

The Instructions accompanying this Letter of Transmittal should be read carefully before this Letter of Transmittal is completed. Your broker or other financial advisor can assist you in completing this Letter of Transmittal.

**LETTER OF TRANSMITTAL**  
**FOR 8% CONVERTIBLE NOTES DUE APRIL 2, 2018**  
**OF**  
**TERRACE ENERGY CORP.**

This Letter of Transmittal, or a manually signed facsimile, is for use by registered holders ("**Noteholders**") of 8% convertible unsecured notes ("**Notes**") of Terrace Energy Corp. ("**Terrace**" or the "**Company**") due April 2, 2018 in connection with the proposed arrangement (the "**Arrangement**") under the *Business Corporations Act* (British Columbia) involving Terrace and the Noteholders that is being submitted for approval at the meeting of Noteholders to be held on October 8, 2014 (the "**Meeting**"). Noteholders are referred to the Notice of Meeting and Management Information Circular dated September 15, 2014 (the "**Circular**") prepared in connection with the Meeting that accompanies this Letter of Transmittal. Capitalized terms used but not otherwise defined in this Letter of Transmittal have the meanings set out in the Circular.

The Effective Date of the Arrangement is anticipated to be on or about October 15, 2014. At the Effective Time, Noteholders will be entitled to receive, in exchange for each \$1,000 principal amount of Notes, one (1) new \$1,000 principal amount 8% convertible unsecured note of the Company due April 2, 2018 (each, a "**New Note**").

In order to receive the appropriate number of New Notes that a Noteholder is entitled to receive under the Arrangement, Noteholders are required to deposit the certificates representing outstanding Notes held by them with Computershare Investor Services Inc. (the "**Depository**"). This Letter of Transmittal, properly completed and duly executed, together with all other required documents, must accompany all certificates for Notes deposited for exchange into the New Notes pursuant to the Arrangement.

Noteholders who do not deliver their Note certificates and all other required documents to the Depository on or before the date which is six years after the Effective Date shall lose their right to receive the New Notes (or any principal or interest thereon) for their Notes to which they are otherwise entitled under the Arrangement.

**PLEASE READ THE CIRCULAR AND THE INSTRUCTIONS SET OUT BELOW CAREFULLY BEFORE COMPLETING THIS LETTER OF TRANSMITTAL. DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH HEREIN WILL NOT CONSTITUTE VALID DELIVERY. IF NOTES ARE REGISTERED IN DIFFERENT NAMES, A SEPARATE LETTER OF TRANSMITTAL MUST BE SUBMITTED FOR EACH DIFFERENT REGISTERED HOLDER. SEE INSTRUCTION 2.**

*Please read the Circular and the instructions set out below carefully before completing this Letter of Transmittal.*

**TO:           COMPUTERSHARE INVESTOR SERVICES INC. at its offices set out herein.**

**AND TO:   TERRACE ENERGY CORP.**

The Depositary or your broker or other financial advisor can assist you in completing this Letter of Transmittal (see the back page of this document for the Depositary's address and telephone number). Persons whose Notes are registered in the name of a broker, dealer, bank, trust company or other nominee or intermediary should immediately contact such registered holder for assistance.

In connection with the Arrangement being considered for approval at the Meeting, upon the terms and subject to the conditions set forth in the Plan of Arrangement, the undersigned hereby delivers to the Depositary the enclosed certificate(s) for Notes. The following are the details of the enclosed certificate(s):

Certificate Number(s)	Name in Which Registered	Principal Amount of Notes Deposited

*(Please print or type. If space is insufficient, please attach a list to this Letter of Transmittal in the above form.)*

It is understood that upon receipt of this Letter of Transmittal duly completed and signed and of the certificate(s) representing the Notes deposited herewith (the "**Deposited Notes**") and following the Effective Date of the Arrangement, the Depositary will deliver to the undersigned certificates representing the New Notes that the undersigned is entitled to receive under the Arrangement, or hold such New Notes for pick-up in accordance with the instructions set out below, and the certificate(s) representing the Deposited Notes shall forthwith be cancelled.

The undersigned Noteholder represents and warrants in favour of Terrace that (i) the undersigned is the registered holder of the Deposited Notes; (ii) such Deposited Notes are owned by the undersigned free and clear of all mortgages, liens, charges, encumbrances, security interests and adverse claims; (iii) the undersigned has full power and authority to execute and deliver this Letter of Transmittal and to deposit, sell, assign and transfer the Deposited Notes and that, when the New Notes are issued, neither Terrace, nor any successor thereto, will be subject to any adverse claim in respect of such Deposited Notes; (iv) the Deposited Notes have not been sold, assigned or transferred, nor has any agreement been entered into to sell, assign or transfer any such Deposited Notes to any person; (v) the surrender of the undersigned's Deposited Notes complies with applicable laws; and (vi) all information inserted by the undersigned into this Letter of Transmittal is accurate. These representations and warranties shall survive the completion of the Arrangement.

The undersigned will, upon request, execute any signature guarantees or additional documents deemed by the Depositary to be reasonably necessary or desirable to complete the transfer of the Deposited Shares.

The undersigned agrees that all questions as to validity, form, eligibility (including timely receipt) and acceptance of any Notes surrendered in connection with the Arrangement shall be determined by Terrace in its sole discretion and that such determination shall be final and binding and the undersigned acknowledges that there is no duty or obligation upon Terrace or the Depositary or any other person to give notice of any defect or irregularity in any such surrender of shares and no liability will be incurred by any of them for failure to give any such notice.

The undersigned: (i) understands that whether or not the undersigned delivered the required documentation to the Depositary, as of the Effective Time, the undersigned will cease to be a holder of Notes and, subject to the ultimate expiry identified below, will only be entitled to receive the New Notes to which the undersigned is entitled under the Arrangement; and (ii) acknowledges and agrees that failure to surrender any certificates which, prior to the Effective Time, represented issued and outstanding Notes with all other instruments required by this Letter of Transmittal, on

or prior to the sixth anniversary of the Effective Date will result in such certificates ceasing to represent any claim or interest of any kind or nature Terrace or the Depositary.

Except for any proxy deposited with respect to the vote on the resolution approving the Arrangement in connection with the Meeting, the undersigned revokes any and all authority, other than as granted in this Letter of Transmittal, whether as agent, attorney-in-fact, proxy or otherwise, previously conferred or agreed to be conferred by the undersigned at any time with respect to the Deposited Notes and no subsequent authority, whether as agent, attorney-in-fact, proxy or otherwise, will be granted with respect to the Deposited Notes. The undersigned irrevocably constitutes and appoints the Depositary and any officer of Terrace, and each of them and any other persons designated in writing by Terrace, the true and lawful agent, attorney-in-fact and proxy of the undersigned with respect to the Deposited Notes, with full power of substitution, in the name of and on behalf of the undersigned (such power of attorney being deemed to be an irrevocable power coupled with an interest) to: (i) register or record the transfer of the Deposited Notes on the securities registers of Terrace; and (ii) execute and deliver, as and when requested by Terrace, any instrument of proxy, authorization or consent in form and on terms satisfactory to Terrace in respect of such Deposited Notes, revoke any such instrument, authorization or consent or designate in such instrument, authorization or consent any person or persons as the proxy of such holder in respect of the Deposited Notes for all purposes, other than in connection with the Meeting. The undersigned revokes any and all other authority, whether as agent, attorney-in-fact, proxy or otherwise, previously conferred or agreed to be conferred by the undersigned at any time with respect to the Deposited Notes other than as granted in a proxy for use at the Meeting.

The undersigned will, upon request, execute any signature guarantees or additional documents deemed by the Depositary to be reasonably necessary or desirable to complete the transfer of the Deposited Notes.

Each authority conferred or agreed to be conferred by the undersigned in this Letter of Transmittal shall survive the death or incapacity of the undersigned and any obligation of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned.

The undersigned instructs Terrace and the Depositary to mail the certificate(s) representing the New Notes that the undersigned is entitled to receive under the Arrangement representing the exchange for the deposited Notes promptly after the Effective Time, by such means as the Depositary may deem prudent, to the undersigned, or to hold such certificate(s) for the New Notes for pick-up, in accordance with the instructions given below.

If the Arrangement is not completed or proceeded with, the enclosed Note certificate(s) and all other ancillary documents will be returned forthwith to the undersigned at the address set out in the applicable box below or, failing such address being specified, to the undersigned at the address of the undersigned as shown on the register of Noteholders.

The undersigned acknowledges that by virtue of the execution of this Letter of Transmittal, the undersigned will be deemed to have agreed that all questions as to validity, form, eligibility (including timely receipt) and acceptance of a Note deposited pursuant to the Arrangement will be determined by Terrace in its full and sole discretion and that such determination will be final and binding and acknowledges that there will be no duty or obligation on Terrace, the Depositary or any other person to give notice of any defect or liability in any deposit and no liability will be incurred by any of them for failure to give such notice.

By reason of the use by the undersigned of an English language form of Letter of Transmittal, the undersigned shall be deemed to have required that any contract evidenced by the Arrangement as entered into through this Letter of Transmittal, as well as all documents related thereto, be drawn exclusively in the English language. En raison de l'utilisation d'une version anglaise de la présente lettre d'envoi, le soussigné, ce dernier et les destinataires sont réputés avoir demandé que tout contrat attesté par l'arrangement, telle qu'il est accepté au moyen de cette lettre d'envoi, de même que tous les documents qui s'y rapportent, soient rédigés exclusivement en anglais.

**BOX A**  
**DELIVERY INSTRUCTIONS**

- ☐ **ISSUE NEW NOTES IN THE NAME OF:**  
(please print or type)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street Address and Number)

\_\_\_\_\_  
(City and Province or State)

\_\_\_\_\_  
(Country and Postal (Zip) Code)

\_\_\_\_\_  
(Telephone – Business Hours)

\_\_\_\_\_  
(Social Insurance, Social Security Number or Tax Identification  
Number)

**BOX B**  
**SPECIAL DELIVERY INSTRUCTIONS**

To be completed ONLY if the New Notes to which the undersigned is entitled under the Arrangement is to be sent to someone other than the person shown in Box A or to an address other than the address shown on Box A

- ☐ Same address as Box A; or

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street Address and Number)

\_\_\_\_\_  
(City and Province or State)

\_\_\_\_\_  
(Country and Postal (Zip) Code)

**BOX C – SPECIAL PICK-UP INSTRUCTIONS**

- ☐ **HOLD FOR PICK-UP AT THE OFFICE OF THE DEPOSITARY**

**BOX D**  
**DELIVERY INSTRUCTIONS**  
(in the event the Arrangement is not completed)

TO BE COMPLETED BY ALL NOTEHOLDERS BY  
SELECTING ONE BOX BELOW.

- ☐ Mail Certificate(s) to (please fill in address for  
mailing):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

OR

- ☐ Hold certificate(s) for pick-up at the office of the  
Depositary.

<p align="center"><b>BOX E – SIGNATURE GUARANTEE</b></p> <p>Signature guaranteed by (if required under Instruction 3):</p>
Authorized Signature
Name of Guarantor <i>(please print or type)</i>
Address <i>(please print or type)</i>
Area Code and Telephone Number

<p align="center"><b>BOX F – SIGNATURE</b></p> <p>Dated: _____</p>
(Signature of Noteholder or authorized representative)
(Signature of any joint holder)
(Name of Noteholder)
(Name of Authorized representative)
(Area Code and Daytime Telephone Number)

## **INSTRUCTIONS**

### **1. Use of Letter of Transmittal**

- (a) Noteholders should read the accompanying Circular prior to completing this Letter of Transmittal.
- (b) This Letter of Transmittal duly completed and signed (or an originally signed facsimile copy thereof) together with accompanying certificates representing the deposited Notes and all other required documents must be sent or delivered to the Depositary at the addresses set out on the back of this Letter of Transmittal.
- (c) The method used to deliver this Letter of Transmittal and any accompanying certificates representing Notes and all other required documents is at the option and risk of the Noteholder, and delivery will be deemed effective only when such documents are actually received. Terrace recommends that the necessary documentation be hand delivered to the Depositary at the addresses set out on the back of this Letter of Transmittal, and a receipt obtained; otherwise the use of registered mail with return receipt requested, properly insured, is recommended. Noteholders whose Notes are registered in the name of a broker, investment dealer, bank, trust company or other nominee should contact that nominee for assistance in depositing those Notes. Delivery to an office other than to the specified office does not constitute delivery for this purpose.
- (d) Terrace reserves the right if it so elects in its absolute discretion to instruct the Depositary to waive any defect or irregularity contained in any Letter of Transmittal received by it.
- (e) If a New Note is to be issued in the name of a person other than the person(s) signing this Letter of Transmittal or if the New Notes or any certificates for Notes not surrendered are to be mailed to someone other than the person(s) signing this Letter of Transmittal or to the person(s) signing this Letter of Transmittal other than that shown above, the appropriate boxes on this Letter of Transmittal should be completed (Box "A" and Box "B")

### **2. Signatures**

This Letter of Transmittal must be completed and signed by the holder of Notes or by such holder's duly authorized representative (in accordance with paragraph 4 below of these Instructions).

- (a) If this Letter of Transmittal is signed by the registered owner(s) of the accompanying certificate(s), such signature(s) on this Letter of Transmittal must correspond with the name(s) as registered or as written on the face of such certificate(s) without any change whatsoever, and the certificate(s) need not be endorsed. If such deposited certificate(s) are owned of record by two or more joint owners, all such owners must sign this Letter of Transmittal.
- (b) If this Letter of Transmittal is signed by a person other than the registered owner(s) of the accompanying certificate(s), or if a certificate(s) representing Notes is to be issued to a person other than the registered owner(s):
  - (i) such deposited certificate(s) must be endorsed or be accompanied by an appropriate note transfer power of attorney duly and properly completed by the registered owner(s); and
  - (ii) the signature(s) on such endorsement or note transfer power of attorney must correspond exactly to the name(s) of the registered owner(s) as registered or as appearing on the certificate(s) and must be guaranteed as noted in paragraph 3 below of these Instructions.

### **3. Guarantee of Signatures**

If this Letter of Transmittal is signed by a person other than the registered owner(s) of the Notes or if the New Notes are to be issued in a name other than the registered owner(s), such signature must be guaranteed by an Eligible Institution (see below), or in some other manner satisfactory to the Depositary (except that no guarantee is required if the signature is that of an Eligible Institution). An "**Eligible Institution**" means a Canadian Schedule I chartered bank, a member of the Securities Transfer Association Medallion Program (STAMP), a member of the Stock Exchange Medallion Program (SEMP) or a member of the New York Stock Exchange, Inc. Medallion Signature Program (MSP). Members of these programs are usually members of a recognized stock exchange in Canada or the United States, members of the Investment Industry Regulatory Organization of Canada, members of the Financial Industry Regulatory Authority or banks and trust companies in the United States.

### **4. Fiduciaries, Representatives and Authorizations**

Where this Letter of Transmittal is executed by a person as an executor, administrator, trustee or guardian, or on behalf of a corporation, partnership or association or is executed by any other person acting in a representative capacity, this Letter of Transmittal must be accompanied by satisfactory evidence of the authority to act. Terrace or the Depositary, at their discretion, may require additional evidence of authority or additional documentation.

### **5. Delivery Instructions**

All certificate(s) to be issued in exchange for the Deposited Notes will be issued in the name of the person indicated in Box "A", and delivered to the address indicated in Box "A" (unless Box "B" has been checked). If any certificate(s) are to be held for pick-up at the offices of the Depositary, complete Box "C". If neither Box "A" nor Box "B" is completed, any new certificate(s) issued in exchange for the Deposited Notes will be issued in the name of the registered holder of the Deposited Notes and will be mailed to the address of the registered holder of the Deposited Notes as it appears on the register of Terrace. Any certificate(s) mailed in accordance with this Letter of Transmittal will be deemed to be delivered at the time of mailing.

### **6. Lost Certificates**

If a certificate representing Notes has been lost, destroyed, mutilated or mislaid, this Letter of Transmittal should be completed as fully as possible and forwarded, together with a letter describing the loss, to the Depositary. The Depositary and/or Terrace will respond with replacement requirements (which may include a bonding requirement) for issuance of the New Notes in accordance with the Arrangement.

### **7. Return of Certificates**

If the Arrangement does not proceed for any reason, any certificate(s) for Notes received by the Depositary will be returned to you forthwith in accordance with your delivery instructions in Box "D", or failing such address being specified, to the undersigned at the last address of the undersigned as it appears on the securities register of Terrace.

### **8. Miscellaneous**

- (a) If the space on this Letter of Transmittal is insufficient to list all certificates for Notes, additional certificate numbers and number of Notes may be included on a separate signed list affixed to this Letter of Transmittal.
- (b) If Notes are registered in different forms (e.g., "John Doe" and "J. Doe") a separate Letter of Transmittal should be signed for each different registration.
- (c) No alternative, conditional or contingent deposits of Notes will be accepted. All depositing holder of Notes by execution of this Letter of Transmittal, or a facsimile hereof, waive any right to receive any notice of the acceptance of deposited Notes for payment, except as required by applicable law.

- (d) Additional copies of the Letter of Transmittal may be obtained from the Depositary at the address set out on the back of this Letter of Transmittal.
- (e) All questions as to the validity, form, eligibility (including timely receipt) and acceptance of any Notes deposited will be determined by Terrace in its sole discretion. Depositing Noteholders agree that such determination shall be final and binding. Terrace reserves the absolute right to reject any and all deposits which it determines not to be in proper form or which may be unlawful to accept under the laws of any jurisdiction. Terrace reserves the absolute right to waive any defects or irregularities in the deposit of any Notes. No deposit of Notes will be deemed to be properly made until all defects and irregularities have been cured or waived. There shall be no duty or obligation on Terrace or the Depositary or any other person to give notice of any defects or irregularities in any deposit and no liability shall be incurred by any of them for failure to give such notice. Terrace's interpretation of the terms and conditions of the Arrangement, the Circular and this Letter of Transmittal will be final and binding.
- (f) Under no circumstances will any amount be paid by Terrace or the Depositary by reason of any delay in exchanging any Notes to any person on account of Notes accepted for exchange pursuant to the Arrangement.
- (g) Any questions should be directed to the Depositary at 1-800-564-6253 or by e-mail to [corporateactions@computershare.com](mailto:corporateactions@computershare.com).



**The Depositary is:**

**COMPUTERSHARE INVESTOR SERVICES INC.**

***By Hand or by Courier***

100 University Avenue, 8th Floor  
Toronto, Ontario  
M5J 2Y1

***By Mail***

P.O. Box 7021  
31 Adelaide St E  
Toronto, ON M5C 3H2  
Attention: Corporate Actions

Toll Free: 1-800-564-6253  
E-Mail: [corporateactions@computershare.com](mailto:corporateactions@computershare.com)