

calendar year the revenues of Trans-Canada exceed its operation expenses, (including its cost of operating and maintaining the Northern Ontario section as required under the terms of this Agreement), interest on bonds, debentures and other outstanding debts and obligations, and depreciation at $3\frac{1}{2}$ per cent of the cost of its depreciable assets, such additional rental not to exceed in any event 1 per cent of the said capital cost of the Northern Ontario section and to be payable only to the extent necessary to bring the accumulated total of rental payments under subparagraphs (iii) and (iv) hereof to an amount equal to 7 per cent per annum of the total capital cost from time to time of the Northern Ontario section together with interest accumulated at $3\frac{1}{2}$ per cent per annum compounded annually on the net deficiencies below 7 per cent per annum of any preceding period;

(v) make such repairs and replacements as may be required to maintain the Northern Ontario section in proper operating condition;

(vi) be responsible for any loss of or damage to any part of the Northern Ontario section and will carry insurance in favour of the Crown Corporation and itself in respect of such parts thereof as would be covered by insurance if it were the owner of the Northern Ontario section in such amounts as may be agreed upon between the parties;

(vii) be responsible for any loss of or damage to property of others, injury to persons or infringements of any rights arising from or occasioned by the operation of the Northern Ontario section and will indemnify and save harmless the Crown Corporation from any and all such claims.

(c) Such other terms as may be mutually agreed upon for the carrying out of the intent and purpose of this Agreement.

7. It is understood and agreed by the parties hereto that Trans-Canada shall purchase the Northern Ontario section from the Crown Corporation as soon as it can arrange the necessary finances. Trans-Canada may elect to purchase the Northern Ontario section from the Crown Corporation at any time during the term of the lease by giving written notice to the Crown Corporation at least three months prior to the date when the sale is to be completed. The Crown Corporation will, following the receipt of such notice, sell to Trans-Canada all facilities and assets comprised in the Northern Ontario section of pipe lines as of such date at a price

equal to the total capital cost of the Northern Ontario section as of the date of sale, minus all payments under subparagraphs (iii) and (iv) of paragraph (b) of section 6 hereof which are in excess of the amount necessary to give the Crown Corporation from the date of completion of construction an annual return of $3\frac{1}{2}$ per cent on its invested capital and outstanding capital obligations, presuming that the Crown Corporation has applied semi-annually to retirement of its invested capital and outstanding capital obligations all funds received by it in excess of said return.

8. Notwithstanding the provisions of section 7, Trans-Canada shall not be entitled hereunder to elect to purchase nor shall the Crown Corporation be obligated hereunder at any time to sell the assets and facilities comprised in the Northern Ontario section;

(a) before the Crown Corporation has received, from the date of completion of construction, an annual return of $3\frac{1}{2}$ per cent on its invested capital and outstanding capital obligations as hereinbefore set out; or

(b) at a price less than (1) the amortized capital cost of the Northern Ontario section which shall be determined by applying, from the date of completion of construction, to the total capital cost from time to time amortization at the rate of $3\frac{1}{2}$ per cent per annum plus interest thereon compounded annually at $3\frac{1}{2}$ per cent per annum, or (2) 70 per cent of the capital cost of the Northern Ontario section at its initially designed capacity as defined in subparagraph (iii) of paragraph (b) of section 6, whichever is the higher amount.

9. For the purposes of sections 6, 7 and 8,

(a) if the date as of which the sale is to be completed does not coincide with an anniversary of the date of completion of construction, interest as expressed in the form of annual return, amortization and interest thereon shall, for the purpose of making the calculations for the lease year then current, be deemed to accrue from day to day; and (b) the total capital cost of the Northern Ontario section means

(i) the capital cost of the section as constructed at its initially designed capacity as defined in subparagraph (iii) of paragraph (b) of section 6, plus

(ii) the cost of additions thereto, such cost to include, in addition to all costs of materials, supplies, land, installation or other costs incurred in the construction of such additions, interest during construction at $3\frac{1}{2}$ per cent per annum and all