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July 29, 2011
Matter # 11-616

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Without Prejudice

Mr. Tom Ryley, Chairman of the Board
Tribute Resources Inc.
c/o Beacon Head Energy Ltd.
Suite 802
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Toronto, Ontario
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Dear Sir,

Re: Rationale for Offer to Settle
Stanley Reef (the "Reservoir")
OEB Applications EB 2011-0076, EB 2011-0077 and EB 2011-0078,
And all further or ancillary applications (collectively the "Applications")

Offer to Settle

This letter is a companion letter to a letter of even date to Mr. Tom Ryley which contains an offer to settle. This letter contains the rationale for the offer to settle (and rebuts the rationale in your document entitled without prejudice offer to McKinley Farms Ltd. and 2195002 Ontario Inc. dated December 8th, 2010).

Rationale

1. You do not seem to appreciate that McKinley Farms Ltd. ("**Farms**") and 2195002 Ontario Inc. ("**Ontario**") are separate legal entitles that enjoy completely separate rights.

2. Farms own the McKinley Lands. As such they are entitled under s.38(2)(b) of the OEBA to just and equitable compensation like any landowner for any damages resulting from the exercise of any authority given under s.38(1), subject to any agreement.

3. Tribute's Petroleum and Natural Gas Lease ("**PNG**") was declared valid by the Ontario Court of Appeal, but Tribute cannot store gas under the lease because it only permits gas to be stored in "gas sands" and as you know, there are no gas sands on the Lands. There is a pinnacle reef, but that is not a "gas sand".

4. Ontario holds the only valid Gas Storage Lease ("**GSL**") on the Lands. Tribute's GSL was declared void by the Ontario Superior Court and was not revived by the Ontario Court of Appeal. Tribute holds no GSL on the Lands.

5. Accordingly, if Tribute wants the right to store gas on the Lands, Tribute will have to acquire those rights from Ontario.

6. Tribute established a value for undeveloped storage capacity like the Reservoir to be $2 million per billion cubic feet (or $2,000,000.00 / BCF). This value was established in April, 2008 when Tribute paid $1,370,000.00 cash to its own insiders for the purchase of the .683 BCF Chatham "C" Gas Storage Pool ("**Chatham C**") based on an independent valuation by a geologist who compared the price to other similar transactions in Ontario and New York, which valuation was approved by the TSX Venture Exchange. $1,300,000.00 / .683 BCF = $2,005,856.00 / BCF.

6.1 Tribute argues a value of $300,000.00 per BCF for the Bayfield Pool, but that transaction must be disregarded as the consideration included shares in Tribute and was not 100% cash like the Chatham C pool transaction. A fully cash deal always more accurately describes fair market value.

6.2 Tribute attempts to discount the value of the Stanley Reef by suggesting that it is a "stranded" reservoir that cannot be developed without a pipeline. There is absolutely no reason to so discount the value of the Stanley Pool because:

(a) Pipelines are developed as separate profit and loss centres. Indeed, Bayfield Pipeline Corp., not Tribute, will build, own and operate the pipeline which will generate profits from transportation tolls charged to users. Accordingly, the cost of the pipeline has nothing to do with the value of the Stanley Reef, and

(b) The Pipeline to the Bayfield Pool (a much larger reservoir than Stanley) will run within ½ kilometre of the Stanley Pool. It is the Stanley Pool that will add to the revenue of Bayfield Pipeline Corp., not the cost of the pipeline that will reduce the value of the Stanley Pool.

7. The Reservoir contains at least 2.3 BCF storage. At $2,000,000.00 / BCF, the fair market value of the undeveloped Reservoir is at least $4,600,000.00.

8. Tribute alleges that the Reservoir is only 1.4 BCF but that is not supported by evidence. There is evidence to support 2.3 BCF.

9. The asset of interest is, of course, the porous rock in the Stanley Reef that can be used as the storage reservoir. That is where the gas will be stored.

10. By written agreement of the parties, 76.441% of the Stanley Reef lies beneath the Lands (see Unit Operation Agreement).

11. It follows that Ontario's share of the fair market value of the undeveloped Stanley Reef is $4,600,000.00 x .76441 = **$3,516,286.00**.

12. Tribute attempts to dilute McKinley's entitlement from 76.441% to 46.15% by basing the allocation on McKinley's surface area share of the designated storage area ("DSA"). This effort has no merit for two reasons:

(a) the DSA is a regulated control zone mandated by legislation that designates a restricted drilling area and includes the surface area immediately above the reef and a buffer zone (and as such does not reflect the ownership of the asset of interest and is not relevant to the storage volume), and

(b) the volume of storage is what is important (not some arbitrarily defined surface area).

13. Further, it is likely that Ontario's share should be greater because it is likely that more than 76.441% of the porous rock is located under the McKinley Lands. This is due to the typical structure of pinnacle reefs.

14. Accordingly, Ontario's offer is more than fair.

15. But there is a more significant consideration: Tribute has publicly stated that it expects to generate $1,143,000.00 / BCF / year net profit from storage operations (not pipeline operations which would generate separate income and profits) in Huron County.

16. Applied to the Stanley Reef, this means Tribute expects to general $2,628,000.00 / year net profit ($1,143,000.00 / BCF / year x 2.3 BCF), of which $2,009,557.00 per year (.76441) related to the Lands.

17. Ontario holds all of the storage rights and has no obligation to sell them to anyone. In fact, Tribute must deal with Ontario, not as a mere property owner, but as an operator because Ontario stands in the position that Tribute seeks to be in.

18. An alternate arrangement could be a "farm-in" arrangement with a potential operator such as Tribute whereby the operator "farms" into half of Ontario's position by paying, say, one-half of the fair market value of the undeveloped storage rights and by agreeing to develop and operate the pool keeping one-half the net profits and paying the other half to Ontario. That is an entirely reasonable and ordinary transaction between operators in the oil and gas business.

19. In that scenario, Tribute and Ontario would generate approximately $1,000,000.00 net profit / year each, forever.

20. Ontario's offer does not seek this type of compensation at this time, but will if the matter proceeds to the OEB.

Yours very truly,
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