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File  
C O & O Agmt

October 16, 1996

**Armada Gas Plant Owners**  
R<sup>3</sup> Resources Ltd.  
1440, 540 - 5 Avenue SW  
Calgary, AB T2P 0M2

Dear Sirs;

Re: **Amending Letter Agreement**  
**Armada Plant Agreement**

Pursuant to our discussions, we have agreed to amend the Armada Plant Agreement as per the following:

1. The parties to this amended Letter Agreement are parties or are the successors and/or assigns to the parties to an agreement dated April, 1984, titled the "Agreement for the Ownership and Operation of the Armada Gas Plant and Gathering System" ("O&O Agreement"). All definitions, terms and conditions of the O&O Agreement will apply unless stated otherwise.
2. The Owners hereby agree that the gas gathering lines and gas plant are a custom processing facility such that all volumes of gas processed, whether owned by a Producer or a Producer Owner, will be subject to a Processing Agreement with the Owners or with the Gas Plant Operator as agent for the Owners. **The Owners from time to time will agree on the form of this processing agreement and the custom fees.**
3. Clause 4.05 (c)(i) is amended by substituting the phrase "of two (2) or more Owners representing sixty-six (66%) percent of the working interest" for the phrase "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".
4. Clause 5.02 is amended by replacing the entire Clause with the following:  
  
5.02 (a)  
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).

5.02 (b)

The Gas Plant Operator shall be replaced immediately and another Gas Plant Operator appointed pursuant to Clause 405 (c)(i) upon notice to such effect being served by any party to the other parties if:

(i) the Gas Plant Operator becomes bankrupt or insolvent, commits or suffers any act of bankruptcy or insolvency, is placed in receivership, seeks debtor relief protection under applicable legislation (including, without restricting the generality of the foregoing, the Bankruptcy Act of Canada and the Companies' Creditors Arrangement Act of Canada) or permits any judgment to be registered against its working interest, and without restricting the generality of the foregoing, a Gas Plant Operator shall be deemed insolvent for the purpose of this Clause if it is unable to pay its debts as they fall due in the usual course of business or if it does not have sufficient assets to satisfy its cumulative liabilities in full; or

(ii) the Gas Plant Operator assigns or purports or attempts to assign its general powers and responsibilities of supervision and management as Gas Plant Operator hereunder. The Gas Plant Operator may utilize contract operators or a contract operating firm rather than its own employees and such usage of contract personnel is not an assignment of the Gas Plant Operator's powers and responsibilities.

5.02 (c)

The Gas Plant Operator shall be replaced and another appointed pursuant to Clause 5.03 in any one of the following circumstances:

(i) If the Gas Plant Operator defaults in its duties or obligations or any of them hereunder and, within thirty (30) days after written notice from a majority working interest of the Owners excluding the Gas Plant Operator, specifying the default and requiring the Gas Plant Operator to remedy same, it does not commence to rectify the default and thereafter diligently continue to remedy the default.

(ii) If the Gas Plant Operator ceases to hold or represent at least ten (10%) percent of the participating interests.



5.02 (d)

If the controlling shareholding interest of the Gas Plant Operator changes and/or there is a significant change of executive officers who have decision making and policy setting authority, the Gas Plant Operator shall be replaced pursuant to Clause 5.03.

5.02 (e)

At any time after an Owner has been Gas Plant Operator for at least two (2) years, any Owner, other than the Gas Plant Operator, may give notice ("the challenge notice") to the other parties that it is ready, able and willing to conduct operations for the joint account on more favorable terms and conditions. The challenge notice shall contain sufficient detail to enable the receiving parties to evaluate the nature of the challenge notice and to measure the effect the revised terms and conditions would have on joint operations. The Gas Plant Operator shall, within sixty (60) days after receipt of the challenge notice, advise the Owners either that:

(a) it is prepared to operate on the terms and conditions set out in the challenge notice, whereupon it shall forthwith proceed to do so; or

(b) it is prepared to operate on the terms and conditions set out in the challenge notice and that it will resign as Gas Plant Operator effective no later than (90) days following the sixty (60) day period provided above.

Failure by the Gas Plant Operator to advise the Owners of its election within such sixty (60) day period shall be deemed to be an election by the Gas Plant Operator to resign. If the Gas Plant Operator resigns, a new Gas Plant Operator shall be appointed pursuant to Clause 5.03, whereupon such new Gas Plant Operator shall operate on terms and conditions set out in the challenge notice. If no other Owner is prepared to act as Gas Plant Operator on the terms and conditions set out in the challenge notice, the Owner giving the challenge notice shall become the new Gas Plant Operator and shall thereafter conduct operations pursuant to the undertakings made by it in the challenge notice. Any costs in excess of those set out in the challenge notice shall be for the new Gas Plant Operator's sole account. Notwithstanding Clause 5.03, the new Gas Plant Operator shall not resign from the position of Gas Plant Operator until it has acted as Gas Plant Operator for a

period of at least two (2) years. An Owner may not issue a challenge notice of become Gas Plant Operator pursuant thereto if, at the time of issuing the challenge notice or assuming its duties as Gas Plant Operator it would be disqualified to act as Gas Plant Operator by reason of any item contained in this Clause 5.02.

5.02 (f)

At any time after the Gas Plant Operator has been the Gas Plant Operator for a continuous period of two (2) years, it may give notice ("the Operator's notice") to the other parties of the revised terms and conditions on which it is prepared to continue to conduct joint operations. Within sixty (60) days of receipt of the Gas Plant Operator's notice, each Owner shall advise the Gas Plant Operator whether it agrees to the Gas Plant Operator continuing as Gas Plant Operator and conducting joint operations on terms and conditions contained in the Operator's notice, provided that the failure by an Owner to respond within such period shall be deemed to be agreement by that party to the terms and conditions in the Operator's notice. If any Owner does not so agree, it shall give notice ("Counter proposal") to the other parties of the terms and conditions upon which it would conduct joint operations. Any such counter proposal shall be deemed to be a challenge of Gas Plant Operator and shall be subject to all of the terms and conditions of Clause 5.02 (e), as though such counter proposal was "the challenge notice" provided therein, except that in determining the merits of the counter proposal, it shall be compared to the terms and conditions contained in the Operator's notice, rather than to the existing operating terms and conditions.

5. Clause 7.07 is amended by substituting the phrase "may not commingle funds" for the phrase "may commingle funds".
6. Exhibit "A" is amended by way of attachment to this letter.
7. In the case of conflict between this Amending Letter Agreement and the O&O Agreement, the terms of this Amending Letter Agreement shall prevail.
8. The O&O Agreement as amended by this Amending Letter Agreement is hereby ratified and confirmed by the parties hereto.

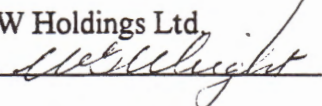
If the foregoing sets forth your understanding of our agreement, please so indicate by signature below:

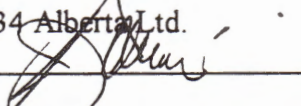
Yours truly,

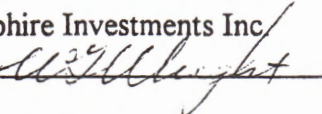


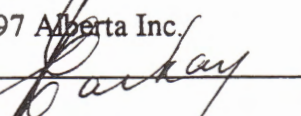
Tim J. Reimer  
Manager, Operations

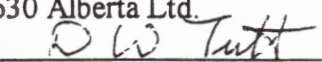
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WGW Holdings Ltd.  
per 

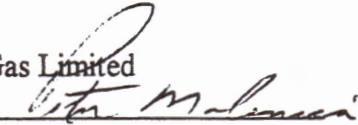
236634 Alberta Ltd.  
per 

Sapphire Investments Inc.  
per 

357397 Alberta Inc.  
per 

236630 Alberta Ltd.  
per 

236636 Alberta Ltd.  
per 

NuGas Limited  
per 



**EXHIBIT "A"**

Attached to and forming part of an Agreement entitled "Construction, Ownership and Operation of the Armada Gas Plant and Gathering System" as amended effective the first day of April, 1995.

**Gas Plant Participation**

<u>Company</u>	<u>Percentage Interest</u>
NuGas Limited	42.86000%
WGW Holdings Ltd.	10.71375%
Sapphire Investments Inc.	3.57125%
236630 Alberta Ltd.	14.28500%
236634 Alberta Ltd.	7.14250%
236636 Alberta Ltd.	7.14250%
357397 Alberta Inc.	14.28500%
TOTAL	100.00000%

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