

The Depository Trust Company  
**IMPORTANT**

**B#:** 0422  
**DATE:** August 04, 2000  
**TO:** All Participants  
**CATEGORY:** Reorganization  
**FROM:** DTC Proxy Department  
**ATTENTION:** Proxy/Reorganization Manager  
**SUBJECT:** Costilla Energy, Inc.  
Common Stock  
CUSIP #22161G 10 3

The Depository Trust Company received materials, including the attached Order indicating that Costilla Energy, Inc. is soliciting acceptances by creditors of its Plan of Reorganization, dated July 28, 2000 (the "Plan"). DTC has been advised by Counsel that holders of Costilla Energy, Inc., Common Stock *have been deemed to reject the Plan /OR/ are unimpaired* and their votes are not being solicited on the Plan. A hearing on confirmation of the Plan is scheduled to be held on September 14, 2000. Any written objections to confirmation of the Plan must be filed no later than September 7, 2000. Participants may obtain copies of the materials for voting on the Plan by contacting:

Sheinfeld, Maley & Kay, PC  
Attn.: Barbara Howell  
Fax Number: 713-658-9756

Karl Baker

Manager

Attachments

UNITED STATES BANKRUPTCY COURT  
FOR THE WESTERN DISTRICT OF TEXAS  
MIDLAND DIVISION

In re:

COSTILLA ENERGY, INC.  
Tax I.D. No. 75-2658940

Debtor.

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Case No. 99-70653

Chapter 11

**NOTICE TO ALL CREDITORS AND OTHER INTERESTED PARTIES  
OF (A) ORDER APPROVING DISCLOSURE STATEMENT, (B) VOTING  
ON PLAN OF REORGANIZATION, (C) DATE, TIME AND PLACE OF  
CONFIRMATION HEARING AND (D) OTHER CONFIRMATION ISSUES**

**NOTICE IS GIVEN THAT:**

1. On July 20, 2000, the United States Bankruptcy Court for the Western District of Texas Midland Division ("Court") entered an Order Approving Disclosure Statement; Fixing Voting Record Date, Voting Deadline; Approving the Forms of Ballots; Fixing a Date for Hearing on Confirmation; and Addressing Matters Ancillary to Solicitation, ("Order"). The Order approved the Disclosure Statement with Respect to Debtor's Plan of Reorganization (Liquidation), As Amended ("Disclosure Statement") dated July 28, 2000, filed by Costilla Energy, Inc. ("Debtor" or "Costilla"). You are being provided this notice with respect to the Debtor's Plan of Reorganization (Liquidation), as Amended ("Plan") dated July 28, 2000.

2. Copies of the Disclosure Statement, (including the Plan as an exhibit), and certain related disclosure materials have been mailed to creditors and other parties in interest at their addresses last known to the Debtor. If you are a creditor of the Debtor, a party to an executory contract or unexpired lease with the Debtor, or a party in interest, and have not received the Disclosure Statement, you may obtain it by writing Barbara Howell, Sheinfeld, Maley & Kay, P.C., 1001 Fannin, Suite 3700, Houston, Texas 77002-6797.

3. The Court has set September 14, 2000, commencing at 10:00 a.m., Central Savings Time, as the date and time for the hearing on confirmation of the Plan and to consider any objections to the Plan. Creditors and other parties-in-interest may, but are not required, to attend the confirmation hearing. The confirmation hearing will be held at the United States Bankruptcy Court, Western District of Texas, San Antonio Division, U.S. Post Office Building, 615 E. Houston St., Courtroom #3, San Antonio, Texas. The hearing may be continued or adjourned from time to time without further notice except for an announcement made at the hearing. In addition, the Plan may be modified without further notice prior to or as a result of the confirmation hearing, or thereafter as otherwise provided in the Bankruptcy Code.

4. Any objections to confirmation of the Plan must be in writing, specify the nature and grounds of the objection, and must be filed with the Court at the address specified in paragraph

3 hereof, and served in a manner so that they are received on or before 5:00 p.m., Central Savings Time, on September 7, 2000, by the following parties:

HENRY KAIM  
Sheinfeld, Maley & Kay, P.C.  
1001 Fannin, Suite 3700  
Houston, Texas 77002-6797  
Counsel to the Debtor

-and-

HARRY A. PERRIN  
Weil, Gotshal & Manges, L.L.P.  
700 Louisiana, Suite 1600  
Houston, Texas 77002  
Counsel to the Creditors' Committee

5. If the Plan is confirmed and becomes effective, rights you may have against or relating to the Debtor will be affected, discharged and released.

6. IF A BALLOT IS ENCLOSED: Creditors entitled to vote on the Plan are receiving Ballots. If you are one such Creditor, a Ballot is enclosed for you to use to vote to accept or reject the Plan. Your vote is important. The Court will consider the votes of creditors when determining whether or not to approve and confirm the Plan. Only Ballots properly completed, executed and delivered pursuant to the instructions set forth on the Ballot will be counted.

7. IF A BALLOT IS NOT ENCLOSED: If a Ballot was not enclosed, then Costilla's records indicate that you are not entitled to vote on the Plan. Costilla believes that you are not entitled to vote on the Plan for one or more of the following reasons: (a) you are a shareholder of Costilla and, thus, you will receive no distribution under the Plan and are deemed to have rejected the Plan; (b) any Claim you may have had against Costilla was fully paid during the pendency of Costilla's bankruptcy case; (c) you do not have a valid Claim against Costilla; or (d) your Claim against Costilla is unimpaired under the Plan and, thus, you are not entitled to vote and are deemed to have accepted the Plan. You should consult the Disclosure Statement to determine which applies to you. You may dispute the contention that you are not entitled to vote on the Plan by filing a timely objection or motion requesting to vote in connection with the Plan.

Dated: July 28, 2000.

BY ORDER OF:  
Ronald B. King  
United States Bankruptcy Judge