasonable and adequate as to the settling parties. The Court's Order approving the settlement became final and non-appealable on December 14, 2005 (the "Approval Event").

Westport assigned its right, title and interest in leases in Campbell and Johnson Counties, Wyoming, to Hilcorp Energy Company ("Hilcorp") so that Hilcorp is now subject to the Court's Order as to the First Settlement Class and has the rights and obligations of Westport under the Settlement Agreement from and after the date of its acquisition as to the leasehold interests it acquired from Westport.

The First Settlement Class did not include all of Westport's Leases in Campbell and Johnson Counties, Wyoming. Sections 2.5.1 and 2.5.2 of the Settlement Agreement state as follows:

- 2.5.1 Within six (6) months after the Approval Event, Westport and Plaintiffs may petition the Court for certification of a second settlement class as to all or any portion of the Additional Leases for the purpose of agreeing on the Future Royalty Payment Methodology and Future Reporting

Format for such Leases. Such petition may also include royalty and overriding royalty owners in Existing Wells and New Wells located on the Producing Leases who were not included in the initial settlement class for whatever reason. As to any members of the second settlement class who have received payments of Royalties from Westport, the settlement may include a proposed settlement amount to make such prior payments consistent with the Future Royalty Payment Methodology in addition to the proposal to agree on the Future Royalty Payment Methodology and Future Reporting Format.

- 2.5.2 This Agreement shall apply to the Second Settlement Class and the petition described in Section 2.5.1 above to the same extent as if the Second Settlement Class had been part of the original Potential Settlement Class.

The parties have stipulated to an extension of time to allow the petition for certification of a second settlement class to be filed more than six months after the Approval Event in order to allow Hilcorp adequate time to integrate the leases it acquired from Westport into its accounting and land administration systems so that it could make the determinations necessary to identify a second settlement class and assemble the exhibits necessary to file a motion for certification of a second settlement class.

In accordance with the terms of the Settlement Agreement, Hilcorp and Plaintiffs have proposed the certification of a second settlement class composed of three groups:

GROUP ONE. The first group covers owners of Royalty Interests in Leases not included with the First Settlement Class that are producing Shallow Gas. The owners in these Leases are currently being paid in a manner more favorable than the future royalty payment methodology approved in the Final Order approving the settlement for the First Settlement Class and in the final orders in the other Shallow Gas class action cases that have come before the Court (Pennaco Energy, Inc. and Marathon Oil Company, Civil Action No. 25244; J.M. Huber Corporation, Civil Action No. 25547; Prima Oil & Gas Company, now known as Petro-Canada Resources (USA) Inc., Civil Action No. 26151; and Devon Energy Production Company, L.P. and Devon Energy Management Company, L.L.C., Civil Action No. 26817). This is because Westport, due to the uncertainty surrounding the definition of market pipeline under the Wyoming

Royalty Payment Act,¹ W.S. 30-5-301 et seq., elected as to these leases not to take any deductions except WIC pipeline charges and associated WIC fuel. Hilcorp is proposing that these Royalty Payees be included in the Second Settlement Class to avoid future litigation. Hilcorp's position is that it should not have to start taking disputed deductions (deduction of more costs than are permitted under the Settlement Agreement) and, as a result be sued, in order to reach a settlement comparable to the Future Royalty Payment Methodology. Hilcorp proposes to achieve the same objective without litigation. Hilcorp also is concerned that the value of the leases in which these Royalty Payees have an interest are affected by the conservative position taken by Westport as to deductions. In addition to the benefit of avoidance of litigation, Hilcorp is agreeing to waive any claims it might have against these Royalty Payees who do not opt out of the second settlement class for a refund for costs not previously deducted that would have been deductible under the Future Royalty Payment Methodology and, Hilcorp believes, under the Wyoming Royalty Payment Act. How the Settlement Agreement will change the way these Royalty Payees are currently being paid is described in more detail below.

GROUP TWO. The second group covers Royalty Payees in Leases that have wells currently producing oil but not natural gas. Hilcorp is proposing to include these Royalty Payees in the second settlement class so that if Shallow Gas is produced from these leases, there will already be an agreement in place as to how royalties are to be calculated on the Shallow Gas production and this will avoid future litigation.

GROUP THREE. The third group covers Royalty Payees in leases that are undeveloped completely or leases that are undeveloped in the formations in which Hilcorp has an interest. Hilcorp is proposing to include these Royalty Payees in the second settlement class so that if Shallow Gas is produced from these leases, there will already be an agreement in place as to how royalties are to be calculated on the Shallow Gas production and this will avoid future litigation.

If you have received a copy of this notice then you have been determined by Hilcorp to be included within the Second Settlement Class.
YOU ARE IN GROUP TWO.

If the Court approves the Settlement Agreement as to the second settlement class, then this case will be dismissed and all claims raised in the Complaint will be resolved. As such, dismissal will release Hilcorp and Additional Released Parties as defined in the Settlement Agreement from future liability from the acts and practices complained of under the terms of the Complaint. The Settlement terms are described in full in a document known as the Settlement Agreement. The Settlement Agreement is available for your inspection at the clerk's office of the court at the address given below.

¹Section 305 of the WRPA permits the deduction of the reasonable costs of transportation in the "market pipeline" but does not define market pipeline.

The terms of the Settlement Agreement are based in part upon a defined term "Market Point" which for purposes of the Settlement Agreement is defined as the end of the first pipeline segment consisting of all activity in moving the gas from the well through a pipeline or to a point where single-stage screw compression, second stage reciprocating compression, and dehydration has been performed; provided, however, that if the gas is not at at least 800 psig under normal operating conditions after the second stage reciprocating compression and dehydration has been performed, then the first pipeline segment shall extend until (i) the gas is at at least 800 psig under normal operating conditions, or (ii) has been delivered into a regulated interstate pipeline, whichever first occurs. Based on this definition, the terms of the settlement as to Shallow Gas, in summary form, are as follows:

- a. royalty calculations shall be based on the arm's-length sales price received by Hilcorp less actual costs paid or incurred to unaffiliated third-parties from the Market Point to the point of sale;
- b. royalties shall be calculated without deduction for charges from the well-head through the Market Point;
- c. royalties shall be calculated without deduction for gas volumes used after the first screw compressor through the Market Point; and
- d. royalty payments on production after a final Order approving the second settlement class and Hilcorp's implementation of the Settlement Agreement methodology for the second settlement class shall be calculated using the method described above.

The Settlement provides for other benefits beyond those described above, including: (i) the Settlement obliges Hilcorp, at its sole expense, to revise its royalty payment methods and calculations to comply with the terms of the Settlement in the future as to Shallow Gas production from or attributable to the Leases in which the members of the second settlement class have an interest that are covered by the second settlement class proposal; (ii) Hilcorp, in settling these claims, will not assert defenses available to it, whether procedural or substantive; and (iii) attorneys fees and costs payable to class counsel for the filing of the second settlement class were paid by Westport in connection with the settlement as to the First Settlement Class, and (iv) the administrative costs for the second settlement class will be paid by Hilcorp.

How the Settlement Agreement Will Affect Group One Royalty Payees. For Royalty Payees in Group One, payment under the Settlement Agreement as compared to how you are currently being paid will be less by two amounts: (1) a high pressure pipeline deduction of approximately \$0.14 to \$0.16, and (ii) a deduction for gas volumes used before the first screw compressor of approximately 4.2% of the gas produced. These deductions are consistent with deductions permitted for the First Settlement Class and in the settlements with the other coalbed methane producers described above. However, if you are part of the final second settlement class, Hilcorp will have waived any claims it might have against you for a refund for these costs not previously deducted that would have been deductible under the Settlement Agreement and, Hilcorp

believes, under the Wyoming Royalty Payment Act. This change in how you are paid will not start until after Hilcorp implements the Settlement Agreement methodology after a final order approving the second settlement class is entered.

Notwithstanding its agreement to settle this case as to the second settlement class, Hilcorp admits no wrongdoing or liability of any kind, vigorously maintains that it has valid defenses to all claims raised in the case, and would prevail if the litigation were to proceed. The Court has not ruled on the merits of Plaintiffs' claims or Hilcorp's potential defenses, and this Notice is not to be considered as an expression of opinion by the Court. Hilcorp has also weighed the risks and possible costs of litigation of the Action against the benefits of the proposed Settlement, and considers it desirable that the claims be settled on a global basis to avoid the time, risk, and expense of defending protracted litigation and in order to achieve a final resolution of the claims being settled.

Release of Claims

If you remain in the Second Settlement Class and accept the benefits of the Settlement Agreement, you will also release Hilcorp and Additional Released Parties, which includes any other working interest owners on whose behalf Hilcorp pays Royalties, for all Settled Claims. The Settled Claims exclude those claims that could arise out of any future clerical errors in accounting for the volumes, price, value or decimal interest reported by Hilcorp. While the detailed terms of the release are contained in the Settlement Agreement, in summary, Hilcorp, will be released for: (1) all past Gas Royalty Claims, including, but not limited to, Valuation and Disputed Deductions; (2) past Reporting Claims; (3) Future Gas Royalty Claims, contingent upon Hilcorp's compliance with the Future Royalty Payment Methodology; (4) future Reporting Claims, contingent upon Hilcorp's compliance with the Future Royalty Payment Format; and (5) Attorneys Fees and Administration Costs. In the event any working interest owner on whose behalf Hilcorp pays Royalties pursuant to the Future Royalty Payment Methodology elects after a final order is entered as to the Second Settlement Class to take its share of production in kind and pay its own share of royalties, to the extent such working interest owner complies with the Future Royalty Payment Methodology and provides reporting consistent with the criteria set out in the Settlement Agreement, such working interest owner shall be entitled to the same benefits under the Settlement Agreement as Hilcorp receives.

The Settlement Classes

The Court will be asked to confirm certification of a second settlement class for the purposes of settlement consisting of persons who are lessors under leases, instruments and related overriding interests (derived or carved out of such leases) creating non-working interest royalties with respect to Shallow Gas produced from certain leases in Campbell and Johnson Counties, Wyoming. Your receipt of this notice means you are an identified class member.

Attorneys' Fees, Costs and Expenses

In settling the claims of the First Settlement Class, the Court awarded Plaintiffs' counsel attorneys' fees, costs and settlement administration expenses. In settling the claims of this second settlement class, Plaintiffs' counsel will not be receiving any additional attorneys' fees. However, pursuant to Section 2.5.4 of the Settlement Agreement, Hilcorp will pay to Plaintiffs' counsel as administrative costs of the second settlement class the sum of Ten Thousand Dollars (\$10,000.00) plus Fifteen Dollars (\$15.00) per owner in the second settlement class.

The Settlement Hearing

The Court will conduct a hearing (the "Settlement Hearing") at the Campbell County Courthouse, Gillette, Wyoming, at _____ on _____, 2008 (or at the dates and times to which the Court may, without further notice, reschedule the hearing). The purpose of the Settlement Hearing will be to determine whether the proposed settlement is fair, adequate, and proper; and whether the Court should enter a judgment approving the settlement, awarding attorneys' fees and expenses, and dismissing the Action. You have the right but are not required to attend.

Your Right To Appear And Object To The Proposed Settlement

Any member of the class may appear at the Settlement Hearing in person or by a duly authorized attorney and show cause, if any, why the settlement should not be approved; provided that (except by special permission of the Court) no class member shall be heard unless, on or before _____, 2008, the class member files with the Court a written "Notice of Intent To Appear," at the clerk's address set out below, setting forth all of that class member's objections to the settlement, and mails copies of all such papers to Plaintiffs' and Hilcorp's counsel at the addresses specified below.

Your Right To Be Excluded Or Opt Out Of The Proposed Settlement

You have the right to be excluded or opt out of the proposed settlement. If you elect to be excluded or opt out of the proposed settlement, you must elect to be excluded or opt out with respect to all of your interest in lease(s), instrument(s) and/or related overriding interest(s) having the same or substantially similar terms. No class member shall be excluded unless, on or before _____, 2008, the class member files with the court a written "Election to be Excluded," at the clerk's address set out below, specifically describing all of that class member's interests to be excluded by lease name, date of lease, and book, page and county where recorded (if not recorded, a copy of the document(s) creating the interest should be attached) or well number(s).

Instructions for finding information about your interest in a Hilcorp Lease are at the end of this notice under the heading "Where You Can Find Information About Your Interest in a Hilcorp Lease." Copies of all such papers shall simultaneously be mailed to Plaintiffs' and Hilcorp's counsel at the addresses specified below. Failure to timely comply with this requirement

will result in your remaining in the class and subject you to the terms of the Settlement Agreement.

Office of the Clerk:

Nancy Ratcliff
Clerk of the Campbell County District Court
500 South Gillette Avenue, Suite 348
Gillette, WY 82716

Hilcorp's Counsel:

Judith M. Matlock
Davis Graham & Stubbs LLP
1550 17th Street Suite 500.
Denver, CO 80202

Plaintiffs' Counsel:

Steven F. Freudenthal
Freudenthal, Salzburg & Bonds, P.C.
123 East 17th Street
P.O. Box 387
Cheyenne, WY 82003-0387

**Availability Of The Pleadings, The Settlement Agreement,
And Other Papers In This Action**

The Settlement Agreement, with its exhibits and all other papers filed in the Action, are available for inspection in the offices of the clerk of the court identified above. The documents on file with the court may be examined by any member of the class in person or by counsel during normal court hours each day other than on Saturdays, Sundays, and legal holidays. You may also view the documents on the internet at <http://www.wyolaw.com/> under the heading "Class Action" and then "Hilcorp Settlement."

Where You Can Find Information About Your Interest in a Hilcorp Lease

The schedules attached to Plaintiffs' Motion for Conditional Consideration of Settlement Agreement and Provisional Certification of the Hilcorp Second Settlement Class ("Motion") will be on the website of Plaintiffs' Counsel described above. The Exhibits that have information for the group that you are in are listed on the attachment to this Notice.

Do not call or write the court, other than as provided for above.

IF YOU HAVE QUESTIONS CONCERNING THIS NOTICE, YOU MAY CONTACT:

Steve Freudenthal at (307) 634-2240, weekdays, 9:00 a.m. to 5:00 p.m., MST; write to Freudenthal, Salzburg & Bonds, P.C., Attn: Steve Freudenthal, P.O. Box 387, 123 East 17th Street, Cheyenne, WY 82003; or by e-mail addressed to firm@wyolaw.com.

DATED: _____.

/s/ Nancy Ratcliff
Clerk of the Sixth Judicial
District Court,
in and for Campbell County,
State of Wyoming

Attachment to Notice

GROUP TWO

Owners in Leases Producing Oil

If you have received this notice, you are in Group Two of the proposed second settlement class.

The exhibits on the website for Group Two where you can find more information about your interest in a Hilcorp Lease are:

Exhibit 3A - this is where you can find your name and the names of the wells for which you are currently receiving royalty payments for oil production

Exhibit 3B - this is where you can find an alphabetical list of the well names and the associated Hilcorp (HEC) lease numbers in which you have an interest

Exhibit 3C - this is where you can find a more detailed description of the leases that Hilcorp proposes will be subject to the Court's final order if the second settlement class is approved