

SCHEDULE E

July 30th, 2010 letter from Chinneck to Lewis

SCHEDULE E

CHINNECK LAW
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Lawyer

July 30, 2010

Matter #: 08-938

By Email - lewis@giffens.com

By Fax - 519-432-8003

Mr. Christopher A. Lewis
Giffen & Partners
Barristers & Solicitors
465 Waterloo Street
London, Ontario
N6B 2P4

Dear Sir:

Re: McKinley Farms Ltd. and Tribute Resources Inc.

I respond to your letter of July 23rd, 2010 as follows:

1. We have instructions to bring an application for leave to appeal to the Supreme Court of Canada and have retained Lang, Michener as our Ottawa agents to assist.
2. The deadline for filing the application for leave is **September 1, 2010**, not August 1, 2010 as you suggest.
3. Our client has always been and continues to be ready and willing to meet with your client and counsel with a view to negotiating a settlement of all issues, including the issue of compensation. Kindly propose several dates and times and I will canvas same with our client. I am not available the week of August 15th.
4. While it is true that your client did make a settlement offer on October 5th, 2009, the offer was revoked on November 5th, 2009.
5. Further, the offer was deficient for a number of reasons:
(a) it is based on a completely arbitrary number determined by your client acting in its best interests alone.

Please reply to the selected office

☒ 37 Ridout Street S., London ON Canada N6C 3W7

☐ 24 Hincks Street, St. Thomas, ON Canada N5R 3N6

Fax: 519-432-4811

Tel: **519-679-6777**

Fax: 519-633-5211

Tel: **519-633-6214**

Your client proposed that our client receive 46.15% of the value of the storage rights. This proposal is based on our client's pro-rated share of the acreage within a designated storage area proposed by your client, but the DSA is an arbitrary area and bears no relationship whatsoever to the asset that has value: the storage capacity or volume of the reef.

We prefer that the value of our client's storage rights be based on the storage capacity or volume of the reef itself (because that is what has value), and not some arbitrary calculation based on surface acreage within an arbitrary boundary selected by your client.

Given that you have 3D seismic data, it ought to be possible to calculate the volume of the reef below our client's lands and to calculate fair value based on their proportionate share of the volume. Will you kindly provide copies of the 3D seismic data, raw and processed and all interpretations thereof?

If the proportionate volume of the reef below the respective owners' lands cannot be calculated, then the parties can rely on their written agreement that 76.441% of the reef lies below our client's lands. That, at least, is not an arbitrary number like the 46.15% that your propose.

(b) your client grossly undervalued storage at \$300,000/BCF when more recent transactions involving your client and its insiders, and your client's own SEDAR disclosures value storage at \$2,000,000/BCF.

The fair value of undeveloped storage in Ontario is over \$2,000,000/BCF, not \$300,000/BCF. If your client wishes to acquire an interest therein, it should be paying at a rate of \$2,000,000/BCF, not \$300,000/BCF for whatever interest the parties agree will be acquired.

(c) your client's proposal fails to reflect a fair sharing of the net operating profits with the landowner.

Tribute proposes to pay rents to the Stanley landowners of \$50,000 per annum, yet Tribute's own public disclosures project net annual profits of \$1,143,000/BCF after payment of those rents. (See attached page 33). McKinley's information is that the Stanley Reef is at least 2 BCF. This translates into about \$2,300,000 net operating profits for each year of operations.

McKinley believes there is a more equitable way to share the net revenue from operations that more fairly reflect the contributions of the landowners. After all, storage operations cannot be conducted without a storage reef.

Our client would be interested in considering any proposals that yours wishes to make and would be most interested in proposals by which your client "farms" into a share of the storage interests for fair consideration, and by which your client, at its expense, obtains regulatory approval and facilitates the storage operations, and thereafter operates the storage facility for a share of the net operating revenues. Of course, there would also have to be a settlement of the litigation and litigation costs incurred to date.

I have taken the time to provide the detail above in order to assist you to understand our client's position and to, hopefully, assist you to make a proposal that would lead to an early resolution of the issues between the parties, and facilitate our client supporting your client's OEB application.

We look forward to hearing from you.

Yours very truly,
Chinneck Law
Professional Corporation

Jed M. Chinneck
LLB and B.Sc (Honours Geology)

JMC:mak
Encl.

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cc: Ontario Energy Board
Client

Apr 09-Mar 10	1 year	\$2.2368 Cad/GJ
Apr 09-Mar 11	2 years	\$1.8739 Cad/GJ
Apr 09-Mar 12	3 years	\$1.6429 Cad/GJ
Apr 09-Mar 13	4 years	\$1.5132 Cad/GJ
Apr 09-Mar 14	5 years	\$1.4396 Cad/GJ

The intrinsic value of storage can be calculated as illustrated above. Placing an extrinsic value on storage is much more difficult and tends to hold much more value for the first group noted, the producer, marketer and other market participants. Without taking into account this extrinsic value, Tribute's estimated storage capacity of 7 BCF would yield gross annual revenue of \$11,500,000 annually using the 3-year average. To calculate the net annual revenue, there need to be assumptions made with respect to the annual operating costs. This analysis assumes that the annual unit operating costs are in the range of \$0.40 to \$0.60 Cad/GJ or an average of \$0.50 Cad/GJ. Using these assumptions, the second phase of Tribute's proposed gas storage project would yield net revenue of approximately \$1.143 Cad/GJ or \$1,143,000 per BCF for a total of \$8,000,000 net annually to the partners on the development of the full 7 BCF. See Huron County Phase 2 Development for a more comprehensive discussion of the storage project.

The Tipperary Project

As previously mentioned, Tribute has completed the development and construction of its first natural gas storage project, the Tipperary pools. Development of these pools has been undertaken through Tipperary Gas Corp, the general partner (the GP) of Huron Tipperary Limited Partnership I (the LP). During the quarter ended June 30, 2007, Tribute purchased all remaining units of the LP for \$2,730,000. In December of 2007, Tribute sold a 75% interest in the GP to Union. Union also purchased 13,050 units from the treasury of the LP for cash consideration and a promissory note. Funds received were used to complete construction at Tipperary. The LP entered into a Development Agreement with Tribute for the management and construction of the Tipperary pools. Under the Development Agreement, Tribute constructed an 8" pipeline to connect the pools to the Union market; purchased the cushion gas, paid residual gas payments to the landowners, successfully completed two horizontal wells, completed two observation wells and completed the construction of a 2,000 HP compressor site. In consideration of the completion of these project milestones, Tribute received a management fee of \$2.5 million in December of 2007, \$2 million in July of 2008 and will receive an additional management fee of \$500,000 upon final completion of the project. In the fourth quarter of 2008, Tribute recognized a loss of \$722,126 which consists of project costs and an allowance for deficiencies under the terms of the Development Agreement not chargeable to the LP by Tribute. Tribute expects to correct these deficiencies, reach final completion and collect the balance of its management fee in the second quarter of 2009.

In the financial statements of Tribute prior to December 2007, the results of operations from the GP and the LP were included in the consolidated financial statements. As a result of these transactions, Tribute's interest in the Tipperary project has been reduced to 25% and is now shown under the new heading of Long Term Investments on Tribute's Balance Sheet. Union has been operating the Tipperary facility for the second half of 2008. Tribute's share of the loss from operations (25%) is included in the financial statements under the heading of loss from long-term investments.

Tipperary is one of the first non-utility competitive storage facilities to be connected to the Union lateral transmission system, which connects to the Dawn trading hub. 2007 was a pivotal year for Ontario's gas storage industry as the OEB affirmed its decision in making gas storage competitive for non-regulated companies such as Tribute. In this regard, the OEB convened key industry proceedings to gather evidence as to the maturity of the storage industry, particularly in respect of the sufficiency of competition in the industry and the provincial need for incremental storage development. As a result of the OEB's findings, Tipperary and Tribute will not be required to submit either contracts or proposed rates for public scrutiny or approval. These hallmark regulatory decisions cement Tribute's commitment