



FILE COPY

April 20, 1999

Gulf Canada Resources Limited
1600 Gulf Canada Square
401 - 9th Avenue S.W.
Calgary, AB
T2P 3C5

Attention: Mr. Donald Hrap, Vice President

Dear Sir:

Re: Upgrading Technology

The purpose of this letter is to set forth the terms of an agreement between Gulf Canada Resources Limited ("Gulf") and Canadian Environmental Equipment & Engineering Technologies Inc. ("CE³") concerning pilot and commercial application of CE³ upgrading technology including, without limitation, any applicable patents and all technology utilized in the Pilot Facility referred to below (collectively, the "Technology"). The proposed terms are as follows:

- 1) Gulf will pay to CE³ a total of up to Three Hundred and Fifty Thousand (\$350,000.00) Dollars as follows:
 - a) One Hundred and Seventy-five Thousand (\$175,000.00) Dollars upon CE³ demonstrating to Gulf's reasonable satisfaction that the ten barrel per day mobile pilot facility (the "Pilot Facility") to test the Technology is ready for operation; and
 - b) A further One Hundred and Seventy-five Thousand (\$175,000.00) Dollars when such Pilot Facility has processed at least three (300) hundred barrels of feedstock and CE³ has provided to Gulf the data substantially as identified on Tables 1 and 2 of Schedule I hereto, arising from such processing;

unless, in either case, such requirement is not satisfied on or before July 31, 1999 or such other date as CE³ and Gulf may both agree to in writing.

- 2) Upon payment of the amount(s) required by paragraph 1, Gulf shall be entitled to deliver to CE³, and to have CE³ process within ninety (90) days of such delivery, up to one hundred and fifty (150) barrels of feedstock through the Pilot Facility. Gulf shall also be entitled to any and all data arising from the processing of the feedstock and shall own, and be entitled to market, the output from such processing of the feedstock which it supplies. Notwithstanding the foregoing, CE³ shall have no obligation to run such feedstock after December 31, 1999.

CE³ Agreement

- 3) CE³ will provide Gulf with reasonable access to the Pilot Facility to observe its operation, and will provide weekly reports containing the data outlined in Schedule I with respect to any and all pilot or other applications of the Technology throughout the term of this Agreement.
- 4) Gulf may, at any time up to December 31, 2000, after making the payment(s) required by paragraph 1 hereof give notice to CE³ of Gulf's desire to construct a commercial facility (the "First Unit") applying the Technology, for up to thirty thousand (30,000) barrels per day of input capacity. Following the receipt of such election, CE³ will in good faith work with Gulf and its agents, contractors and consultants to perform the design and provide advice and support to assist with the construction and commissioning of a facility employing the Technology and will, without limiting the foregoing, make available to Gulf for such purposes information received from any previous applications of the Technology. CE³ will provide such design and support at its cost but shall not be required to incur costs for third party technical assistance to support the construction or commissioning.
- 5) If Gulf has made the election provided for the First Unit in the preceding paragraph, Gulf shall also have the right to elect up to three (3) additional commercial applications of the Technology, having an aggregate capacity of up to eighty thousand (80,000) barrels per day ("Further Units"). Upon receipt of any such election no later than five years from the date hereof and upon any other orders of units employing the Technology during the term of this Agreement, CE³ will provide the same support as that described above for the First Unit to enable Gulf's construction and operation of the applicable commercial facility.
- 6) Gulf and CE³ agree that the following royalty shall apply to the First Unit as well as any additional units employing the Technology:
 - a) As to the First Unit, Gulf shall pay a royalty per barrel of output that is equal to the lesser of 50% of the lowest eligible royalty charged to any third party for the Technology during the operating life of the First Unit or 6¢ (U.S.) per barrel;
 - b) With respect to any Further Units, Gulf will pay a royalty equal to the lowest eligible royalty then paid by any third party for application of the Technology within a period of 24 months from the start-up of such units (except that there shall be no retroactive reduction of royalty paid prior to the application of the applicable eligible third party royalty), provided further that, if there are no such third party royalties, then the royalty payable for the Further Units shall be 10¢ (U.S.) per barrel.

The royalty payable on any units beyond the Further Units will be at commercial and competitive rates provided that in no event will Gulf be charged a royalty that exceeds the eligible royalty payable by any third party as at the commissioning of the applicable Gulf commercial facility. For the purposes of this Agreement, an "eligible royalty" is any royalty payable by a third party other than any royalty applicable to the third party first utilizing the Pilot Facility or other facility employing the Technology for capacity up to an aggregate of 11,500 barrels per day.

- 7) If Gulf orders any facility hereunder employing the Technology, whether the First Unit, a Further Unit or otherwise, then CE³ will issue a site license to Gulf authorizing Gulf to employ the Technology in such facility and market the products resulting therefrom. No such site license shall

CE³ Agreement

require Gulf to agree to any obligations that are not specifically contained herein, unless Gulf otherwise agrees, and no delay in the issue of such site license shall prevent Gulf's utilization of the Technology in such facility nor the marketing of the products therefrom.

- 8) If Gulf makes the election for the construction of the First Unit within the time required by paragraph 4 hereof, Gulf will have the option, exercisable within sixty (60) days of such election, to make a further payment to CE³ of Five Hundred Thousand (\$500,000.00) Dollars, whereupon CE³ will provide the following to Gulf, with respect to any application of the Technology in the Athabasca region (as such region is defined by the Alberta Energy and Utilities Board):
- (i) a site license or licenses in accordance with paragraph 7 of this Agreement for each location for which facilities are ordered which employ the Technology;
 - (ii) a priority for CE³ assistance with respect to the construction of commercial units over any third party; and
 - (iii) for a term expiring December 31, 2009, a credit, applicable to the payment of any Gulf royalty payable to CE³ for application of the Technology during a calendar year, equal to 25% of the eligible royalty paid during the previous year for application of the Technology by any third party in the Athabasca region.
- 9) Any references herein to the Technology include any and all improvements made by or otherwise available to CE³ from time to time during the term of this Agreement. Gulf agrees to make available to CE³ such test and performance information regarding the Technology as CE³ may reasonably request with respect to any facility owned by Gulf which utilizes the Technology hereunder.
- 10) CE³ hereby represents and warrants that it is entitled to give Gulf the rights concerning the Technology as provided for in this Agreement. CE³ hereby represents and warrants to Gulf, and will represent and warrant to Gulf in any site license provided for herein (subject to disclosure of any information received at that time) that it has no knowledge that the Technology or its application infringes on any rights of any third party and that it has no knowledge of any fact which would suggest any adverse issue as to the validity or scope of any patent in respect of the Technology. CE³ will promptly give notice to Gulf of any such knowledge or fact which comes to its attention.
- 11) Any and all information and data concerning the Technology provided to Gulf by CE³ or on its behalf hereunder shall remain subject to the terms of the Confidentiality Agreement between Gulf and CE³ dated February 24, 1999 except to the extent amended or superceded during the term hereof. CE³ agrees to keep in confidence, and not to disclose to any third parties without the consent of Gulf, any information provided to CE³ by or on behalf of Gulf hereunder including, without limitation, the existence or details of this Agreement, the business plans or commercial intentions of Gulf with respect to application of the Technology, and the information derived from Gulf's application of the Technology. This restriction on disclosure shall not apply to information that is generally available to the oil industry through no breach of CE³'s obligations hereunder or information that is required to be disclosed by law provided that, if any such legal requirement arises, CE³ will promptly give notice to Gulf and will, to the extent reasonably available, work with Gulf to limit the disclosure to that required by law. Should CE³ require assistance from any consultants or contractors to carry out its obligations to Gulf hereunder, it may disclose Gulf information to such consultants or contractors to the extent required to carry out those obligations and, in such event, CE³ shall be responsible to

CE³ Agreement

Gulf hereunder for compliance by those consultants and contractors with the obligation of confidentiality herein.

- 12) CE³ will, upon request by Gulf during the term of this Agreement, in good faith endeavour to agree with Gulf upon arrangements for pilot or commercial application of CE³ hydrogen generator technology on reasonable commercial terms. The parties specifically agree that the failure to reach agreement on those terms will not invalidate or render ineffective this Agreement.
- 13) This Agreement shall expire on December 31, 2009 provided that, if Gulf does not make the election for the construction for the First Unit within the time therein provided, this Agreement shall expire upon the termination of that election period.
- 14) CE³ has disclosed to Gulf the possibility that third parties may be interested in acquiring ownership or a material interest in CE³ or the Technology. If, during the term of this Agreement, CE³ receives an offer for such an acquisition which it wishes to accept, it will:
 - a) advise Gulf of its interest in such transaction and provide Gulf an opportunity to submit a proposal to acquire CE³ or the Technology, provided that,
 - (i) CE³ shall not be required to identify any third party nor provide for Gulf and such third party to join in the acquisition unless such third party or parties consent(s),
 - (ii) Gulf shall, unless otherwise agreed, be required to respond within ten (10) days if it wishes to make a proposal, and
 - (iii) This obligation does not, for certainty, provide Gulf with any right of first refusal regarding such acquisition;
 - b) Ensure that any third party making such an acquisition agrees in writing with Gulf as a condition of such acquisition to honour Gulf's rights and all obligations of CE³ to Gulf under this Agreement.
- 15) The Parties agree upon request by Gulf during the term of this Agreement to work in good faith toward development of more detailed written agreements concerning the application and implementation of the terms of this Agreement. Notwithstanding this possibility, this Agreement is and is intended to be binding on the parties unless and to the extent superceded by any such further agreement.
- 16) Any notices or elections to CE³ under may be sent by delivery or by facsimile to CE³ at 3544 - 78 Avenue, Edmonton, Alberta, T6B 2X9, Facsimile: (780) 468-1705, or at such subsequent address that CE³ may indicate by notice to Gulf as provided below. Any notice delivered or sent by facsimile prior to 3:00 o'clock p.m. on a business day shall be considered received on that business day, and any notice received after 3:00 o'clock p.m. on a business day or on a day that is not a business day shall be deemed received on the following business day. A "business day" for this purposes shall be any day other than a Saturday, Sunday, or day on which banks in the city of Edmonton, Alberta are closed for the conduct of general business. Any notice to Gulf under this Agreement may be sent to Gulf at the address indicated below, or as such further address as Gulf may indicate by notice hereunder, and the same assumptions as to receipt will apply to such notice.

CE³ Agreement

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If you accept the terms of this proposal, please sign and return the duplicate of this letter to CE³ at the address given above no later than 4:00 p.m. on April 23, 1999. Your return of a signed copy of this letter within such time, as such further time as Gulf and CE³ may agree, will create a binding Agreement between the parties on the terms hereof. If this letter is not signed and returned within such time, it shall thereafter, have no effect.

**CANADIAN ENVIRONMENTAL EQUIPMENT
& ENGINEERING TECHNOLOGIES INC.**

PER: 

GULF CANADA RESOURCES LIMITED
hereby accepts the above proposal and confirms
its address for notice as set out below.

PER: 

DATED this 22 day of April, 1999.

Address for Notice:

Gulf Canada Resources Limited
1600 Gulf Canada Square
401 - 9th Avenue S.W.
Calgary, AB T2P 3C5

Attention: Director, Oil Sands

Schedule I

CE³ Upgrading Technology Development Program

1.0 Objective:

To develop an understanding of CE³ bitumen/heavy crude upgrading technology, its attributes and performance through:

- discussion of the technology with CE³'s technical personnel, examination of the pilot plant(s), its drawings and equipment
- witnessing the 10 BPD pilot plant tests carried out by CE³ for Gulf Canada Resources and for a third party.
- reviewing pilot plant operating conditions, product yields, the properties of the feed, products and major internal streams for the pilot plant tests.

The pilot plant tests are expected to be comprised of several extended runs including a 60 day period for the third party heavy oil processing and a production test of some 150 barrels of Gulf feedstock (expected to be Athabasca bitumen from a thermal in situ operation with no diluent).

2.0 Pilot Plant Tests Third Party and Gulf Feedstock:

2.1 Gulf's representative(s) would be able to witness the pilot plant tests and be present when the pilot plant equipment is opened for inspection at the end of the test period.

2.2 Report(s) on the pilot plant main operating conditions will be available for inspection. This includes flows, temperatures, pressures, pressure drops and plant yields.

2.3 Pilot plant yields/material balances will be provided for the main operating scenario(s) tested. Table-1 attached shows a suggested format for the yield/material balance that would be provided.

2.4 Analyses/properties of the pilot plant feed(s), product(s) and important internal streams will be made available for the main operating scenarios tested. Table-2 attached gives a list of the analyses required. The analyses listed are not intended to preclude other sampling/analysis that CE³ would normally require to obtain sufficient data from a test run.

3.0 Additional Requirements Pertaining to Gulf's Feedstock:

3.1 Discussions will be held with Gulf's representative(s) regarding the testing scenarios and operating conditions for the Gulf feedstock. It is envisaged that there may be 3 or more different operating scenarios to be tested within the 15 day period.

3.2 Gulf has the option to receive a 5 gallon sample of the liquid product from each of the main pilot plant test operating scenarios carried out on its feedstock.

4.0 Pilot Test Reports:

4.1 Gulf will be entitled to receive a copy of any weekly status report prepared by CE³ on the operation and performance of the pilot plant.

4.2 Gulf will receive a copy of the final CE³ report(s) that describes the pilot plant test runs, provides the results (yields, material balances, feeds and products analyses) of the runs on the third party and Gulf feedstocks, and any information on the capital and operating costs for a commercial size CE³ upgrading unit.

4.3 Gulf will receive performance information from the first commercial 1500 barrel per day unit.

Table-1: Pilot Plant Test Run Suggested Yield & Material Balance Outline Format

The following suggested yield/material balance outline is not intended to preclude information CE3 would normally provide in a yield or material balance information sheet for a test run.

Feeds:

	<u>Wt%</u>
Bitumen	100
Chemical H2	x.xx
Total Feed	100+x.xx

Products:

	<u>Product Yields on Feed</u>		<u>Specific</u>
	<u>Wt%</u>	<u>Vol%</u>	<u>Gravity</u>
H2O	x		
NH3	x		
H2S	x		
H2	x		
C1	x		
C2	x		
C3	x		
i-C4	x	x	x
n-C4	x	x	x
C5 - 177C	x	x	x
177 - 343C	x	x	x
343 - 524C	x	x	x
524C+	x	x	x
Totals:	100+x.xx	x	

NOTES:

Calculated material balance closure to be reported.

Table-2: Pilot Plant Streams Suggested Analyses.

The following suggested sampling/analyses is not intended to preclude other sampling/analyses CE3 would normally require to obtain sufficient data from a test run.								
All liquid samples should be taken and kept under a nitrogen blanket and be stored in refrigerated storage.								
Pilot Plant Feed & Product Streams:								
	Bitumen Feed	Product Gas	Liquid Product	TBP Fractions of Bitumen & Product Liquid				Internal Streams
				C5-177C	177-343C	343-524C	524C+	
	Note-1			Note-2	Note-2	Note-2	Note-2	Note-4
Sample Analyses:								
Specific gravity	X		X	X	X	X	X	X
Gas composition		X						X
Simulated Distillation	X		X					X
Distillation, ASTM D-1160	X		X					
Carbon, wt%	X		X	X	X	X	X	
Hydrogen, wt%	X		X	X	X	X	X	
Oxygen (direct determination), wt%	X		X	X	X	X	X	
Nitrogen, wt% or wppm	X		X	X	X	X	X	X
Sulfur, wt% or wppm	X		X	X	X	X	X	X
Mercaptans, wt% or wppm			X	X	X			
Paraffins, wt%				X				
Olefins, wt%				X				
Naphthenes, wt%				X				
Aromatics, wt%	X		X	X	X	X	X	
Diolefins, vol%				X				
Bromine No.	X		X	X	X	X	X	X
FIA-Aromatics, vol%	X				X	X	X	X
FIA-Olefins, vol%	X				X	X		X
ICG Mass Spec. for hydrocarbon types	X		X	X	X	X	X	
Neutralization No. mg KOH/g	X		X	X	X	X	X	
Aniline point, C				X	X	X		
Smoke point, mm					X			
Cetane index					X	X		
Cetane Number					X	X		
Freeze Point, degC					X			
Pour point, degC	X		X		X	X		
Viscosity, centistokes @ two temps.	X		X	X	X	X	X	X
Asphaltenes (nC5 insolubles), wt%	X		X			X	X	X
Shell P-value (floculation) test	X		X				X	
Shell HFT, wt%	X		X				X	
CCR (or MCR), wt%	X		X			X	X	X
Ash, wt%	X		X				X	X
Water, vol%	X							
BS&W, wt%	X							
Metals, wppm								
Vanadium	X						X	
Nickel	X						X	
Iron	X						X	
Penetration @ 0 degC, 100 g load							X	
Penetration @ 25 degC, 100g load							X	
Stability Testing (Note-3)			X					

NOTES:

- 1) If bitumen is in more than one container checks of the bitumen in each container should be done to determine that the feed stock in all containers are the same material.
- 2) Analyses shown for the petroleum fractions apply to the composite samples of both the bitumen feed and the liquid product.
- 3) Stability tests as follows: (Sample to be stored at room temperature & under nitrogen blanket between tests):
Sample to be tested ASAP after collection, 7 days, 14 days and 30 days after collection.
Tests to be done: Viscosity (same temp for all tests), asphaltenes (nC5 insolubles) and Shell Hot Filtration Test.
Stability test to be carried out on the samples from each test run condition.
- 4) Analyses for gas, liquid or mixed phase streams as appropriate.

**Oil Sands Division**401 - 9th Avenue S.W.
Calgary, Alberta T2P 2H7

Phone: (403) 233-3614 Fax: (403) 233-5125

Fax

To: Tom / Patrick Fax: _____
Phone: _____ Pages: 3
From: Bob Brugg Date: _____
Re: _____ CC: _____

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PLEASE SIGN/MODIFY

IF YOU NEED TO DISCUSS, LEAVE A
MESSAGE (233-3630) & I WILL CALL
EARLY TOMORROW.

BOB

GULF CANADA RESOURCES LIMITED

P.O. BOX 130, CALGARY, ALBERTA T2P 2H7 • Telephone: (403) 233-4000

July 27, 2000

Canadian Environmental Equipment & Engineering
Technologies Inc.
3544 – 78th Avenue
Edmonton, Alberta
T6B 2X9

Dear Sirs:

Re: Upgrading Technology Agreement of April 20, 1999

We refer to the above Agreement of April 20, 1999 between Canadian Environmental Equipment & Engineering Technologies Inc. ("CE3") and Gulf Canada Resources Limited ("Gulf"), as amended by letter agreement of August 30, 1999 (which amended Agreement is herein referred to as the "1999 Agreement") and wish to confirm our understanding of further amendments now agreed to by CE3 and Gulf. More specifically, in consideration of the mutual terms herein, we confirm agreement to the following amendments to the 1999 Agreement:

1. Within fifteen (15) days after delivery of a signed copy of this amending agreement, Gulf will pay to CE3 the sum of One Hundred and Seventy-five Thousand (\$175,000.00) dollars, which amount will be received by CE3 as full satisfaction of any payments required by paragraph 1 of the 1999 Agreement. Both parties hereby waive the time deadline, previously extended to October 31, 1999, for completion of the prerequisites for that payment.
2. Paragraph 2 of the 1999 Agreement is hereby amended by replacing the date "December 31, 1999" therein with "December 31, 2003".
3. Paragraph 4 of the 1999 Agreement is hereby amended by deleting "December 31, 2000, after making the payment(s) required by paragraph 1 hereof" in the first and second lines and replacing the deleted portion with "December 31, 2003".
4. The effective date of this amendment is the date of this letter as identified above.
5. In all other respects, the 1999 Amendment is hereby ratified and confirmed, as amended by this agreement.

If you agree with the terms set out herein, please sign and return the duplicate of this letter agreement to Gulf, to the attention of Mr. David Theriault, no later than July 31, 2000. If not

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received by such date or such later date as we may agree, then this letter is to be void and of no further effect.

GULF CANADA RESOURCES LIMITED

PER: *Of the same*

**CANADIAN ENVIRONMENTAL EQUIPMENT &
ENGINEERING TECHNOLOGIES INC.** hereby
accepts and agrees with the terms of this letter this ____
day of July, 2000.

PER: _____

**Oil Sands Division****Fax**

401 - 9th Avenue S.W.
Calgary, Alberta T2P 2H7
Phone: (403) 233-3614 Fax: (403) 233-5125

To: PATRICK COCHRANE Fax: 780-461-9408
Phone: 780-461-3131 Pages: 10
From: JEFF NISI Date: July 12/00
Re: AGREEMENT-DRAFT CC:

☐ Urgent ☒ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

As per my voice mail.

Jeff

**DRAFT: JULY 11, 2000
FOR DISCUSSION PURPOSES ONLY**

CONFIDENTIAL

July 11, 2000

Canadian Environmental Equipment
& Engineering Technologies Inc.
3544 - 78th Avenue
Edmonton, Alberta
T6B 2X9

CE³ technologies

Dear Sirs:

Re: [\$2,300,000] Secured Term Loan

We refer to the letter agreement dated April 20, 1999, as amended, between Canadian Environmental Equipment & Engineering Technologies Inc. (the "Borrower") and Gulf Canada Resources Limited ("Gulf Canada") pursuant to which the Borrower granted to Gulf Canada certain rights in respect of pilot and commercial application of the Borrower's crude oil upgrading technology (the "Technology") including, without limitation, any applicable patents and all technology utilized in the ten barrel per day mobile pilot facility and associated demonstration unit (the "Pilot Facility").

In order to facilitate the further development by the Borrower of the Technology, which is subject to the intellectual property rights described in Schedule "A" hereto, and the Pilot Facility and all technology pertaining thereto, which is more particularly described in Schedule "B" hereto, Gulf Canada is prepared to provide the Borrower with secured term loan financing in the aggregate amount of [\$2,300,000] (the "Loan") on and subject to the terms and conditions set forth below.

1. General Terms of Loan

- (a) **Borrower:** Canadian Environmental Equipment & Engineering Technologies Inc.
- (b) **Lender:** Gulf Canada Resources Limited
- (c) **Amount:** [\$2,300,000]

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- (d) **Term:** The period commencing on the date of execution of the documents referred to under "Documentation" in paragraph 5 below and ending August 31, 2001.
- (e) **Security:** The Loan shall be secured by first charges against the Borrower's intellectual property rights in and to the Technology, which are more particularly described in Schedule "A" hereto, and against the Pilot Facility, which is more particularly described in Schedule "B" hereto (the Technology and the Pilot Facility are referred to collectively herein as the "Collateral"). [Note to Draft: Others?]
- (f) **Guarantee:** Indebtedness under the Loan shall be guaranteed by Genoil Inc., as parent corporation of the Borrower.
- (g) **Interest:** Interest shall be payable at a variable annual rate equal to 1.5 per cent per annum plus the rate of interest per annum publicly quoted from time to time by The Toronto-Dominion Bank (or such other financial institution as the Lender may advise the Borrower) as being its prime lending rate for Canadian dollar commercial loans (the "Prime Rate").
- (h) **Interest Calculation and Payment:** Interest on the Loan shall be calculated daily, without compounding, and is payable monthly in arrears based on the number of days in any given month in which the Loan is outstanding.
- (i) **Prepayment:** The Borrower may, at any time or from time to time prior to the maturity of the Loan, repay all or any outstanding portion of the principal amount of the Loan without penalty or premium.
- (j) **Repayment of Principal:** A progress payment of \$300,000 shall be repaid on December 31, 2000 and shall be deducted from the outstanding principal amount of the Loan. The balance of the amounts payable under the Loan, together with all accrued and unpaid interest, shall be repaid in full upon the maturity of the loan on August 31, 2001.

2. Representations and Warranties

The Borrower shall make such representations and warranties as may be customary and appropriate in connection with debt financing such as that contemplated hereby, which representations and warranties shall include, without limitation, representations and warranties with respect to the Borrower's corporate status, authority, authorization, enforceability, [financial condition as represented by financial statements provided by the Borrower], the

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Borrower's intellectual property rights in and to the Technology and title to the Pilot Facility and as to litigation, and such other matters as may be necessary or desirable in order to give effect to the terms hereof.

3. Covenants

The Borrower shall make such covenants as may be customary and appropriate in connection with debt financing such as that contemplated hereby, which covenants shall include, without limitation, covenants with respect to the Borrower's corporate status, punctual payment of amounts payable under the Loan, conduct of business, preservation and maintenance by the Borrower of its intellectual property rights in respect of the Technology, granting to Gulf Canada of access to the Technology, [delivery to Gulf Canada of reports, including feasibility reports, in connection with the ongoing development of the Technology and the Pilot Facility,] and such other matters as may be necessary or desirable in order to give effect to the terms hereof.

4. Events of Default

Events of default under the Loan shall include events of default customary and appropriate in connection with debt financing such as that contemplated hereby including, without limitation, monetary defaults, [cross defaults under other indebtedness for borrowed money,] covenant defaults after notice and lapse of time, bankruptcy and insolvency, loss of intellectual property rights in relation to the Technology and title to the Pilot Facility, and such other matters as may be necessary or desirable in order to give effect to the terms hereof.

5. Documentation

The Borrower shall deliver a formal Loan Agreement, Security Agreement and any other appropriate security documentation, a guarantee of Genoil Inc., evidence of subordination of any competing security interests in and other required documents and opinions of counsel to the Borrower in form and substance acceptable to Gulf Canada. The Loan Agreement and/or security documentation shall incorporate the representations and warranties, covenants and events of default referred to above.

6. Conditions Precedent

It is understood that the obligation of Gulf Canada to fund under the Loan and consummate the transactions contemplated hereby shall be subject to the following conditions, to be waived by Gulf or satisfied by the close of business on •, 2000:

- (a) the completion by Gulf Canada of a satisfactory due diligence review, investigations and inquiries relating to the business, assets, operations and affairs of the Borrower (including the financial condition thereof);
- (b) [delivery to Gulf Canada of feasibility reports satisfactory to Gulf Canada with respect to the Technology and the Pilot Facility;]

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- (c) all regulatory, governmental, court and other third party approvals and consents (including, without limitation, [the approval of the Canadian Venture Exchange] or other securities or regulatory authorities), required in order to permit the completion of the transactions contemplated hereby having been obtained in form and substance reasonably satisfactory to Gulf Canada at or prior to the date of expiry of the offer;
- (d) [no action having been taken by the Borrower which would be outside the ordinary course of business and no material adverse change having occurred in the affairs, operations, business or financial condition of the Borrower from that reflected in the • financial statements provided to Gulf Canada to the date of execution of the Documentation described in paragraph 5;]
- (e) execution and delivery by Gulf Canada and the Borrower each of the documents referred to in paragraph 5;
- (f) [execution by Gulf Canada and the Borrower of an amendment to the letter agreement dated April 20, 1999 between Gulf Canada and the Borrower relating to the extension of certain time periods under such agreement, the granting by the Borrower to Gulf Canada of a right to enter into an agreement relating to the oil/water separation process developed by the Borrower on terms equally favorable to those granted by the Borrower to any third party (which right may be the subject of a separate agreement between the Lender and the Borrower) and such other amendments as Gulf Canada and the Borrower may agree.]

7. Expenses

[The Borrower shall pay to Gulf Canada forthwith upon demand all costs, charges and expenses (including legal fees and disbursements of outside counsel on a solicitor and client basis) of or incurred by the Lender in connection with preparation or execution of this Agreement or the perfecting or recording its security against any part of the Collateral, or any cost incurred by it in respect of the recovery of funds or enforcement of any of the obligations of the Borrower in relation to the Loan, including all costs, charges and expenses in connection with taking possession, protecting, preserving, collecting and realizing upon any part of the Collateral, together with interest thereon at the date set out in the loan agreement from the date of incurring such costs, charges and expenses to the date of payment.]

8. Public Disclosure

No public disclosure or announcement of or pertaining to this Agreement and the transactions contemplated hereby will be made without the consent of Gulf Canada and any such disclosure or announcement shall not be made unless satisfactory to Gulf Canada, provided that the provisions of this paragraph shall not apply to the extent that any party hereto is advised by its counsel that any disclosure or announcement to which another party after reasonable notice will not consent is required to be made by applicable laws, stock exchange rules or policies of regulatory authorities having jurisdiction. Subject to the foregoing, the subject matter of this Agreement shall be and remain confidential and shall not be disclosed to any person.

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9. Time of the Essence

Time shall be of the essence of this Agreement.

10. Termination

Each of Gulf Canada and the Borrower agree to negotiate the terms of the documentation referred to in paragraph 5 of this Agreement in good faith. It is understood and agreed that the obligations of Gulf Canada to consummate the transactions contemplated hereby shall cease in the event that each the conditions set forth in paragraph 6 of this Agreement are not satisfied on or before •, 2000.

10. Applicable Law

This Agreement shall be governed and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable herein. The courts of the Province of Alberta shall have exclusive jurisdiction with respect to all matters relating to or arising out of this Agreement.

11. Notices

Any notice, document or other communication required or permitted to be given to the parties under this Agreement shall be in writing and be either hand delivered or telecopied as follows:

(a) to the Borrower:

Canadian Environmental Equipment & Engineering Technologies Inc.
3544 - 78th Avenue
Edmonton, Alberta
T6B 2X9
Attention: [Patrick Cochrane]

Fax: (780) 468-1705

(b) to Gulf Canada:

Gulf Canada Resources Limited
401 - 9th Avenue S.W.
Calgary, Alberta
T2P 2H7

Attention: Director, Oil Sands

Fax: (403) 233-5125

- 6 -

and shall be deemed to be received by the party to whom such notice is given on the date of delivery or transmission.

12. No Assignment

No party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other party.

13. Amendment

Except as expressly set forth herein, this Agreement constitutes the whole of the agreement between the parties and may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the parties hereto.

14. Counterpart Execution

This letter may be signed in counterparts and delivery of such counterparts may be effected by means of telecopier.

If the foregoing is in accordance with your understanding of the terms of our agreement regarding the Loan, please confirm your Agreement by signing in the space provided below.

Yours very truly,

GULF CANADA RESOURCES LIMITED

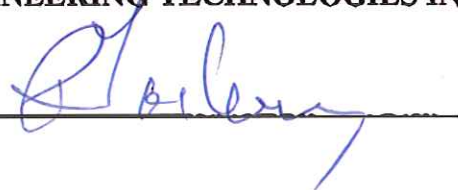
Per:  _____

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The foregoing is in accordance with our understanding and is agreed to as of the date first above written.

**CANADIAN ENVIRONMENTAL EQUIPMENT
& ENGINEERING TECHNOLOGIES INC.**

Per: _____



SCHEDULE "A"
INTELLECTUAL PROPERTY

PATENT APPLICATIONS

1. [Desanding System for Oil Tanks]

- (a) Canadian Patent Application S.N. 2,230,306, filed February 23, 1998;
- (b) U.S. Patent Application S.N. 09/028,905, filed February 24, 1998; and
- (c) U.S. Provisional Patent Application S.N. 60/129,629, filed April 16, 1999.]

2. Process for Upgrading Crude Oil Using Low Pressure Hydrogen

- (a) Canadian Patent Application S.N. 2,249,051, filed September 29, 1998

[LICENSES]

- 1. [The Borrower has licensed in the right to exploit an apparatus for mixing hydrogen gases into solution from Aquasol Technologies Inc.]
- 2. The Borrower has licensed in the right to exploit an oil and water separator developed by Mr. Paul Costinel.]

[Note to Draft: This list is about a year old, and may be out of date. It should include all intellectual property rights pertaining to CE3's crude oil upgrading and oil/water separation processes. Update, expand or revise, as appropriate.]

SCHEDULE "B"
PILOT FACILITY

[Note to Draft: Insert description of Pilot Facility and associated demonstration unit in sufficient detail to permit registration of valid security interest. Serial numbers should be provided where available and appropriate.]



A Division of Genoil Inc.

Writer's Phone: 780-450-5927

E-mail: robs@ce-technologies.com

July 27, 2000

VIA COURIER

John H. Woodley
Sim & McBurney
330 University Avenue 6th Floor
Toronto, Canada M5G 1R7

Dear John:

RE: Requested items, PCT Application 99/00137, Confirmation

Enclosed are four items that you requested. These items are: 1) the power of attorney sign by Patrick, 2) an assignment for the upgrader signed by all of the inventors, 3) the Spanish translation of the application already filed in Venezuela, and 4) a copy of the report that evaluates the upgrader process.

Please check with your references concerning what countries major oil companies file their patents. This information will provide our management the insight to make a decision of either proceeding with countries listed in Category 1, or eliminating some of these countries for the International PCT Applications of the Jet Pump Treatment of ... etc.

I am confirming in writing two items from our conference call on July 27, 2000. First, all correspondence related to patents and intellectual property are to be provided to me and I will provide this information to other if required. Second, Patrick will provide a check for partial payment of \$20,000, which will be mailed on August 3, 2000.

Sincerely,

Dr. Robert M. Satchwell
CE³ Technologies Inc.

RMS/rms

C: Patrick Cochrane
Tom Bugg
Linda Tutor