

AGREEMENT FOR THE OWNERSHIP  
AND OPERATION OF THE  
ARMADA GAS PLANT AND GATHERING SYSTEM

APRIL 1984

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OPERATION OF THE  
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I N D E X

<u>ARTICLE</u>		<u>PAGE</u>
I	Definitions	
II	Exhibits	
III	Powers of the Owners	
IV	Supervision and Control of Gas Plant Operations	
V	Gas Plant Operator	
VI	Performance by the Gas Plant Operator	
VII	Cost of Construction and Operation	
VIII	Ownership of the Gas Plant	
IX	Transfers, Sales and Assignments	
X	Measurement	
XI	Delivery of Natural Gas and Ownership of Residue Gas and Condensate	
XII	Handling of Outside Gas	
XIII	Effective Date	
XIV	Term	
XV	Force Majeure	
XVI	Arbitration	
XVII	Miscellaneous Provisions	

AGREEMENT FOR THE OWNERSHIP AND  
OPERATION OF THE  
ARMADA GAS PLANT AND GATHERING SYSTEM

THIS AGREEMENT made and entered into by those Owners who duly execute and deliver counterparts hereof.

WHEREAS the Owners hereto have agreed to own, operate, maintain and modify a Gas Plant and Gathering System for the purpose of gathering, compressing, dehydrating and extracting hydrocarbon liquids from the Raw Gas in the manner and subject to all the terms and conditions as hereinafter set forth.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises and of the mutual covenants hereinafter contained the Owners hereto agree as follows:

ARTICLE I  
DEFINITIONS

1.01 Definitions

In this Agreement, including the recitals, definitions and Exhibits hereto:

- a. "Accounting Procedure" means the provisions set forth and contained in Exhibit "C";
- b. "Affiliate Corporation" for the purposes of Clause 4.05 affiliate corporations shall be conclusively deemed to be one Owner only. Affiliate corporation means a corporation fulfilling one of the following requirements:
  - i. a corporation the majority of whose voting stock is owned by an Owner; or

- ii. a corporation owning the majority of the voting stock of an Owner; or
  - iii. a corporation the majority of whose voting stock is owned by any other corporation, which other corporation also owns the majority of the voting stock of an Owner.
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- c. "Armada Area" means the lands in the Province of Alberta as outlined by the dashed lines in Exhibit "B" attached;
  - d. "Condensate" means a mixture mainly of pentanes and heavier hydrocarbons which is separated from the outlet gas stream of the Gas Plant;
  - e. "Cubic Meter" or "M<sup>3</sup>" means a cubic meter at an absolute pressure of 101.325 Kilopascals (KPa) psia at a temperature of 15°C;
  - f. "Day" means a period of twenty-four (24) consecutive hours beginning and ending at 8:00 a.m. Mountain Standard Time;
  - g. "Delivery Inlet Point" means the point at which the Processor's lateral gathering lines join the Producer's or Other Gas flow lines as shown in Exhibit "E" attached;
  - h. "Delivery Outlet Point" means the point at which the Residue Gas Plant Transmission Line joins the facilities of Nova, An Alberta Corporation (hereinafter and sometimes called "Nova");
  - i. "Effective Date" of this Agreement means the time and date referred to in Article XIII;
  - j. "Gas Gathering Lines" means all of the Processor's lateral gathering lines which join the Producer's or Other Gas flow lines as shown in Exhibit "E" attached;

- k. "Gas Plant" means all real and personal property of every kind, nature and description which constitutes all Gas Plant facilities beginning at the Gas Plant inlet manifold and ending at the Gas Plant outlet for Residue Gas and Condensate both located in the LSD 1 of Section 18, Township 17, Range 18, West of the 4th Meridian in the Province of Alberta held by the Gas Plant Operator for the benefit and at the risk and expense of the Owners in accordance with their respective Gas Plant Participations, or as otherwise provided in this Agreement, for the compressing, dehydrating and extraction of Natural Gas, Outside Gas and hydrocarbon liquid, if any;
- l. "Gas Plant Account" means the account set up by the Gas Plant Operator pursuant to Article VII;
- m. "Gas Plant Inlet" means the point at which Natural Gas and Condensate are delivered to the Gas Plant located in the LSD 1 of Section 18, Township 17, Range 18, West of the 4th Meridian in the Province of Alberta;
- n. "Gas Plant Operator" means the Owner who is so designated from time to time as provided in this Agreement;
- o. "Gas Plant Supplies" means all chemical or other substances for use or consumption in operations under this Agreement (such as, but not limited to, glycol, methanol, water treatment chemicals and all lubricants) spare parts and equipment used to replace or repair items of equipment and materials;
- p. "Gas Plant Participation" means the percentage interest of an Owner determined in accordance with Article VIII and set forth opposite an Owner's name in Exhibit "A" attached;
- q. "10<sup>3</sup>M<sup>3</sup>" means one thousand (1,000) cubic meters;

- r. "MJ" means one (1) megajoule and is equal to one million (1,000,000) Joules;
- s. "MJ Content" means the gross heating value of the gas expressed in MJ's determined on the basis of a temperature of 15°C, with the gas free of all water vapour and at an absolute pressure of 101.325 kilopascals with the products of combustion cooled to the initial temperature of the gas and the water formed by the combustion condensed to the liquid state;
- t. "Month" means a period beginning at 8:00 a.m. on the first day of a calendar month and ending at 8:00 a.m. on the first day of the next succeeding calendar month;
- u. "Natural Gas" means gas produced from within the Armada Area;
- v. "Outside Gas" means gas and associated substances prior to processing not owned by an Owner;
- ✓ w. "Owner" means a party to this Agreement;
- x. "Plant Transmission Line" means the 6 5/8" O.D. residue gas pipeline owned by the Processor, now installed, and beginning in LSD 1 of Section 18, Township 17, Range 18, West of the 4th Meridian, and terminating at the Nova Scandia Meter Station in LSD 9 of Section 19, Township 16, Range 16, West of the 4th Meridian as shown in Exhibit "F" attached;
- ✓ y. "Producer" means a non-owner who has a working interest in the Raw Gas transported to the Plant;
- ✓ z. "Producer Owner" means an Owner who has a working interest in the Raw Gas transported to the Plant;
- aa. "Psia" means pounds per square inch absolute;

- bb. "Purchaser" means TransCanada Pipelines Limited, Alberta and Southern Gas Co. Ltd., Pan Alberta Gas Ltd., ATCOR Resources Limited, Progas Limited and any other Purchaser of Residue Gas which the Producer may sell to;
- cc. "Raw Gas" means Natural Gas and associated substances produced from gas wells in the Armada Area which are delivered to the Plant for processing;
- dd. "Residue Gas" means that portion of Raw Gas composed mostly of methane which remains after extraction of Plant Products, fuel for the Plant and other materials in the Plant.

ARTICLE II  
EXHIBITS

2.01 Exhibits Attached

The following Exhibits are attached to and incorporated in this Agreement:

- a. Exhibit "A" which is a list of the Owners and their respective Gas Plant Participations;
- b. Exhibit "B" is a map of the Armada Area;
- c. Exhibit "B-1" sets forth the location of the Gas Plant;
- d. Exhibit "C" is the Accounting Procedure;
- e. Exhibit "D" is the Gas Plant Insurance requirements.
- f. Exhibit "E" is the map of the Processor's lateral gathering line.
- g. Exhibit "F" is the map of the Plant Transmission line.

2.02 Revisions

- a. The Exhibits hereto may be revised from time to time at the direction of the Owners and a revision shall be effective on the date to be specified by the Owners:
  - i. Exhibit "A" shall be revised from time to time as provided in Article VIII hereof;
  - ii. Exhibits "B" and "D" may be revised from time to time in accordance with Subclause 4.05(c)(iii);
  - iii. Exhibit "C" may be revised from time to time in accordance with Subclause 4.05(c)(iv).
- b. The Gas Plant Operator shall, forthwith upon revision of any Exhibit, supply each Owner with two (2) copies thereof.

2.03 Corrections

If any mistakes or mechanical errors occur in an Exhibit, the Gas Plant Operator shall prepare a corrected Exhibit and supply each Owner with two (2) copies thereof. Any correction made hereunder shall be retroactive to the Effective Date of the Agreement if made within ninety (90) days after the Effective Date of this Agreement, and thereafter such corrections shall be effective on a date to be specified by the Owners.

2.04 Conflicts

If a provision of any of the Exhibits conflicts with a provision in the body hereof, the latter shall prevail.

2.05 Form

Exhibits that are revised or corrected shall show the effective date of the revision or correction and shall be numbered consecutively.

ARTICLE III  
POWERS OF THE OWNERS

3.01 Powers

The Owners shall exercise overall supervision and control of all matters arising under this Agreement. The matters to be passed and decided upon by the Owners include, but are not limited to, the following:

- a. The approval of the form and terms of construction contracts;
- b. The approval of modifications and additions to the Gas Plant and Gas Gathering Lines, including enlargements and reductions of Gas Plant and Gas Gathering Line capacity;
- c. The establishment, except in the case provided for in Clause 9.01, of terms and conditions whereby a person not an Owner may become an Owner;
- d. The approval of enlargements of the Armada Area;
- e. The approval of expenditures in excess of \$20,000.00 for any single undertaking;
- f. The selling or otherwise disposing of any item of surplus material or equipment having a current new price of \$10,000.00 or more;
- g. The designation of a representative to appear before any court or regulatory body considering matters pertaining to operations

hereunder, but not so as to prevent any Owners from having its own representative appear on its own behalf;

- h. The appointment of auditors and the settlement of any questions or the approval or disapproval of any recommendations based upon or arising out of any audit of the Gas Plant Operator's books and records, and the approval of the auditor's fee;
- i. The taking of periodic inventories pursuant to the Accounting Procedure;
- j. The appointment or designation of committees or subcommittees to study any problem in connection with the operations hereunder;
- k. The approval of such tests as are necessary to allocate Residue Gas and Condensate;
- l. The removal of the Gas Plant Operator and the designation of a successor;
- m. The approval of terms and conditions under which Outside Gas can be processed in the Gas Plant pursuant to Clause 8.02;
- n. Generally all problems of importance and policy matters which may arise from time to time in respect to operations hereunder;
- o. To determine Gas Plant capacity from time to time;
- p. Approval of the Gas Plant Operator's forecasts;
- q. Salvage or disposition of any portion of the Gas Plant or Gas Gathering Lines.

ARTICLE IV  
SUPERVISION AND CONTROL OF GAS PLANT OPERATIONS

4.01 Supervision by Owners

The Owners shall exercise general supervision and control of Gas Plant operations in the manner hereinafter provided. In exercise of such supervision and control, each Owner shall act solely on its own behalf and in the capacity of an individual Owner and not on behalf of any other Owner or all the Owners as an entirety.

4.02 Manner of Exercising Supervision

Each Owner shall notify the Gas Plant Operator in writing of the names and addresses of its representative and one or more alternate representatives who shall be authorized to represent and bind the Owner in respect to any matter pertaining to Gas Plant operations. An Owner may change any of its appointed representatives at any time and from time to time by written notice to the Gas Plant Operator. Two or more Owners may appoint the same person as their representative, who shall in such cases cast a separate vote for each of his principals.

4.03 Meetings

All meetings for the purpose of considering and acting upon any matter pertaining to Gas Plant operations shall be called by the Gas Plant Operator on its own motion or at the request of one or more Owners have Gas Plant Participations totalling ten (10%) percent or more. At least ten (10) days advance written notice of each meeting shall be given to the Owners, with an agenda attached, unless the representatives of all Owners in writing waive their right to such notice. Matters not on the agenda may be voted upon only after the representatives of all Owners, whether or not present at the meeting, unanimously agree.

4.04 Chairman

The representative of the Gas Plant Operator shall be Chairman of each meeting.

4.05 Voting Procedure

The Owners, through their representatives, shall act upon and determine all matters as follows:

a. Voting Interest

In voting on any matter, each Owner shall have a voting interest equal to its Gas Plant Participation;

b. Vote Required - General

Except as otherwise provided in this Agreement, the Owners shall act upon and determine all matters coming before them pursuant to this Agreement by the affirmative vote of two (2) or more Owners having voting interest totaling sixty (60%) percent or more;

c. Vote Required - Special Matters

i. Removal of Gas Plant Operator

The Gas Plant Operator may be removed by an affirmative vote of two (2) or more Owners having voting interests totaling ninety (90%) percent or more of the remaining voting interest after excluding the voting interest of the Gas Plant Operator and of Affiliate Corporations of the Gas Plant Operator, but for the purposes hereof Subclause (f) of this Clause shall not apply;

ii. Enlargement of Gas Plant Capacity

Matters in respect of the enlargement of the capacity of the Gas Plant or Gas Gathering Lines or any portion thereof shall be determined by the affirmative vote of two (2) or more Owners having voting interests totaling sixty (60%) percent or more, provided however, an Owner electing not to participate in such enlargement shall not be required to bear any portion of the cost of such enlargement;

iii. Amendment of Exhibits "B" and "D"

Exhibits "B" and "D" may be amended from time to time by the affirmative vote of two (2) or more Owners having voting interests totaling sixty (60%) percent or more;

iv. Amendment of Exhibit "C"

Exhibit "C" may be amended from time to time by the affirmative vote of an Owner or Owners having voting interests totaling sixty (60%) percent or more;

v. Addition of Persons or Owners

Pursuant to Clause 3.01(c), the Owners may approve of the terms and conditions whereby a person not an Owner may become an Owner by the affirmative vote of two (2) or more Owners having voting interests totaling sixty (60%) percent or more;

vi. Termination

This Agreement may be terminated by the affirmative vote of two (2) or more Owners having voting interests totaling ninety (90%) percent or more;

vii. Amendment of Amounts of Subclauses  
3.01(e) & (f), 6.06(a) & (c) & 7.05

Amounts stipulated in such subclauses may be amended from time to time by the affirmative vote of two (2) or more Owners having voting interests totaling sixty (60%) percent or more;

d. Negative Vote

- i. If any motion, put to a vote in an Owners' meeting or in accordance with the provisions of Subclause 4.05(e)(ii), is defeated by the negative vote of only one (1) Owner by itself holding sufficient voting interest to defeat such motion, the motion will carry, unless such Owner's voting interest is greater than fifty (50%) percent;
- ii. The negative vote provision contained in Subclause 4.05(d)(i) hereof is not applicable to Subclause 4.05(c)(i) - Removal of Gas Plant Operator, and Subclause 4.05(c)(vi) - Termination.

e. Vote by Absentee

- i. An Owner, not represented at a meeting, may vote on any matter included in the agenda by prior notice to the Chairman;
- ii. The Chairman may, without calling a meeting, call for a vote on any matter by submitting such matter with reasonable details to each Owner by notice. Unless within five (5) days after receipt of such notice an Owner requests that a meeting be called pursuant to Clause 4.03 to consider the matter, each Owner shall cast its vote with the Chairman within fifteen (15) days from the date the notice was received. The Chairman shall promptly

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notify each Owner of the result of a vote hereunder, and cause the result to be recorded in the minutes of the next meeting of the Owners.

f. Failure to Vote

An Owner who does not vote on any matter shall be deemed conclusively to have voted affirmatively, but in recording the vote in the minutes, the Owner shall be shown as having been present and abstained, been absent or failed to vote pursuant to Clause 4.05(e)(ii), as the case may be.

4.06 Minutes

The Gas Plant Operator shall keep minutes of the proceedings of each meeting of the Owners and a copy thereof shall be forwarded to each Owner. The minutes shall include the names of the representatives present, the Owners they represent and any formal action taken by the Owners. Minutes shall be deemed to be correct as distributed unless notice of errors or omissions is received by the Gas Plant Operator within forty-five (45) days of the date on which they are mailed to the Owners, provided that in the event of a postal strike such minutes shall not be deemed approval until forty-five (45) days after the actual receipt by the Owners.

4.07 Owners Bound by Voting

A determination of a matter by the voting of the Owners in accordance with the provisions of this Agreement shall be binding upon all the Owners except as provided in Clause 4.05(e)(ii).

ARTICLE V  
GAS PLANT OPERATOR

5.01 Initial Gas Plant Operator

The Owners hereby designate Cochrane Oil & Gas Ltd. as the initial Gas Plant and Gas Gathering System Operator and Cochrane Oil & Gas Ltd. hereby agrees to act as such in accordance with the terms herein.

5.02 Resignation or Removal

The Gas Plant Operator may resign at any time by filing ninety (90) days written notice to the Owners. The Gas Plant Operator may be removed by a vote of the Owners pursuant to Clause 4.05(c)(i). A Gas Plant Operator who resigns or is removed shall continue to have all rights, powers, duties and obligations as the Gas Plant Operator hereunder until 8:00 a.m. (local time) of the first day of the month immediately following the month in which the said period of ninety (90) days expires, or until a successor Gas Plant Operator has taken over the operations hereunder, whichever is sooner. If the Gas Plant Operator becomes bankrupt or insolvent or ceases to be an Owner, it shall thereupon cease to be the Gas Plant Operator.

5.03 Designation of Successor

If, in accordance with Clause 5.02, the Gas Plant Operator resigns or is removed or ceases to be the Gas Plant Operator, an Owner shall forthwith be designated by the Owners as successor to the Gas Plant Operator. In voting on the successor, a Gas Plant Operator or Affiliate Corporation may not vote to succeed itself.

5.04 Takeover by Successor

Upon the effective time of a resignation, removal or cessation, the departing Gas Plant Operator shall turn over to its successor, or if no successor has been designated, to the Owners or to any one of them

approved by the Owners, control and possession of the Gas Plant, all Gas Plant Supplies on hand, all documents, books, records and accounts (or copies thereof) pertaining to the performance of its functions as the Gas Plant Operator, together with all monies held by it in its capacity as the Gas Plant Operator. Upon the transfer and delivery thereof, the departing Gas Plant Operator shall be released and discharged from, and the successor Gas Plant Operator shall assume all duties and obligations of the Gas Plant Operator, except the unsatisfied duties and obligations of the departing Gas Plant Operator accrued prior to the effective date of the change of Gas Plant Operator and for which the departing Gas Plant Operator shall, notwithstanding its release or discharge, continue to remain liable. If the title to any real property included in the Gas Plant is held in the name of the departing Gas Plant Operator, it shall transfer such property to the successor Gas Plant Operator in trust for the Owners unless otherwise directed by the Owners.

5.05 Accounts Audited When Operator Changes

Within sixty (60) days of the effective time of a gas Plant Operator's resignation, removal or cessation as Gas Plant Operator, the Owners shall cause an audit to be made of the records of the Gas Plant Account maintained by the departing Gas Plant Operator. The cost of such audit shall be for the Gas Plant Account.

5.06 No Assignment

The Gas Plant Operator shall not assign or otherwise dispose of its operating rights or obligations under this Agreement except as herein provided.

ARTICLE VI  
PERFORMANCE BY THE GAS PLANT OPERATOR

6.01 Status

The Gas Plant Operator shall, in addition to its rights, powers, duties and obligations as Gas Plant Operator, have all the rights, powers, duties and obligations of an Owner.

6.02 Gas Plant Modification

With due diligence and in accordance with the instructions of the Owners, the Gas Plant Operator shall proceed to obtain tenders for planned modification of the Gas Plant and Gathering System and enter into a contract or contracts for modification of the Gas Plant and Gathering System.

6.03 Rights, Powers, Duties and Obligations  
During Gas Plant or Pipeline Construction

- a. During any Gas Plant or Pipeline construction, the Gas Plant Operator shall:
  - i. Commence or cause to be commenced the necessary construction by contract with a third party for the performance of all or any part of such work or undertaking;
  - ii. Supervise the construction and assure that the same is conducted with due diligence in accordance with the plans and specifications approved by the Owners;
  - iii. Complete the construction in accordance with the aforementioned plans and specifications;

- iv. Employ operating personnel for on-site training and familiarization prior to the commencement of start up operations; provided however such training period shall not exceed ninety (90) days;
  - v. Supervise the purchase and proper use of all materials and supplies in connection with the construction and operation conducted hereunder;
  - vi. Have direct charge and supervision of all matters arising under the construction contract and during the actual construction work and, in the absence of specific instructions from the Owners, shall deal with such matters in accordance with what a prudent gas plant operator would do under the same or similar circumstances;
  - vii. Furnish to each Owner within thirty (30) days after the end of each calendar month, reports showing the progress of the construction work, costs incurred and budgeted expenditures for the month; and
  - viii. Furnish to each Owner within a reasonable period of time after completion of construction a complete inventory of the Gas Plant and/or Pipeline System.
- b. Each Owner shall have the right at all reasonable times and at its sole risk, cost and expense, to inspect and observe the construction work.

6.04 Rights, Powers, Duties and Obligations - General

Subject to provisions of this Agreement and any orders, directions and limitations given or imposed from time to time by the Owners, the Gas Plant Operator shall conduct or cause to be conducted all operations

hereunder. In the absence of any specific instructions from the Owners, the Gas Plant Operator shall conduct or cause to be conducted such operations as would a prudent gas plant operator under the same or similar circumstances. Without limiting the generality of the foregoing, the Gas Plant Operator shall:

- a. Make all necessary reports relating to operations hereunder to the appropriate governmental agency;
- b. Keep within Alberta true and correct books, accounts and records of the operation hereunder and at all reasonable times extend to each Owner the right to examine and inspect same and to make extracts and copies thereof;
- c. Furnish to each Owner on or before the 25th day of each calendar month a statement for the preceding calendar month of the amount and ownership of Natural Gas, Outside Gas and Condensate received at the Gas Plant Inlet, the amount of such Natural Gas, Outside Gas and Condensate handled in the Gas Plant, the amounts of Residue Gas and Condensate shipped or delivered from the Gas Plant for the account of each Owner thereof and such other data and information as may be necessary for the proper accounting and settlement among the parties concerned;
- d. Consult with the Owners and keep the Owners advised of all matters arising in connection with the operations hereunder which the Gas Plant Operator or the Owners consider important;
- e. Furnish to each Owner such reports of the operations hereunder as the Owners may direct and keep the Owners advised of all matters arising in connection with Gas Plant and Gathering System operations which the Owners consider important;
- f. Make, for and on behalf of all Owners, application for any and all approvals or orders of governmental bodies or duly

constituted authorities having jurisdiction which are necessary or convenient for the purposes of this Agreement and operations hereunder;

- g. Conduct all operations hereunder in a good and workmanlike manner in accordance with good operating practices and in accordance with all applicable laws, orders, rules and regulations;
- h. Keep the Gas Plant and Gathering System free from all liens and encumbrances occasioned by operations hereunder, except the lien of the Gas Plant Operator hereunder, and except liens being contested in good faith;
- i. Comply and require its contractors and their subcontractors to comply with The Workers' Compensation Act, and further require its contractors and their subcontractors to carry such insurance for the benefit of the Owners in such amounts as the Gas Plant Operator shall deem necessary. The Gas Plant Operator shall procure and maintain for the Gas Plant Account the insurance set forth in Exhibit "D". Nothing herein shall prevent an Owner from carrying, at its sole cost and expense and for its sole benefit, such insurance as it shall determine, it being agreed that such Owner's insurance policy shall contain a waiver by the insurer of all rights, by subrogation or otherwise, against any Owner not named as an insured in such policy;
- j. Prepare and submit to the Owners for approval the forecasts provided for in Clause 7.05 hereof;
- k. Pay and discharge promptly for and on behalf of the Owners all costs, expenses and taxes, other than income taxes, incurred or required to be paid in connection with operations conducted by the Gas Plant Operator pursuant to this Agreement;

- l. Extend to each Owner, at its sole risk, the right to examine and inspect the Gas Plant and Gathering System at all reasonable times;
- m. Let contracts for portions of Gas Plant and Gathering System operations which are not considered normal day-to-day operations, or use its own facilities and equipment for such operations. The Gas Plant Operator may charge for use of the Gas Plant Operator's own facilities and equipment in accordance with Clause 2.06(c) of the Accounting Procedure; and
- n. Furnish Owners written notice as soon as practicable after report of same has been received, of any material damage or loss of whatsoever nature or kind, including without limiting the generality of the foregoing, damages or losses incurred by reasons of fire, flood, storm or other similar causes.

#### 6.05 Employees

The number, selection, hours of labour and remuneration of persons employed and used by the Gas Plant Operator in conducting operations hereunder shall be determined by the Gas Plant Operator. Such persons shall be the employees solely of the Gas Plant Operator.

#### 6.06 Expenditures

The Gas Plant Operator shall not make or incur any expenditures without the prior approval of the Owners, except:

- a. Expenditures for any single undertaking, the total estimated cost of which is not in excess of \$20,000.00, whereby the aggregate of these expenditures shall not exceed \$80,000.00 in any calendar year;

- b. Expenditures which it deems necessary in emergencies to protect lives or property, but if it makes any such expenditures, it shall promptly advise the Owners in writing; and
- c. Expenditures not in excess of \$5,000.00 for the full settlement of each damage claim resulting or arising from operations hereunder.

6.07 Liability of Gas Plant Operator

The Gas Plant Operator, its servants, agents or employees, shall not be liable to the Owners for any loss or damage suffered by the Owners resulting or arising from operations hereunder, except when and to the extent that such loss or damage results from the gross negligence or wilful or wanton misconduct of the Gas Plant Operator, its servants, agents or employees. Each Owner, in the proportion of its Gas Plant Participation, indemnifies and agrees to hold harmless the Gas Plant Operator, its servants, agents or employees, against any claim of, or liability to, any third person resulting from acts or omissions of the Gas Plant Operator, its servants, agents or employees, in respect of operations hereunder, except when and to the extent that such claim or liability results from the gross negligence or wilful or wanton misconduct of the Gas Plant Operator, its servants, agents or employees, {and further provided that the Gas Plant Operator shall not be indemnified or held harmless by the Owners for any loss, damage, claim or liability covered completely by insurance hereunder. } For the purposes of this Clause, an act or omission of the Gas Plant Operator, its servants, agents or employees shall not be deemed gross negligence or wilful or wanton misconduct if such act or omission is done or omitted pursuant to the instruction of, or with the concurrence of, the Owners.

ARTICLE VII  
COSTS OF CONSTRUCTION AND OPERATIONS

7.01 Gas Plant Account

The Gas Plant Operator shall set up a Gas Plant Account. All proper costs and expenses incurred by the Gas Plant Operator in connection with operations hereunder shall be for the Gas Plant Account.

7.02 Division of Gas Plant Account

The Gas Plant Account and all statements thereof furnished to the Owners shall be divided into:

- a. Expenditures incurred in connection with construction of the Gas Plant and Gathering System, any enlargement or alteration thereof (hereinafter in this Article called "Capital Costs");
- b. All costs and expenses incurred in connection with the operating, repair and maintenance of the Gas Plant and Gathering System, including supplies, salaries, wages, benefits and expenses of employees of the Gas Plant Operator chargeable to Subclause 2.02 of Schedule "C" (hereinafter in this Article called "Variable Operating Costs");
- c. All costs and expenses of property taxes, surface rentals, fire and public liability insurance premiums and like expenditures (hereinafter in this Article called "Fixed Operating Costs").

The total of Variable Operating Costs and Fixed Operating Costs are hereinafter in this Article called "Operating Costs".

7.03 Basis of Charges to Owners

Except as otherwise provided in this Agreement, the Gas Plant Operator initially shall pay and discharge all costs incurred for the Gas Plant Account, and the Owners shall reimburse the Gas Plant Operator for such costs as follows:

- a. The Owners shall reimburse the Gas Plant Operator for Capital Costs and Fixed Operating and Variable Costs in proportion to their respective Gas Plant Participation;
- b. All billings, charges, credits and accounting for costs and expenses shall be in accordance with the Accounting Procedure. The Gas Plant and Gathering System Operating Costs shall be billed on a monthly basis, as provided in Clause 7.07 hereof. Any dispute as to the proper allocation of costs hereunder shall be referred to the Owners for their decision which shall be absolute and final.

7.04 Forecast

The Gas Plant Operator shall prepare a forecast covering estimated expenditures for construction, operation and maintenance in respect of the Gas Plant and Gathering System for the first year of the term hereof, and, on or before the 31st day of October in each following year during the term hereof, the Gas Plant Operator shall prepare an annual forecast covering estimated expenditures for the construction, operation, alteration and maintenance of the Gas Plant and Gathering System for the twelve (12) month period ending on the 31st day of December of the next succeeding year. The annual forecast shall set forth separately the estimated expenditures and Capital Costs and Operating Costs for the quarterly period beginning on the 1st day of January, the 1st day of April, the 1st day of July and the 1st day of October. A copy of such annual forecast thereof shall be mailed by the Gas Plant Operator to each Owner for its approval in accordance with Subclause 4.05(b). Notwithstanding the said forecast, the Gas Plant

Operator shall not make any expenditure in the case of a project set forth therein costing more than \$20,000.00 without the prior approval of the Owners in accordance with the other provisions of this Agreement.

7.05 Advance Billings for Capital Items and Expenditures

The Gas Plant Operator at its election, in lieu of itself advancing the costs and expenses chargeable hereunder, may require the Owners to advance their respective proportions of such costs and expenses in accordance with either of the following provisions:

a. Gas Plant Construction Costs

On or before the 15th day of the relevant calendar month, the Gas Plant Operator may submit an itemized estimate of Capital Costs for the succeeding calendar month to each of the Owners, with a request for payment of its proportionate share thereof, and each Owner shall pay its share thereof within thirty (30) days after receipt of such request or by the fifteenth day of such succeeding calendar month, whichever is later. Should any Owner fail or refuse to pay such share within the said thirty (30) days, the same may, at the discretion of the Gas Plant Operator, bear interest at a rate equivalent to the prime rate of interest then quoted by the principal chartered bank in Canada used by the Gas Plant Operator plus two (2%) percent per annum from the end of the said thirty (30) days until paid, which interest shall be for the Gas Plant Operator's sole account, unless the costs and expenses for which the request was submitted were met out of the Gas Plant Account, in which event the interest shall be for the Gas Plant Account and the Gas Plant Operator shall have the right at any time thereafter, such default continuing, to enforce lien hereinafter provided upon the interest of such defaulting Owner or Owners. The Gas Plant Operator's monthly billing to the Owners shall reflect credit for any amounts advanced as aforesaid and any differences between

actual expenses and amounts advanced will be adjusted as required.

b. Gas Plant Operating Costs

The Gas Plant Operator, at its election, may establish a cash operating fund, the amount thereof to be one-twelfth (1/12) of the expenditures proposed for a calendar year for operations set out and approved on the forecast provided for in Clause 7.05. Upon the establishment of such cash operating fund, the Gas Plant Operator shall submit to each Owner a request for its proportionate share of such fund. Should any Owner fail or refuse to pay its proportionate part of such cash operating fund within thirty (30) days after receipt of such request, the same may at the discretion of the Gas Plant Operator bear interest at a rate equivalent to the prime rate of interest then quoted by the principal chartered bank in Canada used by the Gas Plant Operator, plus two (2%) percent per annum from the end of the said thirty (30) days until paid, which interest shall be for the Gas Plant Operator's sole account unless the costs and expenses for which the request was submitted were met out of the Gas Plant and Gathering System Account, in which event the interest shall be for the Gas Plant and Gathering System Account. After the establishment of the cash operating fund, the Gas Plant Operator shall submit billings monthly in accordance with the Accounting Procedures. If in practice the cash operating fund, which may be established hereunder, is found to be excessive or insufficient to cover the purpose for which it was intended, it may be increased or decreased from time to time by the Gas Plant Operator with the approval of the Owners as evidenced by a vote pursuant to Clause 4.05(b) hereof.

7.06 Regular Billings

The Gas Plant Operator shall bill each Owner on or before the last day of each month for its share of all costs and expenses incurred for the Gas Plant Account recorded during the preceding calendar month in accordance with the Accounting Procedure. Each Owner shall pay all such bills within thirty (30) days after receiving them. If an Owner fails to pay a bill within the said thirty (30) day period, the unpaid amount shall, at the Gas Plant Operator's discretion, bear interest at a rate equivalent to the prime rate of interest then quoted by the principal chartered bank in Canada used by the Gas Plant Operator plus two (2%) percent per annum, which interest shall be for the Gas Plant Operator's sole account unless the costs and expenses for which the bill was submitted were met out of the Gas Plant Account, in which event the interest shall be for the Gas Plant Account, and the Gas Plant Operator shall have the right at any time thereafter, such defaulting continuing, to enforce the lien hereinafter provided upon the interest of the defaulting Owner.

7.07 Commingling of Funds

The Gas Plant Operator may commingle funds received by it under this Agreement with its own funds.

7.08 Operator's Remedies

If an Owner fails to pay when due its share of the costs and expenses as provided in this Agreement, the Gas Plant Operator may, without limiting the Gas Plant Operator's other rights at law, exercise any or all of the following remedies:

- a. Set off against the amount unpaid any sums due or accruing to the Owner from the Gas Plant Operator;
- b. By notice accompanied by a copy of this Agreement to any purchaser of the defaulting Owner's Raw Gas or Condensate

requiring such purchaser to pay to the Gas Plant Operator the proceeds for such Raw Gas or Condensate which shall then be applied towards payment of the amount unpaid, and the Gas Plant Operator is hereby constituted irrevocable the attorney of the Owner for the purpose of executing the instruments necessary to effect an assignment of such proceeds. Books and records kept by the Gas Plant Operator with respect to operations hereunder shall constitute conclusive proof of the existence or non-existence of any default, subject however to all rights of inspection, verification and audit provided in this Agreement.

7.09 Contribution by Owners

If the Gas Plant Operator has not received full payment of a defaulting Owner's share of the costs and expenses hereunder within three (3) months following the date when payment was due, each of the Owners shall, upon being billed therefore by the Gas Plant Operator, contribute a fraction of the unpaid amount excluding interest thereon, having as its numerator each such Owner's Gas Plant participation and its denominator the aggregate of the Gas Plant Participations of all the Owners exclusive of the Gas Plant Participation of the defaulting Owner, and thereupon each Owner so contributing shall be proportionately subrogated to the Gas Plant Operator's remedies under Clause 7.08.

ARTICLE VIII

OWNERSHIP OF THE GAS PLANT

8.01 Ownership

Each Owner shall own an undivided percentage interest in the Gas Plant and Gathering System equal to its Gas Plant Participation as set forth in Exhibit "A". The Gas Plant Operator shall hold the Gas Plant and Gathering System in trust for the Owners subject to the provisions of this Agreement.

8.02 Capacity Utilization

a. As soon as reasonably possible after the Effective Date, the Owners shall determine the actual capacity of the existing Gas Plant. Thereafter, from time to time, the Owners may determine the capacity of the Gas Plant.

8.03 Adjustment of Ownership

Upon any disposal of an interest in the Gas Plant and/or Gathering System, or upon the enlargement of the Gas Plant or Gathering System, or pursuant to any change in the Gas Plant and Gathering System Participation occasioned by the provisions of this Article, the Gas Plant Operator shall revise Exhibit "A" and make necessary adjustments to the Gas Plant Account accordingly.

8.04 Adjustment of Investment

*Art. of 1/28/81*

Upon any revision of the Gas Plant and Gathering System Participation, the respective investments of the Owners shall be adjusted as of the date of such revision by appropriate charges or credits to each Owner so that each Owner bears that percentage share equal to its revised Gas Plant and Gathering System Participation of the Capital Cost and Fixed Operating Cost of the Gas Plant and Gathering System less depreciation, if any, to the date of such revision. No depreciation in respect of the Gas Plant and of any additions to and salvaging from the Gas Plant shall be taken up to and including the \_\_\_ day of \_\_\_\_\_, 198\_\_. Capital Cost depreciation shall, commencing on the \_\_\_ day of \_\_\_\_\_, 198\_\_, be applied to the Capital Costs on the Gas Plant and Gathering System unless retirements from the Gas Plant and Gathering System facilities excluding salvage applicable hereto. Depreciation with respect to any additions to or retirements from the Gas Plant and Gathering System shall commence on the 1st day of January next following such additions or retirements. Depreciation rate and type shall be approved by the Owners voting in accordance with Subclause 4.05(b).

8.05 Expansion of the Gas Plant and/or Gathering System

- a. The Owners, or any of them, may, subject to Subclause (b) of this Clause, construct an expansion of the Gas Plant or Gathering System on terms and conditions approved by a vote of the Owners in accordance with Clause 4.05(c)(ii) hereof;
- b. An Owner shall not be required, without its written consent, to participate in any expansion of the Gas Plant or Gathering System, but shall be entitled to prohibit enlargement of the Gas Plant or Gathering System by any other Owner for its own account. Only Owners who participate in an expansion shall be entitled to a Gas Plant Participation in the expansion capacity and such Owners shall determine what such Gas Plant Participation in expansion capacity shall be;
- c. If certain Owners do not participate in the expansion, the Gas Plant participation in the Gas Plant and Gathering System shall be adjusted with effect on the date the expansion is completed to reflect each Owner's resulting proportionate investment in the original Gas Plant and Gathering System and the expansion and the Gas Plant Operator shall adjust the Gas Plant Account to recognize the altered Gas Plant and Gathering System Participation, provided that an Owner not participating in the enlargement shall not have less than its previous share of the physical capacity of the Gas Plant and Gathering System and shall not be liable in any way for any increase in Capital Costs as defined in Clause 7.03 attributable to the enlargement because of maintaining its said share.

ARTICLE IX  
TRANSFERS, SALES AND ASSIGNMENTS

9.01 Disposal of an Interest in the  
Gas Plant and/or Gathering System

Except as hereinafter provided, an Owner shall not sell, assign, transfer, sublet or otherwise dispose of its interest in the Gas Plant and Gathering System, or any portion thereof, without the prior approval of the Owners, which shall not be unreasonably withheld.

Every disposal of an interest in the Gas Plant and Gathering System, or any portion thereof, by an Owner shall be made expressly subject to this Agreement and shall not be binding on the other Owners until:

- a. The Owner disposing of the interest has offered to sell the interest to the other Owners in accordance with Clause 9.02 hereof;
- b. The person acquiring the interest (if not already an Owner) has executed and delivered to the Gas Plant Operator two (2) counterparts of this Agreement; and
- c. A certified copy of the instrument evidencing such change in ownership has been delivered to the Gas Plant Operator.

9.04 Sale of an Interest in the Gas Plant

If an Owner (in this paragraph called the "Selling Party") wishes to assign, sell or dispose of, or has received an offer which it is willing to accept for the assignment, sale or disposition of all or part of its interest in and to the Gas Plant and/or Gathering System (in this paragraph called the "Subject Interest"), the Selling Party shall give notice thereof to the other Owners (in this paragraph called the "Offerees"). The Selling Party's notice shall contain the terms and conditions of the proposed assignment, sale or disposition, including the

consideration to be received for the Subject Interest and, if applicable, the name of the offering party. The Offerees shall have the right for a period of thirty (30) days after receipt of the notice from the Selling Party (in this paragraph called the "Notice Period"), to elect in writing to acquire the Subject Interest from the Selling Party on the terms and conditions contained in this notice. The Offerees so electing to acquire the Subject Interest (in this paragraph called the "Buying Parties") shall be obligated to acquire the Subject Interest in its entirety. The Buying Parties shall have the right to acquire the Subject Interest in the proportions that their respective Gas Plant Participations bear one to the other. If all the Offerees decline or fail to elect within the Notice Period to acquire the Subject Interest, the Selling Party shall be free for a period of sixty (60) days next following the expiry of the Notice Period to assign, sell or dispose of the Subject Interest on the terms and conditions and to the offering party (if applicable) stipulated in its offer, but not after the said sixty (60) day period, or otherwise than as so stipulated, without again complying with this paragraph.

If the considerations stipulated in the offer for the Subject Interest is one which cannot be matched in kind by the Offerees, the Selling Party may set out in its notice its bona fide estimate of the value in cash of the said consideration. If the Selling Party's notice did not include its bona fide estimate of the aforesaid, the Offerees, or any of them, may request such estimate in which event the Notice Period shall be suspended until such estimate is received by all of the Offerees. In case of dispute as to the reasonableness of the estimate, the matter shall be referred to arbitration under the provisions of the Arbitration Act of Alberta, but the Notice Period shall not be extended by such referral of the dispute to arbitration. If the equivalent cash consideration determined by the arbitration is lower than the estimate submitted by the Selling Party, the cash consideration determined by arbitration shall be the sale price for the Subject Interest and the Accounts of the Selling Party and the Buying Parties shall be adjusted accordingly; if the equivalent cash consideration determined by Arbitration is higher than the estimate submitted by the Selling Party,

the estimate submitted by the Selling Party shall be the sale price for the Subject Interest.

9.03 Exceptions to Clause 9.02

- a. Nothing herein contained shall operate to prevent an Owner from disposing of its entire interest through merger, re-organization, consolidation or sale of all its oil and gas producing properties in Alberta, or the sale of any of its interest to an Affiliate Corporation. If the disposal is to an Affiliate Corporation of the Owner, the Owner shall execute and deliver to the Gas Plant Operator a continuing guarantee of the obligations to be assumed by the Affiliate Corporation under this Agreement, which guarantees will provide that the guarantor waives notice of any extensions, modifications or amendments to this Agreement or to any Exhibits hereto; that no such extensions, modifications or amendments will release the guarantor, and that the guarantor will not be released by any waiver or any obligation or by any indulgence or concession granted to it;
- b. The provisions of this Article IX do not apply to a disposal by way of mortgage, pledge or hypothecation, except that the mortgagee, pledgee or hypothecatee shall hold the interest subject to all the terms and provisions of this Agreement and upon any realization of the security the purchaser shall be required to assume all future obligations of the mortgagor, pledger or hypothecator under this Agreement; and
- c. Where all or a portion of the working interest of land in the Armada Area is acquired by a person not an Owner pursuant to conversion of gross overriding royalty interest to working interest pursuant to an agreement in existence as of the Effective Date, then the Owner may, without prior approval of the Owners, but subject to the other provisions of this Article IX, transfer a portion of its interest in the Gas Plant and Gathering System to a person so acquiring the working interest.

9.04 Changes of Names

An Owner whose name is changed by due legal process shall notify the Gas Plant Operator of the change as soon as possible and supply such evidence of the change as the Gas Plant Operator may require.

ARTICLE X  
MEASUREMENT

10.01 Equipment

All Natural Gas, Outside Gas and Raw Gas received at or delivered from the Gas Plant shall be measured by suitable meters of standard make, furnished, installed, operated and maintained by the Owners and operated by the Gas Plant Operator for the Gas Plant Account or gauged by such means as approved by the Owners. Positive displacement meters used for measuring hereunder shall be calibrated in a manner consistent with normal industry practice.

10.01 Accuracy

The accuracy of the measuring equipment shall be verified at reasonable intervals and all meters shall be open to inspection at reasonable times by a Producer or Producer Owner in the presence of the Gas Plant Operator's staff. In case any questions arise as to the accuracy of measurement, any meter shall be tested upon demand of a Producer or Producer Owner, and if found to be correct, or to be in error of not more than two (2%) percent with respect to gas measurement, or one-half of one (0.5%) percent with respect to liquid measurement, the expense of such testing shall be borne by the Producer or Producer Owner demanding it, but the expense shall be for the Gas Plant Account if found to be incorrect by more than two (2%) percent with respect to gas measurement, or one-half of one (0.5%) percent with respect to liquid measurement. If upon any test measuring equipment is found to be in error of not more than two (2%) percent with respect to gas measurements, or one-half of one (0.5%) percent with respect to

liquid measurement, previous readings of such equipment shall be considered correct in computing the volumes being metered, but such equipment shall be adjusted properly at once to read accurately. If upon any test any measuring equipment shall be found to be inaccurate by any amount more than two (2%) percent with respect to gas measurement, or one-half of one (0.5%) percent with respect to liquid measurement, then any previous readings of such equipment shall be corrected to zero error for any period which is known definitely or agreed upon, such correction shall be for a period covering the last half of the time elapsed since the date of the last test.

In the event the measuring equipment is out of service or out of repair so that the volume measured is not correctly indicated by the reading thereof, the volumes attributable to the period shall be estimated and agreed on the basis of the data available, using the first of the following methods which is feasible:

- a. By using the registration of any check measuring equipment, if installed and accurately registering; and
- b. By correcting calibrations, tests or mathematical calculations; or
- c. By estimating on the basis of actual volumes measured during the preceding periods under similar conditions when the meter was registering accurately.

The Gas Plant Operator shall preserve all original test data, charts and other similar records for a period of at least six (6) years.

#### 10.03 Unit of Volume and Weight

The unit of volume of gas for all purposes hereunder shall be one (1) cubic meter ( $m^3$ ) at an absolute pressure of 101.325 kilopascals (kPa) at a temperature of fifteen ( $15^\circ$ ) degrees Celsius ( $^\circ C$ ).

The unit of volume of liquids for all purposes hereunder shall be one (1) "cubic meter" as defined in the Weights and Measures Act of Canada.

10.04 Determination of Volume

Volumes of gas shall be computed in accordance with the methods prescribed in the publication entitled "Gas Measurement Committee Report No. 3, Natural Gas Department, American Gas Association", including the Appendix thereto as published April, 1955, and as may be subsequently revised, such revisions to be approved by the Owners. The volumes of gas shall be corrected for deviation from Boyle's Law; and the factor for correction for such deviation shall be computed in accordance with the methods set forth in "Supercompressibility Factors for Natural Gas", Volume 1 through 6, inclusive, or in "kTables for the Determination of Supercompressibility Factors for Natural Gas Containing Nitrogen and/or Carbon Dioxide", Volume 7, as published by the American Gas Association in 1955 or any subsequent revisions thereto.

10.05 Average Atmospheric Pressure

The average absolute pressure shall be assumed to be \_\_\_\_\_ irrespective of the actual elevation or location of the Gas Plant meters above sea level or variations in the atmospheric pressure from time to time.

10.06 Analysis of Natural Gas

- a. The Natural Gas shall be sampled by the Gas Plant Operator at the Gas Plant inlet on or before the Gas Plant start-up and during each subsequent calendar year thereafter or at such times as the Owners may direct and the samples so taken shall be analysed to determine the mol percent of each hydrocarbon constituent present from methane to heptanes plus, the mol percent of carbon dioxide, hydrogen sulphide and nitrogen. Gas and liquid samples shall be analysed by gas-liquid

chromatography or any other method consistent with normal industry practice;

- b. If it cannot be determined to the satisfaction of the Owners that the production can be sampled in a single phase, the liquid and gaseous portions shall be separated before sampling and measurement. Analysis of the samples shall be made and the analysis recombined in proportion to the liquid and gas flow rate to give a recombined analysis. The recombined analysis shall indicate the molecular percentage of the stream. Volumes of gaseous and liquid production will be measured as per the provisions of this Article X.

#### 10.07 Basis or Method of Measurement

Notwithstanding any provisions of this Agreement to the contrary, if in order to comply with or by reason of any present or future law, rule, regulations or order of any governmental authority having jurisdiction therein, now or hereafter in effect during the term of this Agreement, the basis or method of measurement hereunder is changed, or in the event the Gas Plant Operator elects to measure by an alternate method of measurement which has been approved by the appropriate agency of the Government of Canada having jurisdiction, then any charges payable hereunder shall be adjusted to compensate for the change in the basis or method of measurement, to the end that the same rate of payment for the same volume shall remain in effect, except as such rate of payment may be varied in accordance with the provisions of this Agreement. All charges incurred by the Gas Plant Operator relating to changing the basis or method of measurement shall be charged to the Gas Plant Account, unless the changing of the basis or method of measurement was elected solely by the Gas Plant Operator whereby the charges incurred by the Gas Plant Operator may be charged to the Gas Plant Account pursuant to Clause 4.05(b).

ARTICLE XI  
DELIVERY OF NATURAL GAS AND  
OWNERSHIP OF RAW GAS AND CONDENSATE

11.01 Allocation of Vent and Flare Volumes

Each Producer or Producer Owner's share of Natural Gas and Outside Gas vented or flared during a calendar month at the Gas Plant will be deemed to be proportionate to each Producer or Producer Owner's volume of Natural Gas and Outside Gas delivered to the Gas Plant during each calendar month.

11.02 Delivery of Raw Gas

The Gas Plant Operator shall deliver each Producer or Producer Owner's share of Residue Gas to such Owner or to such purchaser or carrier as such Producer or Producer Owner designates, at a pressure sufficient to enable the Residue Gas to enter the facilities of such purchaser or carrier at a Deliver Point pressure not greater than 6205 kPa.

11.03 Delivery of Condensate

The Gas Plant Operator shall deliver Condensate as may be produced from time to time to such purchaser or carrier designated by the Operator at the Delivery Point for the Condensate.

11.04 Failure to Take in Kind

To the extent that a Producer or Producer Owner entitled to take and receive in kind any portion of the Residue Gas or Condensate fails to take or otherwise adequately dispose of the same, then, so long as such failure continues, the Gas Plant Operator may, for the account and at the expense of such Producer or Producer Owner, sell at a price not less than that which the Gas Plant Operator receives for its own share, or, if a purchaser is not available, store, arrange for injection or

otherwise dispose of such Producer or Producer Owner's share of Residue Gas or Condensate. The authority of the Gas Plant Operator to enter into contracts for the sale of such Producer or Producer Owner's share of Residue Gas or Condensate shall be restricted to contracts that are for such reasonable periods of time as is consistent with the minimum needs of the industry under the circumstances, and in no event shall the term thereof exceed one (1) year. Subject to such contracts, such Producer or Producer Owner may commence or resume taking its share of Residue Gas or Condensate in kind at any time if it has given the Gas Plant Operator notice prior to the expiration of the current sales contract that it intends to take its share in kind.

#### 11.05 Losses in Handling

Each Producer or Producer Owner shall bear a share of any Natural Gas, Outside Gas and Raw Gas used for fuel in the Plant and any losses actually suffered during a month due to evaporation, venting or flaring due to emergencies, or handling of Natural Gas, Outside Gas, Raw Gas and Condensate in proportion to its ownership thereof.

#### 11.06 Royalty and Indemnification

Each Producer or Producer Owner shall pay, or be responsible for the payment of, and shall indemnify the other Producers or Producer Owners including the Gas Plant Operator against liability for any and all royalties, overriding royalties, production payments and any and all other payments chargeable against its share of Raw Gas and Condensate.

#### 11.07 Warranty by Producer

Each Producer Owner warrants that it has the right to produce and dispose of its portion of the Natural Gas and agrees to indemnify and save harmless the Gas Plant Operator and the other Owners from all

actions, causes of action, claims and demands that may be made by any person, firm or corporation who has or claims to have an interest in such Natural Gas or Raw Gas attributable thereto.

ARTICLE XII  
HANDLING OF OUTSIDE GAS

12.01 Composition Similar to Natural Gas

Where a Producer or Producer Owner wishes to introduce an Outside Gas of composition similar to the Natural Gas, such Producer or Producer Owner shall provide a laboratory analysis of such Outside Gas and when the Owners in sole and absolute judgement have agreed that the Outside Gas is for purposes of this Agreement, of similar composition, then the Owners may set the basis for entry of such Outside Gas into the Natural Gas stream, subject to Article VIII, Subclauses 8.02(b), (c) and (d). *No such clause*

12.02 Composition Different from Natural Gas

Where a Producer or Producer Owner wishes to introduce an Outside Gas of composition different from the Natural Gas, the Owners shall in sole and absolute judgement set the basis for the entry of such Outside Gas into the Natural Gas stream, subject to Article VIII, Subclauses 8.02(b), (c) and (d). *No such clause*

ARTICLE XIII  
EFFECTIVE DATE

13.01 Effective Date

This Agreement shall become binding upon an Owner as of the effective date when it has executed and delivered to the Gas Plant Operator one (1) counterpart thereof. The "Effective Date" as the term is used in this Agreement means 8:00 a.m. on the <sup>25th</sup> first day of April, 1988

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ARTICLE XIV

TERM

14.01 Term

This Agreement shall remain in full force and effect from the Effective Date until the Gas Plant and Gathering System have been salvaged or disposed of by the Gas Plant Operator for the benefit of the Owners and all property or the proceeds thereof have been distributed to the Owners.

14.02 Salvage or Disposition

If the Owners decide to terminate this Agreement by salvaging or disposing of the Gas Plant and Gathering System and distributing the proceeds as set forth in Clause 14.01, the Gas Plant Operator shall, for the Gas Plant Account, salvage as much of the Gas Plant and Gathering System as can economically and reasonably be salvaged, or otherwise dispose of the same in the manner approved by the Owners. The costs of salvaging, liquidation or other distribution of assets and properties used in the Gas Plant and Gathering System operations shall be for the Gas Plant Account.

ARTICLE XV

FORCE MAJEURE

15.01 Force Majeure

Performance under this Agreement by the Gas Plant Operator and the Owners, except for the payment of money, is excused to the extent that such performance is prevented or materially affected by strikes, lockout, civil disturbances, riots, fire, flood, tornadoes, lightning, landslides, earthquakes, storms, breakage of or accident to machinery or lines of pipe, explosions, acts of God or the Queen's enemies, Provincial or Federal Government laws, orders, rules and regulations, injunctions or other legal proceedings based upon any claim or

infringement or any letters patent; inability or delay in obtaining rights-of-way, permits, easements or material; failure of purchasers to take Raw Gas or Condensate from the Owners; and other happenings (except financial), whether similar or dissimilar to the foregoing, that are beyond the reasonable control of the Gas Plant Operator or of the Owner claiming to be excused, or are occasioned by the necessity for making repairs to or reconditioning the Gas Plant wells, machinery, equipment or pipelines not resulting from the fault or negligence of the Gas Plant Operator or Owner claiming to be excused; but the one claiming shall use reasonable diligence to put itself again in a position to carry out its obligations hereunder. Nothing herein contained shall be construed to require the Gas Plant Operator or any Owner to settle a strike or lockout by acceding against its judgment to the demands of opposing persons in any labour dispute. Where the performance of the Gas Plant Operator or of an Owner is prevented or materially affected as aforesaid, the Gas Plant Operator or the Owner affected shall give notice and full particulars to the other Owners within a reasonable time after the occurrence of the cause relied upon.

ARTICLE XVI  
ARBITRATION

16.01 Arbitration

Any controversy arising out of this Agreement in any case where arbitration is expressly required under the provisions of this Agreement and in any other case of the parties hereto both agree, shall be submitted to arbitration and the following principles shall apply to such arbitration.

Upon written demand of either party, the parties shall meet and attempt to appoint a single arbitrator. If the parties are unable to agree on a single arbitrator, then upon written demand of either party and within 10 (ten) days of such demand, each party shall name an arbitrator and the two arbitrators so named shall promptly thereafter choose a third. If either party shall fail to name an arbitrator within ten (10) days

from such demand, then the second arbitrator shall be appointed by any Justice of the Court of Queen's Bench of Alberta. If the two arbitrators shall fail within ten (10) days from their appointment to agree upon and appoint the third arbitrator, then upon written application by either party, such third arbitrator shall be appointed by any Justice of the Court of Queen's Bench of Alberta.

The arbitrator or arbitrators selected to act hereunder shall be qualified by education and training to pass upon the particular question in dispute.

The single arbitrator or the arbitrators so chosen shall proceed immediately to hear and determine the question or questions in dispute. The decision of the single arbitrator shall be made within forty-five (45) days after his appointment, subject to any reasonable delay due to unforeseen circumstances. The decision of the arbitrators, or a majority of them, shall be made within forty-five (45) days after the appointment of the third arbitrator, subject to any reasonable delay due to unforeseen circumstances. Notwithstanding the foregoing, in the event the single arbitrator fails to make a decision within sixty (60) days after his appointment or if the arbitrators, or a majority of them, fail to make a decision within sixty (60) days after the appointment of the third arbitrator then either party may elect to have a new single arbitrator or arbitrators chosen in like manner as if none had previously been selected.

The decision of the single arbitrator or the decision of the arbitrators, or a majority of them, shall be drawn up in writing and signed by the single arbitrator or by the arbitrators, or a majority of them, and shall be final and binding upon the parties hereto as to any question or questions so submitted to arbitration, and the parties shall be bound by such decision and perform the terms and conditions thereof.

ARTICLE XVII  
MISCELLANEOUS PROVISIONS

17.01 Relationship of the Owners

The Owners shall hold their interests in and to the Gas Plant and Gathering System as tenants in common and it is not the intention of the Owners to create a partnership, joint venture, association or trust. The duties, obligations and liabilities of the Owners are intended to be separate and not joint or collective; and nothing contained in this Agreement, or in any agreement made pursuant hereto, shall ever be construed to create a partnership, joint venture, association or trust, or to impose upon any one or more of the Owners a partnership duty, obligation or liability. Each Owner shall be individually responsible only for its own obligations as set out in this Agreement and shall be liable only for its proportionate share of the costs, expenses and liabilities as herein stipulated.

17.02 Interpretation

The captions or headings used in this Agreement are inserted solely for convenience and shall not be considered or given any effect in interpreting this Agreement or in ascertaining the intent of the Owners.

17.03 Number and Gender

In this Agreement words importing the singular include the plural and vice versa; words importing the masculine gender include the feminine and vice versa; and words importing persons include firms or corporations and vice versa.

17.04 Execution in Counterpart

This Agreement may be executed in as many counterparts as are necessary and all counterparts together shall constitute an agreement.

17.05 No Partitioning

An Owner shall not resort to any action at law or in equity for partition or sale in lieu of partition of the Gas Plant and Gathering System or any portion hereof. Each Owner hereby waives the benefit of all laws relating to partitioning or sale in lieu of partitioning insofar as the Gas Plant and Gathering System is concerned.

17.06 Laws and Regulations

This Agreement and the rights and obligations of the Gas Plant Operator and the Owners are subject to all present and future laws, rules, regulations and orders of any legislative body or duly constituted authority now or hereafter having jurisdiction.

17.07 Applicable Laws

This Agreement shall be construed in accordance with the laws of Canada and of the Province of Alberta.

17.08 Waivers

No waiver by or on behalf of an Owner or any breach of a provision of this Agreement shall be binding upon the Owner unless it is expressed in writing and duly executed by the Owner or signed by its fully authorized representatives, and such a waiver shall not operate as a waiver of any future breach, whether of a like or different character.

17.09 Suits

An Owner who is sued on an alleged cause of action arising out of operations hereunder shall forthwith notify every other Owner.

17.10 Further Assurances

Each of the Owners shall, from time to time and at all times, do all such further acts and execute and deliver all such deeds and documents as shall be reasonably required in order to fully perform and carry out the terms of this Agreement.

17.11 No Implied Covenants

The Owners have expressed herein their entire understanding and agreement concerning the subject matter of this Agreement and no implied covenants, condition, term or reservation shall be read into this Agreement relating to or concerning such subject matter, nor shall any oral or written understanding heretofore entered into modify or compromise any of the terms and conditions herein.

17.12 Notices and Communications

All notices or communications hereunder shall be in writing and in lieu of personal service may be given or made by prepaid telegram or by mailing in a sealed and properly addressed envelope with postage prepaid. Notices or communications shall be deemed to have been given on the date of delivery thereof.

The address appearing below the execution of each Owner shall be the address to which notices and communications to it shall be directed but an Owner may change its address by notice to each other Owner.

17.13 Enuring Clause

This Agreement shall enure to the benefit of and be binding upon the Owners and their respective successors and assigns.



EXHIBIT "A"

Attached to and forming part of an Agreement entitled "Construction, Ownership and Operation of the Armada Gas Plant and Gathering System."

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GAS PLANT PARTICIPATION

<u>Company</u>	<u>Percentage Interest</u>
Cochrane Oil & Gas Ltd.	50.000%
Red Rock Resources Ltd.	50.000%
	<hr/>
Total	100.000%

EN FLOW LINES

LATERAL - TRANSMISSION LINES

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P. 11

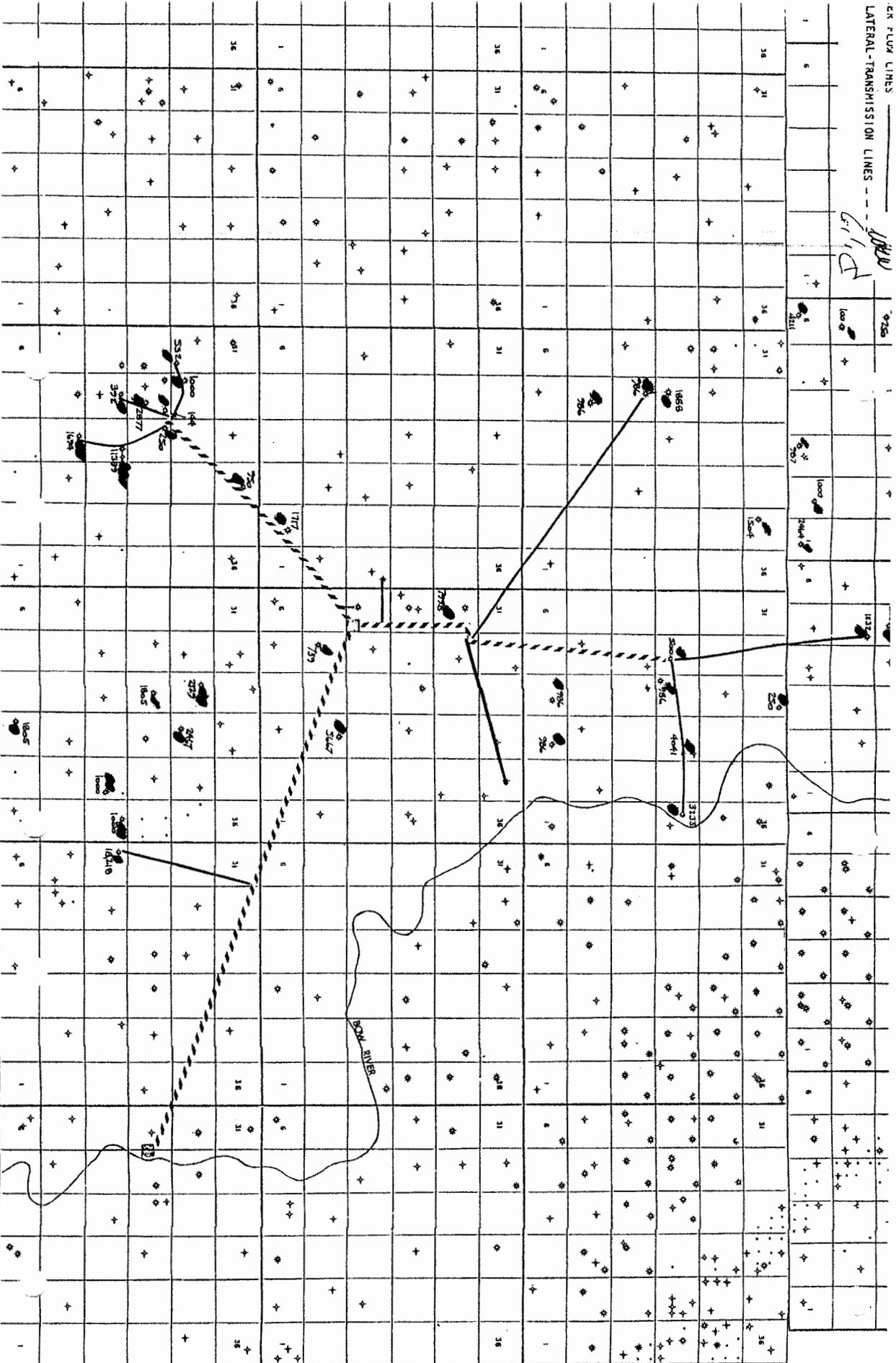




EXHIBIT "C"

ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED  
"CONSTRUCTION, OWNERSHIP AND OPERATION OF THE  
ARMADA GAS PLANT AND GATHERING SYSTEM"

ACCOUNTING PROCEDURE

GAS PLANT OPERATIONS

I. GENERAL

1.01 Definitions

- a. "Agreement" means the Agreement to which this Accounting Procedure is Exhibit "C".
- b. "Construction Project" means any construction or installation undertaken for the Gas Plant Account, including each subsequent addition thereto or alteration thereof.
- c. "Controllable Material" means the Material which at the time is so classified in the Controllable Material Price Catalogue as most recently recommended by the Petroleum Accountants Society of Western Canada.
- d. "First Level Supervisor" means the employee whose primary function is the direct supervision of other employees and/or contract labour directly employed in a station operation capacity.
- e. "Gas Plant Account" means the account showing the charges paid and credits received as a result of the Gas Plant Operations and which are to be shared by the Parties in accordance with the terms of the Agreement.
- f. "Gas Plant Operations" means any operation conducted under the terms of the Agreement.

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- g. "Gas Plant Operator" means the Party designated to conduct the Gas Plant Operations.
- h. "Gas Plant Property" means all property subject to the Agreement.
- i. "Material" means equipment or supplies acquired for use in the conduct of Gas Plant Operations:
  - i. Condition "A" means that which is new;
  - ii. Condition "B" means that which has been used but is suitable for its original function without reconditioning;
  - iii. Condition "C" means that which has been used and would be suitable for its original function after reconditioning, or that which cannot be reconditioned for, but has a limited service in, its original function; and
  - iv. Condition "D" means that which is junk.
- j. "New Price" means the current cost of Condition "A" material at the nearest reputable supply store where such material is available or railway receiving point to which such Material could be delivered, whichever is closer to the Gas Plant Property. Tubular goods two (2") inches in diameter and over shall be priced on a carload basis. Any cash discount that may be allowed by a dealer shall not be deducted in determining the New Price.
- k. "Non-Operator" means a party to the Agreement other than the Gas Plant Operator.
- l. "Operation and Maintenance" means all operations other than Construction Projects conducted under the terms of the Agreement.

m. "Parties" means the Gas Plant Operator and Non-Operators.

n. "Technical Employee" means the employee having special and specific engineering, geological or other professional skills and whose primary function is the handling of specific operating conditions and problems.

#### 1.02 Statement and Billings

The Gas Plant Operator shall bill the Non-Operator on or before the last day of each month for its proportionate share of the Gas Plant Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure or lease, or facility, and all charges and credits, summarized by appropriate classifications of investment and expense. Items of Controllable Material and unusual charges and credits shall be identified and described in detail.

#### 1.03 Payment by Non-Operators

Each Non-Operator shall pay all such bills within thirty (30) days after receipt thereof.

#### 1.04 Right to Protest or Question Bills

Payment of such bills shall not prejudice the right of the Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Clause 1.05, all statements rendered to the Non-Operator by the Gas Plant Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-six (26) months following the end of any calendar year, unless within the said twenty-six (26) month period, the Non-Operator takes written exception thereto and makes claim on the Gas Plant Operator for adjustment. The provisions of this paragraph shall not prevent adjustments resulting

from physical inventory of Controllable Material as provided for in Section V Inventories of this Accounting Procedure.

1.05 Audits

All the Gas Plant Operator's books, accounts and records relating to the Gas Plant Operations for a calendar year may be audited within twenty-four (24) months next following the end of that calendar year by:

- a. The Non-Operator, and the expenses of such audit shall be borne by all the Owners except the Gas Plant Operator; or
- b. An Owner, who shall give reasonable written notice to the Gas Plant Operator and the other Owners that it intends to audit, which Owner shall bear the cost thereof.

Any claims or discrepancies disclosed by such audit shall be made in writing within the twenty-six (26) month period following the end of that calendar year. Each audit shall be conducted so as to cause a minimum inconvenience to the Gas Plant Operator.

1.06 Records

The Gas Plant Operator shall maintain detailed records of Controllable Material in such a manner as to enable an effective reconciliation of any physical inventory with the Gas Plant Account.

II. CHARGES

The Gas Plant Operator shall charge the Gas Plant Account with the costs of the following items:

2.01 Rental and Other Payments

Rentals, royalties and other payments required to maintain the interest of the Parties in the Gas Plant Property paid by the Gas Plant Operator for the Joint Account.

2.02 Labour

- a.
  - i. Salaries and wages of the Gas Plant Operator's field employees and First Level Supervisors up to and including the Gas Plant Foreman directly employed on the site of the Gas Plant Property in the conduct of Gas Plant Operations;
  - ii. Salaries and wages of Technical Employees directly employed on the site of the Gas Plant Property. Such technical employees may be charged on a per diem rate as approved by the Owners in lieu of actual salaries and wages and employee benefits;
  - iii. Earned or compensatory time off relating to the above wage or salary categories; and
  - iv. The Gas Plant Operator's representatives and engineers working in the contractor's office and personnel travelling to suppliers for inspection and expediting of Gas Plant Material during initial construction and subsequent additions or alterations to the Gas Plant.
- b. The Gas Plant Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to

employees whose salaries and wages are for the Gas Plant Account. Costs under this paragraph 2.02(b) shall be charged by a "percentage assessment" on the amount of salaries and wages chargeable to the Gas Plant Account. The rate shall be based on the Gas Plant Operator's cost experience.

2.03 Employee Benefits

a. Compulsory

Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to the Gas Plant Operator's salaries and wages for the Gas Plant Account.

b. Non-Compulsory

Established plans for employee's group life insurance, hospitalization, company pension, retirement, stock purchase, thrift, bonus and other benefit plans of a like nature applicable to the Gas Plant Operator's labour for the Gas Plant Account shall be charged at the Gas Plant Operator's actual cost not to exceed twenty (20%) percent of such labour costs.

2.04 Travel and Moving

Actual personal expenses and personnel transfers (except real estate charges and commissions) beyond the control of the Gas Plant Operator and travelling expenses to and from the Gas Plant Property of those employees whose salaries and wages are for the Gas Plant Account.

2.05 Material

Material purchased or furnished by the Gas Plant Operator for use in the Gas Plant Operations as provided under Section IV, including transportation cost thereof. So far as it is reasonably practicable and

consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Gas Plant Property as may be required for the conduct of the Gas Plant Operations.

2.06 Services

- a. Services relative to the Gas Plant Operations incurred under contracts entered into by the Gas Plant Operator with contractors.
- b. Utilities and other services procured from outside sources, including transportation costs thereof. Professional consultant services shall not be for the Gas Plant Account unless approved by the Parties.
- c. The Gas Plant Operator may charge for use of the Gas Plant Operator's own facilities and equipment, at rates not exceeding those available in the immediate area for available like facilities and equipment, commensurate with the costs of ownership and operation thereof, including depreciation and interest on the depreciated investment. The annual interest rate on investment shall not exceed the prime bank rate of the principal bank in Canada used by the Gas Plant Operator, plus one (1%) percent, determined at the beginning of each calendar year. In lieu of the foregoing rates, the Gas Plant Operator may charge for use of its own facilities and equipment, except automotive equipment, at the commercial rates available in the immediate area, less twenty (20%) percent. When requested to do so, the Gas Plant Operator shall inform Non-Operators in advance of the rates to be charged.
- d. With approval of the Parties, design of Construction Projects shall be for the Gas Plant Account including the salaries and expenses of the Gas Plant Operator's employees directly engaged in design work.

2.07 Damage and Losses to Gas Plant Property

Repair or replacement of Gas Plant Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident or other causes. The Gas Plant Operator shall furnish the Non-Operators written notice of damages or losses incurred as soon as practicable after the damage or loss has been discovered.

2.08 Surface Rights and Legal Services

Acquisition or renewal of surface rights and periodic rentals and related legal services for title work. Fees and related expenses associated with other legal services may be charged only with the approval of the Parties.

2.09 Taxes

Taxes, other than income taxes, paid for the Gas Plant Account.

2.10 Insurance

Insurance premiums paid for the Gas Plant Account.

2.11 Communications

Outgoing communications incurred by the Gas Plant Operator directly from the Gas Plant Property.

2.12 Camp and Housing

Operation and maintenance of all necessary camp and housing facilities for, and boarding of, employees whose salaries and wages are for the Gas Plant Account, provided that the charges for the Gas Plant Operator's own facilities shall be commensurate with the costs of ownership and operation thereof, including depreciation and interest on depreciated investment less any revenue therefrom. The annual

interest rate on investment shall not exceed the prime bank rate of the principal bank in Canada used by the Gas Plant Operator, plus one (1%) percent, determined at the beginning of each year. When operations in addition to Gas Plant Operations are served by these facilities, the charge for such facilities shall be apportioned among all such operations on an equitable basis.

2.13 Central Production Control

Automated field and central production control facilities owned or leased by the Gas Plant Operator, including employee costs for maintenance and operation of the central production control system and related computer facilities serving the Gas Plant Operations, shall be allocated to each operation served in an equitable basis.

2.14 Ecological and Environmental

Requirements, whether statutory or otherwise, relating to the ecology or environment on the Gas Plant Property. Costs of related studies shall be subject to the approval of the Parties.

2.15 Audit of Outside Services

With prior approval of the Parties, the cost of audits of outside x services shall be for the Gas Plant Account.

III. OVERHEAD

3.01 Definitions

- a. "Cost" means the total direct expenditures, including start-up and acceptance costs and costs of transportation incidental to initial staffing and personnel familiarization on site prior to Gas Plant start-up, normal replacements of material, exclusive of expenses of litigation, judgments, settlement of claims, royalties

on production and credits on abnormal retirement or abandonment.

- b. "Overhead" means the cost to the Gas Plant Operator of salaries, wages, employee benefits and all other expenses of employees other than those covered by Clauses 2.02 and 2.06(d), and the cost of maintaining and operating offices, camps, housing and other facilities that are not Gas Plant Property other than those costs covered by Clauses 2.12 and 2.13.

3.02 Overhead

Notwithstanding that the actual overhead may be greater or less, the Gas Plant Operator shall charge the Gas Plant Account for overhead as follows:

- a. For each Construction Project:
  - i. For initial construction of the Gas Plant:
    - A. Five (5%) percent of the first \$100,000.00 of cost, plus
    - B. Three (3%) percent of the next \$200,000.00 of cost, plus
    - C. One (1%) percent of cost exceeding the sum of (i), A and B.
  - ii. Any subsequent addition or alteration thereto:
    - A. Five (5%) per cent of the first \$100,000.00 of cost, plus
    - B. Three (3%) percent of the next \$200,000.00 of cost, plus

C. One (1%) percent of cost exceeding the sum of (ii), A and B.

b. For Operations and Maintenance:

i. Ten (10%) percent overhead fee on all expenses relating to the Cost of Operation and Maintenance of the Gas Plant Property only, as provided in Article II, Clauses 2.01 to 2.15, inclusive, but excluding judgment obtained and/or settlements made pursuant to Clause 2.08 of Article II.

3.03 Warehouse Handling

a. Two and one-half (2½%) percent of the cost of tubular goods two (2") inches in diameter and over, and each other item of Material having a new price in excess of \$1,000.00 delivered from the Gas Plant Operator's warehouse and five (5%) percent of the cost of all other Material delivered from the Gas Plant Operator's warehouse, if the Gas Plant Operator's warehouse is not maintained as part of the Gas Plant Property.

b. Costs of maintaining warehouses which are part of the Gas Plant Property.

IV. PRICING OF JOINT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

The Gas Plant Operator shall make proper and timely charges and credits for all Material movements affecting the Gas Plant Property. The Gas Plant Operator shall provide for all Material for use on the Gas Plant Property; however, at the Gas Plant Operator's option such Material may be supplied by the Non-Operator. The Gas Plant Operator shall make timely disposition of idle and/or surplus Material, either through sale to the Gas Plant Operator or the Non-Operator, division in kind, or sale to outsiders. The Gas Plant Operator may purchase, but shall be under no obligation to purchase, interest of the Non-Operator

in surplus Material. All sales of Condition "A", "B" or "C" Material, the New Price of which is greater than \$15,000.00, shall be subject to approval by the Non-Operators. All other disposals of Material shall be at the discretion of the Gas Plant Operator, provided that any sales to the Parties or any of them shall be priced in accordance with Clause 4.02.

4.01 Purchases

Material purchased shall be charged at the price paid by the Gas Plant Operator after deduction of all discounts received. Credit for Material returned to the vendor shall be for the Gas Plant Account when adjustment has been received by the Gas Plant Operator.

4.02 Transfers and Dispositions

Material furnished to the Gas Plant Property and Material transferred from the Gas Plant Property or disposed of by the Gas Plant Operator, unless otherwise agreed to by the Parties, shall be priced on the following, exclusive of cash discounts.

a. New Material - Condition "A"

New Material, including tubular goods, shall be priced at the New Price in effect on date of movement.

b. Good Used Material - Condition "B"

- i. Condition "B" Material moved to the Gas Plant Property at seventy-five (75%) percent of New Price;
- ii. Condition "B" Material moved from the Gas Plant Property at seventy-five (75%) percent of New Price if Material was originally for the Gas Plant Account as New Material; or at sixty-five (65%) percent of New Price of Material was

originally for the Gas Plant Account as Good Used Material at seventy-five (75%) percent of New Price.

c. Other Used Material - Conditions "C" and "D"

- i. Condition "C" Material shall be priced at fifty (50%) percent of New Price.
- ii. Condition "D" Material shall be priced at a value commensurate with its use or at prevailing prices.

4.03 Premium Prices

Whenever in the Gas Plant Operator's opinion Material is not available at reasonable prices, the Gas Plant Operator shall, in writing, notify the Non-Operators thereof. Within two (2) days after receipt of such notice, each Non-Operator may notify the Gas Plant Operator in writing that it wishes to deliver to the Gas Plant Operator such Material and such notice shall set forth the price and delivery date. The Gas Plant Operator shall decide if the price and date for delivery of such Material are reasonable in the circumstances and, if so, shall purchase such Material from such Non-Operators. If more than one Non-Operator wishes to supply such Material, the Gas Plant Operator shall decide the quantity of such Material that each Non-Operator may deliver. If the Gas Plant Operator decides such Material is not available from the Non-Operators on reasonable terms, the Gas Plant Operator may acquire such Material and make a charge for the Gas Plant Account of the actual cost and expense incurred in purchasing, transporting and preparing such Material for use.

V. INVENTORIES

5.01 Periodic Inventory

Inventories of the Gas Plant Account Controllable Material shall be taken by the Gas Plant Operator at reasonable intervals.

5.02 Notice

Written notice of the Gas Plant Operator's intention to conduct an inventory shall be given to each Non-Operator at least thirty (30) days prior to commencing such inventory, during which time each Non-Operator may elect to be represented.

5.03 Reconciliation of Inventory

A reconciliation of the physical inventory with the Gas Plant Account records shall be made by the Parties conducting the physical inventory. The Gas Plant Operator shall submit a list of overages and shortages to all Non-Operators and shall make adjustments to the Gas Plant Account records to reflect the physical inventory.

5.04 Inventory Expense

The expense of conducting inventories shall not be for the Gas Plant Account unless approved by the Parties.

5.05 Special Inventories

Each Non-Operator shall have the right at any time to request in writing the taking of a special inventory of Controllable Material which shall be commenced within thirty (30) days of receipt of written notice. Such Non-Operator shall be entitled to be represented at the taking of the special inventory. All expenses incurred by the Gas Plant Operator in conducting the special inventory shall be borne by the requesting party.

EXHIBIT "D"

ATTACHED TO AND MADE PART OF AN AGREEMENT  
ENTITLED "CONSTRUCTION, OWNERSHIP AND OPERATION  
OF THE ARMADA GAS PLANT AND GATHERING SYSTEM"

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K*

INSURANCE

- a. As to all operations hereunder, the Gas Plant Operator shall carry for the benefit and protection of the parties hereto:
- i. Workers' Compensation coverage in accordance with applicable legislation;
  - ii. Employer's Liability Insurance covering each employee engaged in the operations hereunder to the extent of \$1,000,000.00 where such employee is not covered by Workers' Compensation;
  - iii. Automobile and Aircraft, Watercraft and Snowcraft Liability Insurance covering all motor vehicles and aircraft, watercraft and snowcraft owned or non-owned, operated and/or licensed by the Gas Plant Operator with a bodily and property damage limit of \$1,000,000.00, inclusive; and
  - iv. Comprehensive General Liability Insurance with a bodily injury, death and property damage limit of \$1,000,000.00, inclusive; and, without restricting the generality of the foregoing provisions of this subclause, such coverage shall include Contractual Liability, Tortious Liability, Contractor's Protective Liability, Products and Completed Operations Liability.
- b. The Gas Plant Operator shall require all third party contractors performing work in or on the premises covered hereby to comply with Workers' Compensation legislation and to carry such

insurance and in such amounts as the Gas Plant Operator shall deem necessary.

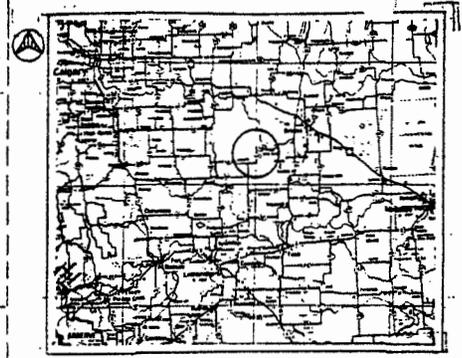
- c. Each Owner hereto shall be responsible for insuring its own interest in the Gas Plant with respect to physical damage to property, loss of income and any insurance other than that referred to in this Clause. Any insurance policy insuring an Owner's interest in the properties shall contain a waiver on the part of the insurer of all rights, by subrogation or otherwise, against the other Owners.
  
- d. The Gas Plant Operator shall carry and place in force to the commencement of construction, "All Risk", Course of Construction insurance covering loss or damage to the facility in the course of construction, including all machinery, material and supplies on the project premises or in transit thereto and intended to become part of the finished system, and while there awaiting use, and during construction, testing and until final acceptance by the Gas Plant Operator. Such insurance shall be subject to a deductible of not more than \$1,000.00 and be subject to a deductible of not more than \$5,000.00 during start-up and testing.

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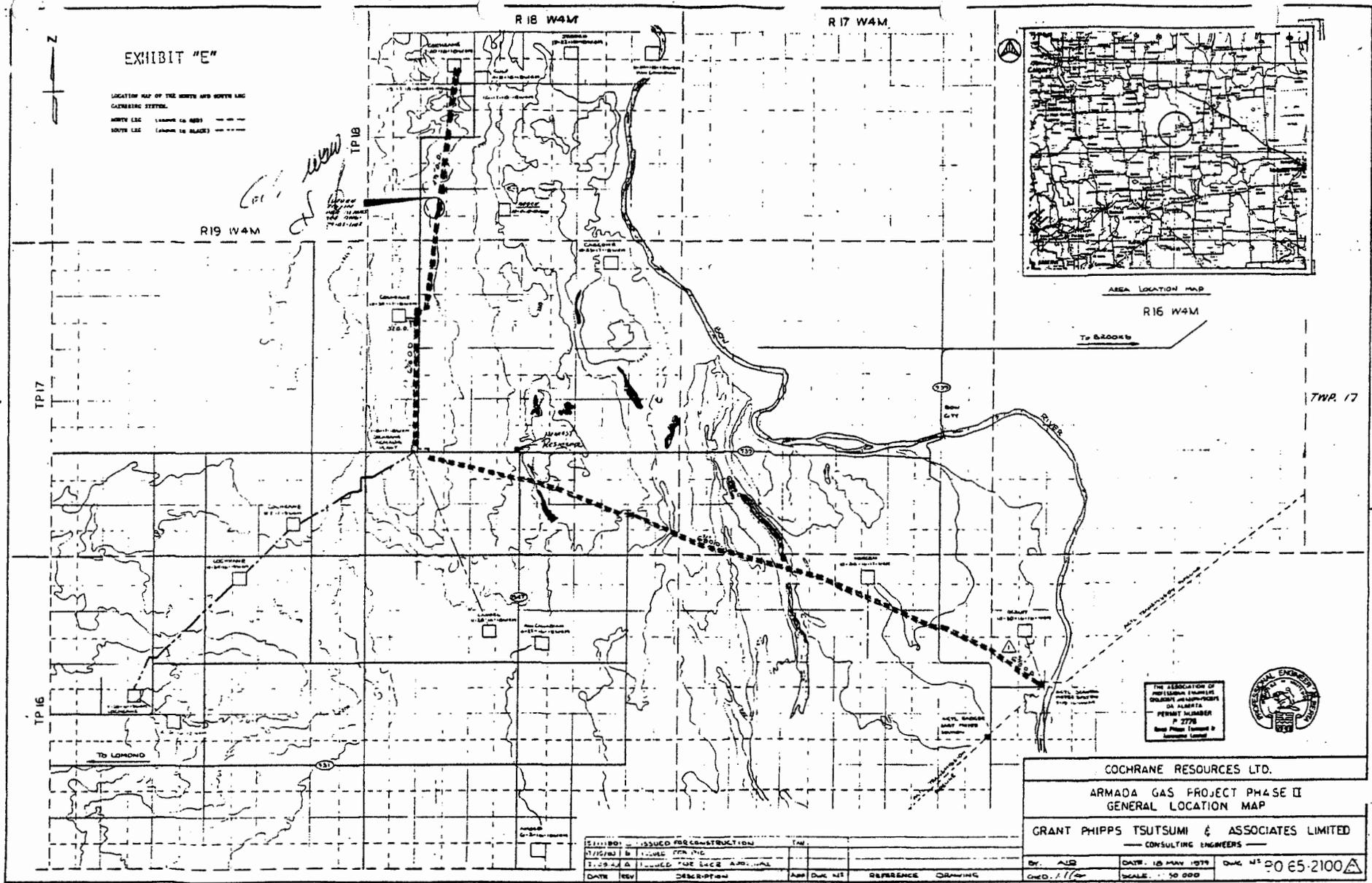
**EXHIBIT "E"**

LOCATION MAP OF THE NORTH AND SOUTH LEG  
CANNING SYSTEM.

NORTH LEG (shown in RED)  
SOUTH LEG (shown in BLACK)



AREA LOCATION MAP  
R16 W4M  
TO BROOKS



THE ASSOCIATION OF  
PROFESSIONAL ENGINEERS  
GEOLOGISTS AND SURVEYORS  
OF ALBERTA  
PERMIT NUMBER  
P 2778  
Base Plans Issued by  
Licence Trustees



COCHRANE RESOURCES LTD.

ARMADA GAS PROJECT PHASE II  
GENERAL LOCATION MAP

GRANT PHIPPS TSUTSUMI & ASSOCIATES LIMITED  
— CONSULTING ENGINEERS —

BY: <i>ALD</i>	DATE: 18 MAY 1979	DWG. NO: 90 65-2100
CHECKED: <i>JJC</i>	SCALE: 1:50 000	

DATE	REV	DESCRIPTION	APP	DWG. NO.	REFERENCE	DRAWING
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