

II. WEXPRO II OIL PROPERTIES

II-1. Ownership of Oil, Natural Gas Liquids and Natural Gas. All oil, natural gas liquids and natural gas produced from Wexpro II oil properties will be the property of and be sold or otherwise disposed of by Wexpro.

II-2. Oil and Natural Gas Liquids Proceeds. The total proceeds from the sale of oil and natural gas liquids from Wexpro II oil properties, less royalties, will be subject to the following provisions:

(a) Proceeds will first be used to pay the costs and expenses of holding and operating the Wexpro II oil properties. Such costs and expenses will include an allocation to Wexpro of expenses, depreciation, taxes, royalties and other reasonable business expenses of production. The procedures set forth in Exhibit A will serve as guidelines for this determination. In no event will deductible expenses include any exploration and development expenses associated with dry holes.

(b) As an example of the allocation to be performed under paragraph (a), where Wexpro employees are engaged in the operation and maintenance of producing oil wells and productive oil reservoirs and contemporaneously engaged in other activities of Wexpro, Wexpro will maintain accurate and complete time and other records for properly allocating the time and expenses of employees among such operations. Costs that can be directly assigned, such as investments in fractionating towers which benefit only natural gas liquids products, will be directly accounted for as a cost of producing that product.

(c) The investment of Wexpro and Wexpro's operating expense in Wexpro II oil properties will be allocated to the hydrocarbons produced in accordance with the product allocation method defined in Section I-35.

(d) It is agreed that the investment of Wexpro in Wexpro II oil properties will be depreciated by the unit-of-production method for proven developed reserves only. For purposes of calculating the return provided by paragraph (e) of this Section, this investment will be determined on a monthly basis, after additions and depreciation as provided herein.

(e) From the proceeds of the sale of oil and natural gas liquids (after deduction of expenses and all royalties as provided in this Section), Wexpro will deduct an amount sufficient to provide the applicable return on that portion of the investment of Wexpro allocated to oil and natural gas liquids production. Such returns will be calculated for each monthly income statement and will be the product of one-twelfth of that portion of the investment of Wexpro allocated to oil and natural gas liquids production at the end of that month, multiplied by the applicable rate of return.

(f) Any remaining Wexpro oil and natural gas liquids net revenues will be allocated as follows: